



Staff Report

Report No.: PWE 52-2018
Meeting Date: November 14, 2018
Submitted by: Brian Lima – Director, Public Works and Engineering
Subject: 2019 Water, Wastewater, and Stormwater Rate Proposal

Recommendation:

THAT the 2019 water, wastewater, and stormwater rates remain unchanged from the 2018 water, wastewater, and stormwater rates.

Purpose:

To request Councils approval of the 2019 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.

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 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,



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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 have been frozen since 2016. The following summarizes the existing water and wastewater rates:

2018		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

The following summarizes the existing stormwater rates:

2018	Rate
Monthly rate for all customers	\$14.88
For Industrial, Commercial and Institutional Customer with properties larger than 0.4 hectares an additional monthly charge applies	\$42.18
Monthly ICI Land area above 0.4 hectares per hectare	

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 2019 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.



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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 2018/2019 opening and projected ending reserve balances:

	2018 Opening Balance	2018 Projected Ending Balance	2019 Projected Ending Balance
Wastewater Reserve	\$1,210,700.40	\$1,113,900	\$2,425,734
Water Reserve	\$2,100,833.76	\$3,327,191	\$4,539,977
Stormwater Reserve	\$1,021,214.22	\$709,373	\$1,068,994

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

1. Maintain the contributions to reserves as budgeted would result in an increase to the water and decrease to the wastewater rates from 2018 to 2019 by 3.5% and -14.1% respectively.
2. Maintain the budgeted contribution to reserve for water but increasing the contribution to reserve for wastewater an additional \$207,598 would result in an increase to the water and decrease to the wastewater rates from 2018 to 2019 by 3.5% and -3.0% respectively.
3. Decrease the contribution to reserve for water and increase the contribution to reserve wastewater by \$(67,439) and \$263,503 respectively would result in the continued rate stabilization for an additional year.

BMA Management Consulting Inc.'s review of the Municipality's stormwater rates was restricted to simply accommodating the -2.0% draft operations budget decrease.

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 3 would have no increase in rates for 2019; providing continued relief to ratepayers and will result in continued increasing reserve fund contributions in relation to the Long Range Financial Plan. Alternatively, scenarios 1 and 2 would provide as a result of the respective



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percentage rate reductions a slight relief to ratepayers, but would result in significant further depletion of the recommended \$1.6M and \$2.2M respective annual water and wastewater reserve fund contributions as recommended in 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 2020 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 stormwater rate for 2019 would also be frozen and would result in a \$359,621 contribution to the stormwater reserve fund balance as proposed in the draft 2019 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 2018 to 2019 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.

Municipality of Middlesex Centre

2019 Water Operating Expenditures

	2018	2019
Expenditures		
<u>Operating Expenditures</u>		
Salaries, Wages & Benefits	\$ 400,807	\$ 345,864
Water Purchase	\$ 500,000	\$ 456,000
Hydro	\$ 61,217	\$ 164,038
Contracts	\$ -	\$ -
Other Expenses	\$ 533,675	\$ 339,609
Total Operating Expenses	\$ 1,495,699	\$ 1,305,511

- Savings realized in equipment and maintenance have reduced operating expenditures
- Opportunities to address the infrastructure gap by gradually increasing the contributions to the capital program

2019 Wastewater Operating Expenditures

	2018	2019
Expenditures		
<u>Operating Expenditures</u>		
Salaries, Wages & Benefits	\$ 400,807	\$ 345,864
Hydro	\$ 352,192	\$ 164,847
Contracts	\$ -	\$ -
Other Expenses	\$ 595,204	\$ 579,411
Total Operating Expenses	\$ 1,348,202	\$ 1,090,122

- Savings realized in equipment and maintenance have reduced operating expenditures
- Savings also realized in the reduction of debt charges in 2019
- Opportunities to address the infrastructure gap by gradually increasing the contributions to the capital program but also pass on savings to customers

Reserve Contributions

- Based on the Long Range Financial Plan, which is based on the Municipality's Asset Management Plan (AMP), the annual contribution recommended to fund the timely replacement of assets is:
 - \$1.6 million for water
 - \$2.2 million for wastewater
- Scenario 3 is recommended option:
 - \$1.2 million for water
 - \$1.3 million for wastewater

Scenario 2

- 0% increase in the infrastructure levy rates
- 3.5% increase in the water rates (fixed and volumetric)
- 3% reduction in the wastewater rates (fixed and volumetric)
- Blended impact on customer is 0% to a small reduction

Options to Consider

		Scenario 1	Scenario 2	Scenario 3	
		2018	2019 Original	2019 Scenario 2	2019 Scenario 3
Rate Changes					
Water % Rate Change (Volumetric)			3.5%	3.5%	0.0%
Water % Rate Change (Fixed Monthly)			3.5%	3.5%	0.0%
Water Infrastructure Rate % Change			0.0%	0.0%	0.0%
WW % Rate Change (Volumetric)			-14.1%	-3.0%	0.0%
WW % Rate Change (Fixed Monthly)			-14.1%	-3.0%	0.0%
WW Infrastructure Rate % Change			0.0%	0.0%	0.0%
2019 Reserve Contribution					
Water Reserve Contribution	\$ 1,142,275	\$ 1,280,225	\$ 1,280,225	\$ 1,212,786	
Difference to Original Water			\$ -	\$ (67,439)	
WW Reserve Contribution	\$ 910,059	\$ 1,048,331	\$ 1,255,929	\$ 1,311,834	
Difference to Original WW			\$ 207,598	\$ 263,503	
Residential Impact Analysis					
Total Residential 200 m3 Annual Cost	\$ 1,725	\$ 1,641	\$ 1,723	\$ 1,725	
Total Residential % Change			-4.9%	-0.1%	0.0%
Water Residential 200 m3 Annual Cost	\$ 785	\$ 804	\$ 804	\$ 784	
Water Residential % Change			2.5%	2.5%	-0.1%
WW Residential 200 m3 Annual Cost	\$ 940	\$ 837	\$ 918	\$ 940	
WW Residential % Change			-11.0%	-2.3%	0.0%

Water Rates

Water		2018	2019 Original	2019 Scenario 2	2019 Scenario 3
Total Fixed Monthly Water Charge		\$ 22.76	\$ 23.56	\$ 23.56	\$ 22.76
Water Usage Charge (Volumetric) 0-8 m3		no additional charge	no additional charge	no additional charge	no additional charge
Water Usage Charge (Volumetric) per m3 for consumption exceeding 8 m3		\$ 2.84	\$ 2.94	\$ 2.94	\$ 2.84
Water Infrastructure Lifecycle Reserve Fund Charge based on Meter Size - Monthly	5/8"	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00
	3/4"	\$ 27.00	\$ 27.00	\$ 27.00	\$ 27.00
	1"	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00
	1.5"	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00
	2"	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00

Wastewater Rates

Wastewater		2018	2019 Original	2019 Scenario 2	2019 Scenario 3
Total Fixed Monthly Wastewater Charge		\$ 29.30	\$ 25.15	\$ 28.42	\$ 29.30
Wastewater Usage Charge (Volumetric) 0-8 m3		no additional charge	no additional charge	no additional charge	no additional charge
WW Usage Charge (Volumetric) per m3 for consumption exceeding 8 m3		\$ 3.66	\$ 3.14	\$ 3.55	\$ 3.66
Wastewater Infrastructure Lifecycle Reserve Fund Charge based on Meter Size - Monthly	5/8"	\$ 17.32	\$ 17.32	\$ 17.32	\$ 17.32
	3/4"	\$ 25.98	\$ 25.98	\$ 25.98	\$ 25.98
	1"	\$ 43.30	\$ 43.30	\$ 43.30	\$ 43.30
	1.5"	\$ 86.61	\$ 86.61	\$ 86.61	\$ 86.61
	2"	\$ 138.57	\$ 138.57	\$ 138.57	\$ 138.57