

THE CORPORATION OF THE MUNICIPALITY OF LEAMINGTON

AGENDA

PUBLIC MEETING

MUNICIPAL WATER AND WASTEWATER RATES

TUESDAY, SEPTEMBER 20, 2011
COMMENCING AT 7:00 P.M.
IN THE COUNCIL CHAMBERS



ITEMS FOR CONSIDERATION:

1. Draft Report ES 03/11 dated September 9, 2011 re: Municipal Water and Wastewater Rates
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2. Presentation of 2011 Water and Wastewater Rate Analysis dated September 20, 2011,
Watson and Associates Economists Ltd. (under separate cover).
 - Gary Scandlan, Associate Director
 - Nancy Neale, Senior Consultant

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REPORT

TO: MAYOR AND MEMBERS OF COUNCIL
FROM: KIT WOODS, MANAGER OF ENVIRONMENTAL SERVICES
DATE: September 16th, 2011
RE: MUNICIPAL WATER AND WASTEWATER RATES

AIM:

To provide council with an update on municipal water and wastewater rates and recommend adjustments for 2012 through 2014.

BACKGROUND:

Water Rate:

The municipality of Leamington is presently charged an aggregate wholesale rate of \$2.46/1000 gallons for water (\$0.5412/m³) by the Union Water Supply System (UWSS). The UWSS administration has indicated that there may be an increase in the rate in 2012, but it is not yet confirmed or quantified.

The retail water rate charged by the municipality to Leamington consumers is presently \$3.09/1000 gallons for water (\$0.6798/m³). This is in addition to a minimum basic monthly charge, regardless of consumption, of \$18.00.

This fee structure covers the cost of maintaining Leamington's water distribution system (labour, vehicles and materials) while at the same time allowing for some capital reserve funding.

There are a number of rates depending on the category of water user. Due to previous agreements made when UWSS was created, H.J. Heinz Company of Canada LP is charged a wholesale rate, and their revenues are not used to fund the operation of the distribution system.

The most recent rate change occurred on January 1st 2010 (Council Resolution C-416-09). The minimum basic monthly charge was increased by \$3.00, from \$15.00 to \$18.00, to fund the water meter replacement program. The consumption rate was also increased at the same time by \$0.05/1000 gallons (\$0.011/m³) to reflect an increase in the UWSS wholesale rate.

Sewer Surcharge Rate:

The Sewer Surcharge Rate is in fact a misnomer. It actually covers the cost of operating and maintaining the Pollution Control Centre (PCC) and municipal pumping stations only, including the net municipal share of the PCC upgrade project, subject to recovery of the growth-related portion through Development Charges. It does not fund sewer capital or maintenance work.

The rate charged to Leamington users of the PCC and pumping station infrastructure is presently \$1.35/m³ of water use. A minimum basic monthly charge of \$28.23 includes the first 20.91m³, or 4600 gallons, of water used (at the same \$1.35/m³ rate). This charge was first introduced in 2004. The present rate became effective on January 1st 2009 (Council Resolution C-434-08).

LEGISLATION:

The Province of Ontario passed the Sustainable Water and Sewage Systems Act in 2002. The Act states that “Every regulated entity that provides water services and wastewater services to the public shall prepare and approve a plan describing how the entity intends to pay the full cost of providing those services.” The Act was never proclaimed and no regulations have been issued.

The Safe Drinking Water Act however was passed in 2002. It covers many of the provisions of the Sustainable Water and Sewage Systems Act, including, under Ontario Regulation 453/07 (O. Reg. 453/07), the requirement to outline financial sustainability plans for Water Systems. The preparation of a financial plan is a key requirement for Drinking Water Quality Management System (DWQMS) licensing. Plans had to be submitted by all water systems including Leamington Water Services, by prescribed dates. Leamington’s Financial Plan was submitted to the Ministry in June 2010 (Council Resolution C-201-10).

On the Wastewater side, The Water Opportunities Act (2010) received Royal Assent last November. Section 25 of the Act states:

On becoming a regulated entity under the regulations, a municipal service provider shall, in accordance with such requirements as may be prescribed, prepare, approve and submit to the Minister a municipal water sustainability plan for all municipal services,

(a) that are under the municipal service provider’s jurisdiction; and

(b) to which, under the regulations, the regulated entity’s initial plan is to apply.

Section 26 of the Act states that regulations may require a plan to include any of the following:

- 1. An asset management plan for the physical infrastructure.*
- 2. A financial plan.*
- 3. If the municipal service is a municipal water service, a water conservation plan.*
- 4. An assessment of risks that may interfere with the future delivery of the municipal service, including, if required by the regulations, the risks posed by climate change and a plan to deal with those risks.*
- 5. Strategies for maintaining and improving the municipal service, including strategies to,*
 - i. ensure the municipal service can satisfy future demand,*
 - ii. consider technologies, services and practices that promote the efficient use of water and reduce negative impacts on Ontario’s water resources, and*
 - iii. increase co-operation with other municipal service providers.*
- 6. Such other information or things as may be prescribed relating to the municipal service*

The Province is presently working on regulations for The Water Opportunities Act (2010). It is safe to assume therefore that within the foreseeable future municipalities will be required to ensure sustainable funding for wastewater services, including sewer infrastructure, similar to that required for water services.

COMMENTS:

Water and Wastewater Rate Studies have been prepared as part of the Fiscal Impact Assessment Study being prepared by Watson & Associates Economists Ltd. They are based on new rate structures commencing in 2012.

As noted above The Municipality of Leamington's Financial Plan, which is based on the Water Rate Study, was submitted to the Ministry in June 2010 (Council Resolution C-201-10).

The Wastewater Rate study, used to determine the Sewer Surcharge is now also considered sufficiently complete to recommend a rate structure for 2012. This council report also presents the rate recommendations of Watson & Associates Economists Ltd. for future years, based on certain assumptions regarding inflation, asset life cycles, borrowing costs, etc.

The Water and Wastewater Rate Study financial models look at all expenditures and sources of revenue, and predict the required rate structure needed to maintain and sustain the various systems.

Expenditures include:

1. Cost of purchasing water from UWSS
2. Annual Operating Costs
3. Identified 5 year capital program
4. Future life cycle program, including replacement of mains, services, meters, hydrants and valves; replacement of PCC and pumping station equipment and facilities

Revenues include:

1. Sale of water to residents, commercial/industrial establishments, greenhouses
2. Development charges
3. Other fees for services
4. Sewer Surcharge to water users who are on the sewer system
5. Heinz revenues for sewage treatment
6. Heinz and other industrial high strength waste revenues

Water Rate:

Two models have been run for the Water Rates. The first model includes the 5 year capital budget as approved in 2011. As a result of recent Council direction, a second model was run which includes an escalated capital budget plan to complete the works previously identified in the 5 year plan, by 2013. The models identify the impact of accelerating this capital expenditure.

While the rate increases would not be impacted by the accelerated watermain replacement program, there are impacts on the Water Reserve accounts, which if not addressed would place the reserves in a vulnerable position. Representatives of Watson and Associates Economists Ltd will discuss this in more detail; in their presentation (see "Analysis" in **Financial Impact**, below).

With either model the following percentage rate increases will be required annually in both the fixed rate and water consumption rate, based on the assumption that the per household or user water consumption remains at present day values:

Year	2012	2013-2020	2021
% increase	4.0%	3.0%	2.5%

Sewer Surcharge Rate:

The model predicts that the following percentage rate increases will be required annually to adequately address the expected debt requirements, and other costs associated with the PCC and pumping stations, based on the assumption that the per household or user water consumption remains at present day values:

Year	2012	2013	2014	2015-2017	2018-2021
% increase	11.0%	11.0%	10.0%	5.0%	0.0%

The “average” household water consumption is approximately 21 cubic metres (m³), or approximately 4,600 gallons, per month. With the percentage increases proposed for 2012, the monthly bill for 21 m³ water use at a rural household would increase by \$1.29 in 2012, over an existing bill of \$32.38.

The Sewer Surcharge increase would cause the monthly bill for an urban household using 21 m³ to increase by \$3.11 in 2012. Combined with the \$1.29 increase for water use, the total increase in monthly bill would be \$4.40, over an existing bill of \$60.51.

Thus the overall increase for a consumer who pays Sewer Surcharge would be 7.27%.

Appendix B shows a typical Essex Powerlines Corporation bill for a residence that has water and sewer services. The Appendix shows the impact of the 2012 increase for various water consumption amounts.

FINANCIAL IMPACT:

Both Rate Studies make the following assumptions:

Inflation	2%	Water Meter replacement Charge Inflation	2%
Reserve earnings	2.5%	Capital Forecast Inflation	2%
Financing rate	5%	Inventory Inflation	2%
Borrowing term	10 years	Operating Budget Inflation	2%
Effective Interest	3%	PCC Chemicals & Utilities	5%
Development Charge Index	2%	Base Year for Inventory	2011
Base Charge/Flat Rate Inflation	2%	Current Year Budget	2011

The studies make assumptions regarding the life of various infrastructures, depending on size, materials of construction, etc. based on the municipality’s Tangible Capital Asset assumptions. They also assume that water consumption per capita remains constant going forward.

These assumptions will need to be revisited on an ongoing basis to ensure they remain appropriate, and that the sustainability model remains valid.

The rates that the financial analysis has established for each of the years 2012 to 2014 for the various user categories are noted in Appendix A. It is recommended that the rates indicated for 2012 be approved at this time. It is further recommended that the rates for the remaining term of this present council, i.e. 2013 and 2014, be adopted in principle at this time, subject to annual updates to be provided to council with each annual proposed fee schedule. This will provide the users with some certainty as to their costs moving forward for the next two years.

Note: The Sewer Surcharge only provides sustainable funding for the PCC and to some extent, pumping stations. It does not take into account the aging sewer infrastructure or the need for sewer separation. The administration will prepare an additional report for council's consideration, discussing the transfer of sewer related costs from the tax base to the Sewer Surcharge to allow for sustainable rates to be established on a "user pay" system, for the sewer infrastructure, thereby taking a proactive approach to addressing the sewer infrastructure sustainability, rather than waiting for regulations to be enacted under the Water Opportunities Act (2010).

Analysis:

Mr. Gary Scandlan, Associate Director, and Ms. Nancy Neale, Senior Consultant, of Watson and Associates Economists Ltd, will provide a presentation to council in conjunction with this report, providing an overview of the financial analysis, a review of applicable legislation, and rate comparisons with other municipalities.

RECOMMENDATION:

1. That Council approve the new rates for Water and Sewer Surcharge commencing on January 1 2012, for the year 2012, as described in ES 03/11, and more particularly in Appendix A.
2. That the rates described in ES 03/11, and more particularly in Appendix A, for the years 2013 and 2014 be approved in principle at this time, subject to annual updates to be provided to council with each annual proposed fee schedule
3. That Council instruct the Administration to accelerate the identified 5 year water replacement capital works to complete them by the end of 2013, and make corresponding adjustments to the lifecycle expenditure forecast.

All as described in ES 03/11

Signed: _____ Signed: _____
Kit Woods Robert Sharon
Manager, Environmental Services Director of Community Services

Appendix A Recommended Water and Wastewater rates for 2012 - 2014

<u>Water Proposed Rates</u>	<u>Present Rates</u>	<u>Jan 1, 2012</u>	<u>Jan 1, 2013</u>	<u>Jan 1, 2014</u>
<u>Monthly Flat Rate Users</u>	\$43.00/month	\$44.72/month	\$46.06/month	\$47.44/month
<u>Residential, Commercial (Water Meters less than or equal to 25 mm)</u>				
Fixed Water charge	\$18.00/month	\$18.72/month	\$19.28/month	\$19.86/month
Water Consumption charges	\$0.6798/m ³ (\$3.09 per 1000 gallons)	\$0.7070/m ³	\$0.7282/m ³	\$0.7500/m ³
<u>Commercial, Greenhouse, Field Drip Irrigation, (Water Meters greater than 25mm)</u>				
Fixed Water charge	\$18.00/month	\$18.72/month	\$19.28/month	\$19.86/month
<u>Regulated Greenhouse* / Commercial</u>				
Water Consumption charges	\$0.7414/m ³ (\$3.37 per 1000 gallons)	\$0.7711/m ³	\$0.7942/m ³	\$0.8180/m ³
<u>Unregulated Greenhouse / Field Drip Irrigation</u>				
Water Consumption charges	\$0.8074/m ³ (\$3.67 per 1000 gallons)	\$0.8397/m ³	\$0.8649/m ³	\$0.8908/m ³
<u>Unregulated Greenhouse over 3 acres</u>				
Water Consumption charges	\$1.6148/m ³ (\$7.34 per 1000 gallons)	\$1.6794/m ³	\$1.7298/m ³	\$1.7817/m ³

<u>Wastewater - Sewer Surcharge</u>	<u>Present Rates</u>	<u>Jan 1, 2012</u>	<u>Jan 1, 2013</u>	<u>Jan 1, 2014</u>
<u>Residential, Commercial, and Industrial</u> Flat rate monthly charge, includes the first 20.91m ³ or 4600 gallons	\$28.23/month	\$31.34/month	\$34.79/month	\$38.27/month
<u>Remainder of consumption</u>	\$1.35/m ³	\$1.50/m ³	\$1.66/m ³	\$1.83/m ³

* A regulated greenhouse must have a Municipality of Leamington approved on-site reservoir and rate of flow control system.

Appendix B Typical Essex Powerlines Corporation Bill

ESSEX POWERLINES CORPORATION
 340 Fairview Ave. W. Suite 210, Essex, ON N8M 3G4
 Tel: (519) 776-8900
 Tel: (844) 776-8900 (Antihelphing Customers)
 Fax: (519) 776-9888
 www.essexpowerlines.ca

REPRINT

Customer Account Number
 00212046007 000019681 20110815

AB(V)
 LEAMINGTON, ON N8H 4V7
 1794

ESSEX POWERLINES CORPORATION
 Account Number Name Service Address
 00212046007 LEAMINGTON WATER/SEWER CHARGES 1794

Meter Number	Present	Previous	Days	Code	Present	Previous	Mult	Usage	Adjusted Usage	Units	Power factor	Adjust. factor
MR	0	0	31	MR	0	0	1	753	798	kWh	1.0602	
WTR	4748	4711	31	MR	4748	4711	1	37		m3		

BILLING SUMMARY

Previous Balance as of 11-00-23	\$120.96	PREVIOUS BALANCE	120.96
Payments as of 11-07-28	(\$120.96)	PAYMENT - 2011-07-11	-120.96
Adjustments as of 11-07-28	\$0.00	BALANCE FORWARD	0.00
Interest Charges as of 11-07-28	\$0.00		
Balance Forward as of 11-07-28	\$0.00		
Current Charges as of 11-07-28	\$196.81		
Total Amount Due	\$196.81		

YOUR ELECTRICITY CHARGES:

	RATE	USAGE	CHARGES
Electricity			
Summer - Block 1	0.068000	620	42.16
Summer - Block 2	0.079000	178	14.09
Delivery			35.01
Regulatory Charges			5.45
Debt Retirement Charge			5.27
HST# 870066529			13.26

LEAMINGTON WATER/SEWER CHARGES

	RATE	USAGE	CHARGES
Water Base Charge			18.00
Water Consumption Block 1	0.679800	37	25.15
Sewage Base Charge			28.23
Sewer Consumption Block 1	0.000000	21	0.00
Sewer Consumption Block 2	1.350000	1	1.35

ELECTRIC & WATER USAGE HISTORY

Month	Days	Electric Use (kWh)	Elec. Usage per Day	Water Use per Day
06-11-31	798	26	37	1
05-11-28	430	15	19	1
04-11-30	462	14	20	1
03-11-28	413	15	11	0
02-11-31	545	18	19	1
01-11-30	604	18	20	1
12-10-30	693	23	22	1
11-10-28	466	17	18	1
10-10-32	415	13	21	1
09-10-27	405	15	26	1
08-10-31	897	29	38	1
07-10-29	956	32	35	1
06-10-34	1024	30	38	1

MESSAGES:

Bill Type	Account Type	Bill Date	Due Date	Amount Due	Payment Type
REGULAR	RESIDENTIAL	07/28/2011	08/15/2011	196.81	P.A.P. DO NOT PAY

Usage	Adjusted Usage	Units
22		M3

2011 Typical for 22 cubic metres of use per month

LEAMINGTON WATER/SEWER CHARGES	RATE	USAGE	CHARGES
Water Base Charge			18.00
Water Consumption Block 1	0.6798	22	14.96
Sewage Base Charge			28.23
Sewer Consumption Block 1	0.0000	21	0.00
Sewer Consumption Block 2	1.35	1	1.35

2012 Typical for 22 cubic metres of use per month

LEAMINGTON WATER/SEWER CHARGES	RATE	USAGE	CHARGES
Water Base Charge			18.72
Water Consumption Block 1	0.7070	22	15.55
Sewage Base Charge			31.34
Sewer Consumption Block 1	0.0000	21	0.00
Sewer Consumption Block 2	1.50	1	1.50

	10	14	18	22	24	26	28	30	32	34	38	40
cubic metres used per month												
2011 monthly water bill	\$24.80	\$27.52	\$30.24	\$32.96	\$34.32	\$35.67	\$37.03	\$38.39	\$39.75	\$41.11	\$43.83	\$45.19
2011 monthly waste water bill	\$28.23	\$28.23	\$28.23	\$29.58	\$32.28	\$34.98	\$37.68	\$40.38	\$43.08	\$45.78	\$51.18	\$53.88
Total present monthly bill	\$53.03	\$55.75	\$58.47	\$62.54	\$66.60	\$70.65	\$74.71	\$78.77	\$82.83	\$86.89	\$95.01	\$99.07
Total monthly increase, 2012 over 2011, Water only	\$0.99	\$1.10	\$1.21	\$1.32	\$1.37	\$1.43	\$1.48	\$1.54	\$1.59	\$1.64	\$1.75	\$1.81
Total monthly increase, 2012 over 2011, Water & Wastewater	\$4.10	\$4.21	\$4.31	\$4.57	\$4.92	\$5.27	\$5.63	\$5.98	\$6.33	\$6.68	\$7.38	\$7.73