



Committee of the Whole Report

Report Number: CA2021-002

Meeting Date: March 9, 2021

Title: Water-Wastewater Rate Study

Description: This report brings forward the Water-Wastewater Rate Study, and the Water Financial Plan appended thereto, for Council's approval in accordance with Ontario Regulation 453/07 under the Safe Drinking Water Act.

Author and Title: Adam Found, Manager of Corporate Assets

Recommendation(s):

That Report CA2021-002, **Water-Wastewater Rate Study**, be received;

That the Water-Wastewater Rate Study, including the Water Financial Plan appended thereto, prepared by Watson and Associates and attached as Appendix A to Report CA2021-002, be adopted;

That the Water-Wastewater Division forward the Water Financial Plan to the Ministry of Environment, Conservation and Parks in accordance with the requirements of Ontario Regulation 453/07;

That the preparation of future plans and budgets, as well as the setting of future water and wastewater user rates, be guided by the Water-Wastewater Rate Study;

That these recommendations be brought forward to Council for consideration at the next Regular Council Meeting.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

The City owns 21 drinking water systems, each of which requires a license pursuant to Ontario Regulation 453/07 under the Safe Drinking Water Act.¹ All 21 licenses are on the same 5-year cycle; they are set to expire on July 25, 2021. In order to renew the drinking water licenses in accordance with Ontario Regulation 453/07 and continue lawful provision of drinking water, the City must approve and submit to the Ministry of the Environment, Conservation and Parks (hereinafter, "Ministry of Environment") a Water Financial Plan by April 30, 2021. Providing the foundation for such a plan is the Water-Wastewater Rate Study, attached hereto as Appendix A. The City retained Watson and Associates Economists to prepare both documents. The purpose of this report is to facilitate Council's approval of the Water-Wastewater Rate Study, inclusive of the Water Financial Plan appended thereto.

Rationale:

As noted in the Water-Wastewater Rate Study, significant regulatory changes to the water-wastewater industry were enacted by the Province of Ontario in response to the Walkerton water crisis of 2000 and the resulting Walkerton Commission. Within that context and using a 10-year planning horizon (2021-2030), the Water-Wastewater Rate Study is designed to provide the City with a guiding framework for the long-term financial planning of the City's water and wastewater systems. The study accomplishes this objective by taking the following general steps:

1. Forecast customer demand and long-term operating and capital needs based on regulatory requirements and asset management best practices.
2. Optimize the mix of available revenue tools, and ensure user rate structures reflect corresponding cost structures.
3. Develop an optimized forecast of user rates based on industry best practices and prudent financial planning, having consideration for long-term sustainability, stability and affordability.

Key to achieving long-term sustainability, stability and affordability of the City's water and wastewater systems are:

¹ As of time of writing, there is no corresponding regulatory requirement for storm water or sewage systems.

1. Compliance with regulatory requirements, particularly water and effluent quality standards.
2. Exploration and implementation of operational efficiencies and innovative ways of doing business.
3. Appropriate contributions to and reliance on reserves to balance operating and capital needs, provide for adequate contingency and stabilize user rate increases.
4. Appropriate reliance on debt to smooth out lumpy capital costs over time and promote stabilization of user rate increases.
5. Adequate and timely capital investment to meet regulatory requirements and the needs of growth, address service deficiencies and minimize long-term capital and operating costs.
6. Encouragement of financially sustainable customer base growth so as to realize greater economies of scale.
7. Adoption of a user rate structure reflective of cost structure, the principle of full-cost recovery and system-specific affordability considerations.
8. Commitment to prudent, affordable and reasonably predictable user rate increases.

The Water-Wastewater Rate Study provides the basis for the Water Financial Plan, the latter study being a requirement for obtaining or renewing a drinking water license pursuant to Ontario Regulation 453/07 under the Safe Drinking Water Act. In short, the Water Financial Plan converts the findings of the Water-Wastewater Rate Study into the technical reports prescribed by Ontario Regulation 453/07.

The City's 21 drinking water licenses will expire on July 25, 2021. The Water Financial Plan must be approved by Council and submitted to the Ministry of Environment by April 30, 2021 in order for the City to renew its drinking water licenses and continue providing water services lawfully. The deadline for submitting the Water Financial Plan is normally six months in advance of water license expiration, in this case January 25, 2021, however the Ministry of Environment extended that deadline to April 30, 2021 in recognition of the impact of the COVID-19 pandemic on the City.

Other Alternatives Considered:

The general approach taken by the Water-Wastewater Rate Study is premised on the following key strategies:

1. Index the water-wastewater debt limit so that it keeps pace with capital cost inflation and thereby continues to provide for effective user rate stabilization.
2. Avoid deferral of capital projects required to keep water and wastewater systems compliant with regulations and in an acceptable state of repair.
3. Maintain water-wastewater user rate increases at approximately 3% per year, the historical trend, so that user rates remain affordable and predictable.

Various alternative approaches to the study were considered, these being Scenarios 1, 2, 3, 4A, 4B, 5A and 5B identified in chapter 6 of the study. Scenario 4B is the approach recommended by Watson and staff, and hence that on which the study is based. Forecasts emanating from the study will be incorporated into the City's forthcoming updated long-term financial plan.

Alignment to Strategic Priorities:

The recommendations of this report support responsible financial and asset management, and hence align with the strategic priority of "Good Government" identified in the City's 2020-2023 Strategic Plan.

Financial/Operation Impacts:

Relevant financial impacts are outlined in the Water-Wastewater Rate Study.

Consultations:

Watson and Associates Economists Limited

Supervisor, Water-Wastewater Operations

Manager, Revenue and Taxation

City Treasurer

Director, Corporate Services

Attachments:

Appendix A: Water-Wastewater Rate Study



Water-Wastewater
Rate Study.pdf

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Department Head: Juan Rojas, Director of Engineering and Corporate Assets