



STAFF REPORT TREASURY DEPARTMENT

Prepared for Council: December 5th, 2013

Agenda Date: December 10th, 2013

SUBJECT:

Sydenham Water Works – Rates and Capital Replacement

ANALYSIS:

At the November 12th Committee of the Whole meeting, Council directed staff to draft a power point presentation, based on Scenario B, that would be used for a public meeting but which would allow Council an opportunity to review the information in advance.

Scenario B took volumetric costs, consisting largely of hydro costs, and shifted the consumption rate in applying 25% of the cost to residential and 75% to commercial/institutional. It incorporates moving the capital contribution to reserves closer to the yearly depreciation on the plant.

The presentation slides provide the history of the plant along with its funding and existing rate structure as well as the proposed changes to rates. It includes a comparison by year along with the breakdown within the rate of capital, operating and volumetric costs. It also provides the financial forecast for the years 2013 to 2018.

Next steps:

Staff is looking for direction on:

1. The scheduling of a public meeting
2. Timing of final approval of rates
3. Follow up communication to the public at least 60 days in advance of the affected billing to advise of the rate changes and effective dates.

RECOMMENDATION:

That council receive this report for information and provide direction.

Submitted/approved by:
Louise Fragnito, Treasurer

Prepared by:
Louise Fragnito, Treasurer

Sydenham Water Rates

Background and where we are today.

Background

- In July 2006, the Sydenham water plant was put into operation.
- The cost of the original plant was \$7,763,593.

This was funded through:

| | |
|-------------------------|-----------|
| Ontario Government | 2,520,106 |
| Federal Government | 2,394,993 |
| Limestone School Board | 695,000 |
| Residents | 1,386,890 |
| Future Growth Liability | 543,000 |
| Municipal Share | 123,604 |

Background (continued)

- At that time, monthly rates were set, and remain, as follows per dwelling unit equivalent:

| | |
|-------------------------------------|----------|
| Base rate for non-exempt | \$ 41.76 |
| Base rate for exempt (3 properties) | 37.26 |
| Consumption rate/m ³ | 0.25 |

Background (continued)

- In 2009, there was an upgrade to the Sydenham Water plant totalling \$1,435,002. This was funded through:

| | |
|--------------------|---------|
| Ontario Government | 473,333 |
| Federal Government | 473,333 |
| Municipal Share | 488,336 |

- The municipal share was funded through the Township Working Fund reserve.

Legislation

- Originally the Sustainable Water and Sewage Act required municipalities that provide water to the public to implement a full cost accounting and full cost recovery including operating, replacement and improvement costs.
- This legislation has since been replaced with Water Opportunities Act 2010 which requires municipalities to develop sustainability plans.
- The Safe Drinking Water Act, regulation 453/07 also requires municipalities to provide financial plans covering a minimum of 6 years with the renewal of their license. The Township will be required to do so in the spring of 2014.
- This combined legislation seeks to introduce the principle that having the consumer pay the full cost of providing water will promote greater awareness of water protection and water conservation.

Current Financials

- For the majority of the last few years, the Township has had to draw from reserves for the operations of the plant to breakeven.
- As a result, funds are not being set aside for the future capital requirements of the plant and the existing reserves are being depleted to cover increasing operational costs.

Review of Rates

- Through several meetings with Council, rates scenarios were discussed to bring the plant to a sustainable level while being aware of affordability.
- The rates were reviewed under 3 components
 - Capital costs
 - Fixed operational costs
 - Volumetric operational costs

Review of Rates (continued)

- Capital costs were set to match the current depreciation on the Water Plant. This provides a good indication of the minimum funds that should be set aside for the future capital requirements of the plant.
- Fixed operational costs include communication, insurance and contracted services (Utilities Kingston)
- Volumetric operational costs consist largely of hydro cost.

Review of Rates (continued)

- Direction received from council spoke to:
 - Phasing increases over 3 years
 - Differentiating consumption rates between the classes of users
- There are two classes of users:
 - Residential including multi-residential units
 - Industrial, Commercial and Institutional

Proposed Rates

- The proposed rates take the volumetric costs and shift the consumption rate by applying 25% of the costs to residential and 75% to the commercial/institutional/industrial class.
- The base rate includes 18m³ before any further charges are added for consumption
- Additional consumption beyond the 18m³ would be billed at 0.40/m³ for residential and 1.50/m³ for commercial/institutional/industrial
- A yearly 2% inflation on rates has been applied within the fixed and volumetric operating as well as the consumption rate. By 2017, a 2% inflation rate is also applied to the capital component.

Proposed Rates-non usage

- Currently there are 101 out of 282 accounts that either have no meter or no consumption on a monthly basis
- It is recommended that these accounts be charged an additional 25% premium for non-usage unless they have been exempted.
- The monthly base rate on these accounts would be:

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------------|-------|-------|--------|--------|--------|
| Residential | 56.54 | 73.60 | 93.21 | 95.11 | 97.05 |
| Commercial/Industrial/Institutional | 81.26 | 98.8 | 118.86 | 121.21 | 123.60 |

Future Reviews

- A yearly review of rates will be undertaken during budget
- A formal review will take place in late summer or early fall every 3 years, with a presentation to Council.