



FORMAL REPORT

To:	Chair Stratthdee and Members of Strategic Priorities Committee
Prepared by:	Dave Blake, Environmental Services Supervisor
Date of Meeting:	21 November 2017
Subject:	PW 59-2017 Water and Wastewater Rate Evaluations

PURPOSE

This report presents information to the Strategic Priorities Committee for review and discussion in regards to water and wastewater rates for the Town of St. Marys. The Committee is asked to consider the rate options presented for discussion and direct staff on water and wastewater rates to be applied in 2018 and beyond.

RECOMMENDATION

THAT Report PW 59-2017 Water and Wastewater Rate Evaluations be received for discussion.

BACKGROUND

In October 2014, Council approved By-Law 46-2014 which governs water, wastewater and stormwater within the Town of St. Marys. As part of the By-Law, a five (5) year rate plan was incorporated into Schedule "A". At the request of Council, rates for water and wastewater were to be reviewed and approved annually for the subsequent years.

This report provides a review of the rate structure detailed within the By-Law, as amended; presents multiple rate options and scenarios for discussions; and details staff recommendations for the water and wastewater rates for 2018.

REPORT

Both Water and Wastewater within the Town have individual rate structures and represent different departments. As such, rates for both water and wastewater need to be reviewed and subsequently approved by Council.

Assumptions:

When developing the rate projections, Town Staff made several assumptions related to the water and wastewater system and its operation to provide a consistent basis for revenue generation and financial position. The following assumptions were used:

- The volume of water used and, subsequently, the volume of wastewater to be treated will remain constant over the review period. Increases in usage from new customers or from new builds will be off-set by conservation activities within the Town and through existing customers.
- The amount of customers utilizing the system would increase by 35 units each year to coincide with the approximate number of new builds historically experienced within the Town.
- Customers will remain in the tiered rates as presently experienced. No assumptions were made to increase high water user consumption, nor reductions in water use.

Water & Wastewater Rate Options:

In 2014, the Town was required to update the financial plan for the water system as per Ontario Regulation 453/07. The drinking water financial plan was completed by B.M. Ross and Associates Limited (BM Ross) which covered a 10 year period from 2014 through 2024. The financial plan identified rate increases over the period of the financial plan to move towards full system sustainability. The financial plan identified rate increases of 3% from 2014 through 2018 and then 2% annually thereafter.

Through 2016 and into 2017, Town Staff developed a comprehensive capital assessment related to wastewater. This assessment included ongoing operations and maintenance, major maintenance or replacement items and ultimately expansion requirements. This assessment has been utilized to assist in guiding the wastewater system for capital needs, and developing financial projections.

The following options have been presented for discussion with regards to water and wastewater rates, ranging from 0-10% annually, and the financial assessment for each.

Option No. 1 – 0% Increase:

In Option No. 1 a zero (0) percent increase is presented for consideration.

Please refer to [Attachment A1](#) for full financial projections related to this option for Water.

Please refer to [Attachment B1](#) for full financial projections related to this option for Wastewater.

In 2017, a 3% increase was administered to water rates and a 7% increase was administered for wastewater rates. This option is presented as a baseline for consideration, also known as the “Do Nothing” approach.

Over the five year review period, both water and wastewater projections show negative growth related to reserves when comparing the 2022 balance to the 2017 opening balance. This occurs as capital requirements and operations and maintenance costs increase.

For water, the comparison is a 2017 opening balance of \$1,730,542.00 in 2017 compared to the closing balance of \$1,122,261.50 in 2022.

For wastewater, the comparison is a 2017 opening balance of \$508,947.00 in 2017 compared to the closing balance of \$-453,263.02 in 2022.

Option No. 2 – 1.9% Increase:

In Option No. 2, a 1.9% increase is presented for consideration.

Please refer to [Attachment A2](#) for full financial projections related to this option for Water.

Please refer to [Attachment B2](#) for full financial projections related to this option for Wastewater.

This option is presented and represents the “Consumer Price Index” (CPI) increase on an annual basis. With this Option, the rates would increase annually in relation to CPI and would help to keep pace with inflation costs related to ongoing system operations. This Option would see rates gradually increase each year, lessening the impact to customers while allowing some financial stability and assurance.

Over the five year review period, both water and wastewater projections show slightly negative growth related to reserves when comparing the 2022 balance to the 2017 opening balance. This occurs as capital requirements and operations and maintenance costs increase while contributions slightly lag behind.

For water, the comparison is a 2017 opening balance of \$1,730,542.00 in 2017 compared to the closing balance of \$1,585,446.33 in 2022.

For wastewater, the comparison is a 2017 opening balance of \$508,947.00 in 2017 compared to the closing balance of \$10,420.79 in 2022.

Option No. 3 – 3% Increase:

In Option No. 3, a 3% increase is presented for consideration.

Please refer to Attachment A3 for full financial projections related to this option for Water.

Please refer to Attachment B3 for full financial projections related to this option for Wastewater.

This option follows the Town's current Drinking Water Financial Plan which recommends 3% annual increases from 2014-2017/18 and then a potential 2% increase thereafter.

This option allows the system to grow reserves at a slightly quicker pace than prior options while continuing to move the system to financial sustainability. This option presents a lower increase to wastewater than has been administered over the last few years and limits the wastewater systems ability to self-fund planned or future capital works.

Over the five year review period, water and wastewater projections show slightly different growth scenarios when comparing the 2022 balance to the 2017 opening balance. Water shows a slight increase in reserves over the planning period whereas wastewater shows slightly negative growth related to the reserve as capital requirements and operations and maintenance costs increase.

For water, the comparison is a 2017 opening balance of \$1,730,542.00 in 2017 compared to the closing balance of \$1,861,517.14 in 2022.

For wastewater, the comparison is a 2017 opening balance of \$508,947.00 in 2017 compared to the closing balance of \$286,798.25 in 2022.

Option No. 4 – 5% Increase:

In Option No. 4, a 5% increase is presented for consideration.

Please refer to Attachment A4 for full financial projections related to this option for Water.

Please refer to Attachment B4 for full financial projections related to this option for Wastewater.

This option takes a slightly more aggressive approach to increase revenues for the water and wastewater system to assist in cost recovery and capital works. With this option, rates would increase at a quicker pace which would allow the system to grow reserves, while also creating more options for debenture financing related to capital works.

Water Reserves would grow to an excess of \$2.3 million by the end of the planning period, with this option presenting increases greater than the current financial plan suggests. With regards to wastewater, a reserve fund would be created for the system while also being in a position to fund large capital works related to inlet works, grit removal and odour control upgrades, with a closing balance of \$804,129.32 in 2022.

Option No. 5 – 10% Increase:

Option No. 5 presents a 10% increase for consideration.

Please refer to Attachment A5 for full financial projections related to this option for Water.

Please refer to Attachment B5 for full financial projections related to this option for Wastewater.

This option takes a very aggressive approach to revenue generation, reserve building and debenture financing. Water Reserves would be slightly less than \$4 million by the end of the planning period, with this option representing a much more aggressive option than suggested through the current water system financial plan. With regards to wastewater, reserve funds are projected to increase quickly past 2020 to a closing balance of \$2,179,745.15, while also covering large expenses in 2018/2019 related to inlet works, grit removal and odour control upgrades.

Impacts to Users:

The above detailed options for rate increases would have a varying impact to users of the system, depending on which option is recommended for both water and wastewater systems, as well as which tier the user is billed from.

Staff have not formally reached out to local system users (i.e. industry) regarding the proposed rate increase(s). Town staff completed a consultation activities with industry for 2016 rates, which contained a 5-year projection. As the rate options, and ultimately the recommended rates (See below) do not significantly differ from those presented during the last consultation, an additional round of consultation has not been undertaken at this time.

Please refer to Attachment C for a detailed breakdown of the impacts to users based on the options selected, and the billing tier.

Municipal Comparisons:

In an effort to assess the above potential rate increases, Staff have attempted to compare how the Town's existing, and potential rate options compare to other local municipalities. The Municipal comparison is completed using publically available information related to various water and wastewater rates from the area and comparing those rates against the Town of St. Marys average usage per tier.

Unfortunately, municipalities have different billing cycles, so in an effort to compare as close to "apples to apples" as possible, a one (1) month billing cycle was used, with a base rate and consumption rate adjusted accordingly.

In an effort to assist in the municipal comparison, graphical representations have been developed in Attachment D. Tier 1 users for both water and wastewater show current rates are slightly less than the average from the comparison group with the position to the average value changing based on the proposed option for each. For instance, Tier 1 water would see options 2, 3, 4 and 5 shift to the high side of the comparison average whereas Tier 1 Wastewater remains less than average for options 1, 2,3 and 4. Tier II, which lowers consumption prices for water would see less than average comparisons for all but Option 5 and all five (5) wastewater options would remain below the comparison average. For Tier III rates, all options for both water and wastewater remain below the comparison average.

Please refer to Attachment D for a detailed water and wastewater rate comparison.

SUMMARY

The purpose of this report has been to present information for the Strategic Priority Committee to review and discuss regarding water and wastewater rates administered at the Town of St. Marys. Several options have been presented to facilitate discussion regarding future rates. The rates proposed would be effective for the first billing cycle in January 2018. Should a rate increase be desired, but not implemented until later in 2018, a larger increase would be required as to cover revenue not collected until an increase was implemented.

To move this file forward, Staff requires the Committee to consider the options presented within this report and provide direction on the preferred future increases, if any on both water and wastewater rates.

Staff recommends that the Committee make recommendations to Council to answer the following questions:

1. Should Staff be increasing water and wastewater rates to provide greater financial stability?
2. If yes, should rates be increased slowly, moderately or aggressive per system, and if so, what is a desired increase for each system?
3. Should staff be looking for rate approvals for multiple years, or annual approvals of rates?

Based on the information presented herein, Staff recommends that water rates be increased in accordance to the Town's current financial plan for the water system at 3% for 2018. The Financial

Plan identifies that at the recommended increases, the water system could be within 4% of sustainability by 2024. However, revenue losses sustained by the closure of the Kraft-Heinz plant will be difficult to replace. In accordance with Ontario Regulation 453/07, Financial Plans must cover a period of at least six-years. The Town's Financial Plan should be updated in 2018 to maintain a 6-year projection moving forward, as which time revenue needs would be reviewed.

With regards to wastewater rates, staff recommends a slightly larger increase of 5% for 2018 which would see a continued reserve for the wastewater system moving forward, with reserves trending up by the end of the planning period. Historically, the wastewater system has not operated with much, or any of a reserve. As capital, operational and maintenance costs increase, the need for a reserve fund will be more significant to handle equipment repairs or replacements, facility improvements, etc.

FINANCIAL IMPLICATIONS

None at this time.

Depending on which option(s) is recommended for adoption, will have an impact on both the Utility operations as well as the customers whom utilize the utilities.

STRATEGIC PLAN

- ☒ This initiative is supported by the following priorities, outcomes, and tactics in the Plan.
- Pillar #1 – Infrastructure, Developing a Comprehensive and Progressive Infrastructure Plan:
 - Outcome: St. Marys is committed to developing a progressive and sustainable infrastructure plan that meets the infrastructure needs of today and tomorrow. This will require a balance between building and regular maintenance.
 - Tactic(s): When developing the annual capital plan, have regard for the infrastructure needs identified in the asset management plan before considering new builds or renovations that present significant service level improvements.
 - Tactic(s): To support the asset management plan, complete a financial analysis of the Town's ability to pay to establish a minimum capital budget threshold to be budgeted each year (either in actual spending, or put into reserve).
- Pillar #1 – Infrastructure, Water Reservoir Storage:
 - Outcome: If the goal is to achieve a population target of 8,000 residents by 2026/2027, (annual growth rate of 1.5%, doubling current rate), both access to potable water and fire protection needs would be best served by addressing this issue.
 - Tactic(s): Plan for an updated reservoir. Include its development in the community's capital and financial plan. As an interim measure, promote effective water conservation.
 - Tactic(s): Commence work on an updated water reservoir to meet provincial standards.
- Pillar #1 – Infrastructure, Granting Readiness:
 - Outcome: With a change in the federal government, which has signaled a desire to fund infrastructure projects, it will be vital that the Town be in a state of readiness to compete for much needed infrastructure funding.
 - Tactic(s): Establish a nimble foresight approach to capital initiatives that creates a project inventory and plans to meet new grant opportunities. Assign a lead staff person for this task.
- Pillar #5 – Economic Development, Industrial Strategy:

- Outcome: Industry has played, and continues to play a key role in the life of the Town in providing employment and economic stability. Seeking new opportunities to attract small, medium and large industry is in the Town's best interest as part of its growth strategy.
- Tactic(s): Build a retention plan, identify elements needed to ensure business stay and grow in the community.

OTHERS CONSULTED

Jed Kelly, Director of Public Works – Town of St. Marys

Jim Brown, Director of Finance – Town of St. Marys

Morgan Dykstra, Public Works Coordinator – Town of St. Marys

ATTACHMENTS

Attachment A - Water System Financial Assessments

- A1 – Water, 0% Increase
- A2 – Water, 1.9% Increase
- A3 – Water, 3% Increase
- A4 – Water, 5% Increase
- A5 – Water, 10% Increase

Attachment B - Wastewater System Financial Assessments

- B1 – Wastewater, 0% Increase
- B2 – Wastewater, 1.9% Increase
- B3 – Wastewater, 3% Increase
- B4 – Wastewater, 5% Increase
- B5 – Wastewater, 10% Increase

Attachment C - Impacts to Users

Attachment D - Municipal Comparisons – Water and Wastewater

REVIEWED BY

Recommended by the Department

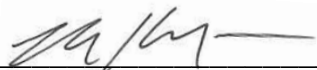


Dave Blake, C.E.T.
Environmental Services Supervisor



Jed Kelly
Director of Public Works

Recommended by the CAO



Brent Kittmer
CAO / Clerk