



Staff Report

Report No.: PWE 050-2017
Meeting Date: November 15, 2017
Submitted by: Brian Lima – Director, Public Works and Engineering
Subject: 2018 Water, Wastewater, and Stormwater Rate Proposal

Recommendation:

THAT the 2018 water, wastewater, and stormwater rates remain unchanged from the 2017 water, wastewater, and stormwater rates.

Purpose:

To request Councils approval of the 2018 water, wastewater, and stormwater rates for Middlesex Centre.

Background:

Under Ontario Regulation 453/07, all municipalities are required to prepare a minimum 6 year Water Financial Plan for all municipal drinking water systems. The Financial Plan must be submitted to the Ministry of Municipal Affairs and Housing and made available to the public. This regulation is part of the Province's long term strategy to ensure that all municipal drinking water systems are financially viable.

On January 27, 2017 the Municipality of Middlesex Centre Council passed the following resolution:

"THAT staff prepare a report on the ramifications of lowering the minimum water and wastewater usage rates in 2018 by 2.5%, 5% and 10%."

In 2015, BMA Management Consulting Inc. was engaged to undertake a Long Range Financial Plan and a Water/Wastewater Rate Study. These two reports were approved by Council on December 2, 2015 and January 20, 2016 respectively from which new rates were established for 2016. Additionally in 2016, departmental administration staff prepared and tabled a report before Council on April 20, 2016 recommending and ultimately leading to the Municipality have terminated its servicing contract with American Water Canada and electing to bring the operations of the Municipality's water and wastewater systems in-house on November 1, 2016. This new approach was overwhelmingly endorsed by Council.

In 2016, BMA Management Consulting Inc. was again engaged by departmental administration staff to undertake a stormwater financial review to fund its stormwater management program and to make recommendations in the recovery of stormwater management costs based on best

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practice research. BMA was also tasked with calculating a proposed rate using the 2016 Operating and Capital Budget provided by the Municipality. At such time the recommended and Council endorsed funding approach for stormwater management operating and infrastructure lifecycle costs as detailed in BMA's report was a flat rate per property. It was further recommended and endorsed that a threshold be established at 0.4 hectares (1 acre) for industrial, commercial and institutional properties whereby a flat monthly rate is charged to all properties, consistent with the flat rate for the residential class plus an incremental per hectare rate for hectares exceeding the threshold. The 2016 rate was based on current operating costs with an annual contribution to reserves for lifecycle infrastructure funding.

The Municipality's water, wastewater, and stormwater rates were frozen in 2017 at the 2016 levels. The following summarizes the existing rates:

2017		Water	Wastewater
Total Fixed Monthly Charge		\$22.76	\$29.30
Water Usage Charge (Volumetric) 0-8 m ³		No additional charge	
Water Usage Charge per m ³ for consumption exceeding 8 m ³		\$2.84	\$3.66
Infrastructure Lifecycle Reserve Fund Charge based on Meter Size - Monthly	5/8"	\$18.00	\$17.32
	3/4"	\$27.00	\$25.98
	1"	\$45.00	\$43.30
	1.5"	\$90.00	\$86.61
	2"	\$144.00	\$138.57

Analysis:

Based on Council's resolution, departmental administration staff in consultation with BMA Management Consulting Inc. have once again undertaken a review of various options that could be explored in terms of modifying the 2018 water and wastewater, and stormwater rates, taking into consideration the existing lower cost of service, the infrastructure gap that exists, and ratepayer affordability. Such review specifically for water and wastewater included the preparation of an impact analysis on revenues/expenditures under four alternative scenarios. The details of BMA Management Consulting Inc.'s technical findings are available in a report within Appendix A.

Middlesex Centre continues to be faced with the challenge of costly water and wastewater systems to operate with relatively fewer customers to support these costs.

The Long Range Financial Plan recommended eliminating the annual funding gap in water by approximately 2025 and 2027 in wastewater.

The following table showcases the respective 2017/2018 opening and projected ending reserve balances:



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	2017 Opening Balance	2017 Projected Ending Balance	2018 Projected Ending Balance
Wastewater Reserve	\$186,779	\$691,128	\$702,691
Water Reserve	\$786,609	\$1,127,518	\$(505,290)
Stormwater Reserve	\$777,754	\$327,335	\$417

The following summarizes the four alternative scenarios considered as it pertains to the water and wastewater rates:

1. Freezing the rate increase from 2017 to 2018. This continues to provide some relief to ratepayers for another year. In this scenario, there would be a need to reduce the contributions to reserve by \$22,147 in the draft 2018 Operations Budget.
2. Reducing the combined rate increase from 2017 to 2018 by 2.5%. In this scenario, there would be a need to reduce the contributions to reserve by \$152,636 in the draft 2018 Operations Budget.
3. Reducing the combined rate increase from 2017 to 2018 by 5%. In this scenario, there would be a need to reduce the contributions to reserve by \$283,124 in the draft 2018 Operations Budget.
4. Reducing the combined rate increase from 2017 to 2018 by 10%. In this scenario, there would be a need to reduce the contributions to reserve by \$544,100 in the draft 2018 Operations Budget.

BMA Management Consulting Inc.'s review of the Municipality's stormwater rates was restricted to simply accommodating the 0.4% draft operations budget increase.

The aforementioned analysis were undertaken using the most current information available to the Municipality including:

- Customer account information by meter size;
- Updated consumption information;
- 2018 Draft Operating Budgets; and,
- 5 year Capital Budget and Asset Management Plan

Financial Implications:

Water and Wastewater Rates

Scenario 1 would have no increase in rates for 2018; providing continued relief to ratepayers and will result in minimal reserve fund contribution balance reductions in relation to the Long Range Financial Plan. Alternatively, scenarios 2 through 4 would provide as a result of the respective percentage rate reductions additional relief to ratepayers, but would result in significant depletion



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of the respective water and wastewater reserve balances in relation to the Long Range Financial Plan.

If such rate reductions were implemented on a one-time basis, an anticipated greater rate increase than the proposed rate decrease would likely be required in 2019 to maintain the Municipality's Long Range Financial Plan as endorsed by Council in 2016. Furthermore, should such rate reductions be implemented to reset the base rates for extended annual periods, such would significantly impact the Municipality's Long Range Financial Plan and/or result in significant service level reductions.

Stormwater Rates

Based on the budget and the number of customers, the increase in rates for 2018 would be 0.4%, which would be equivalent to an increase of \$0.76 annually to a typical customer (\$0.06 per month). Freezing rates at the 2017 level would result in a reduction of approximately \$3,500 in the draft 2018 Operating budget.

Conclusion

Based upon the aforementioned detailed analysis undertaken by departmental administration staff in consultation with BMA Management Consulting Inc., departmental administrative staff are supportive of freezing the water, wastewater, and stormwater rates from 2017 to 2018 for an additional year to those established in 2016.

Strategic Plan:

The aforementioned recommendation will ensure the Municipality's continued delivery of safe potable drinking water, wastewater, and stormwater services to residents, the ongoing approach to reduce cost of service, and its goal of delivering affordable sustainable services for generations to come.

Middlesex Centre's 2012 - 2017 Strategic Plan, identified four applicable strategic themes as Maintain Financial Integrity, Manage Costs, Manage Reserves, and Environmental Sustainability.