

THE CORPORATION OF THE TOWN OF GEORGINA

REPORT NO. DCAO-2024-0011

**FOR THE CONSIDERATION OF COUNCIL
August 14, 2024**

SUBJECT: WATER AND WASTEWATER DRAFT RATE STUDY

1. RECOMMENDATION:

- 1. That Council receive Report No. DCAO-2024-0011 prepared by the Financial Strategy and Planning Division of the Deputy Chief Administrative Officer Department dated August 14, 2024, respecting the Water and Wastewater Draft Rate Study;**
- 2. That Council receive the presentation regarding the Water and Wastewater Draft Rate Study prepared by Hemson Consulting Limited;**
- 3. That Council discontinue the early payment discount in 2025 and endorse the draft rate increases presented in this report; and**
- 4. That Council direct staff to report back with the final rate study and financial plan in September 2024 for Council's approval.**

2. PURPOSE:

The purpose of this report is to provide an update on the progress of the water and wastewater study and seek Council's direction on the development of the water and wastewater rates to be included in the water financial plan and rate study.

3. BACKGROUND:

The Town's current water and wastewater rates structure is a combination of Capital Recovery Fixed Charges and Consumption Charges per cubic meter (m³). The charges change annually with Council approval. The 2024 rates were approved through bylaws 2024-0001(PWO-3) and 2024-0002(PWO-3).

Table 1: 2024 Council Approved Rates

	Rate
Water	
Consumption Rate (\$/m ³)	\$3.10
Fixed Charge (\$/month)	\$4.94

Wastewater	
Consumption Rate (\$/m3)	\$3.39
Fixed Charge (\$/month)	\$4.87

Table 2: 2024 Annual Rate Impacts Per Typical Household of 165m³

	2024
Water	\$ 571
Wastewater	\$ 618
Total	\$ 1,189

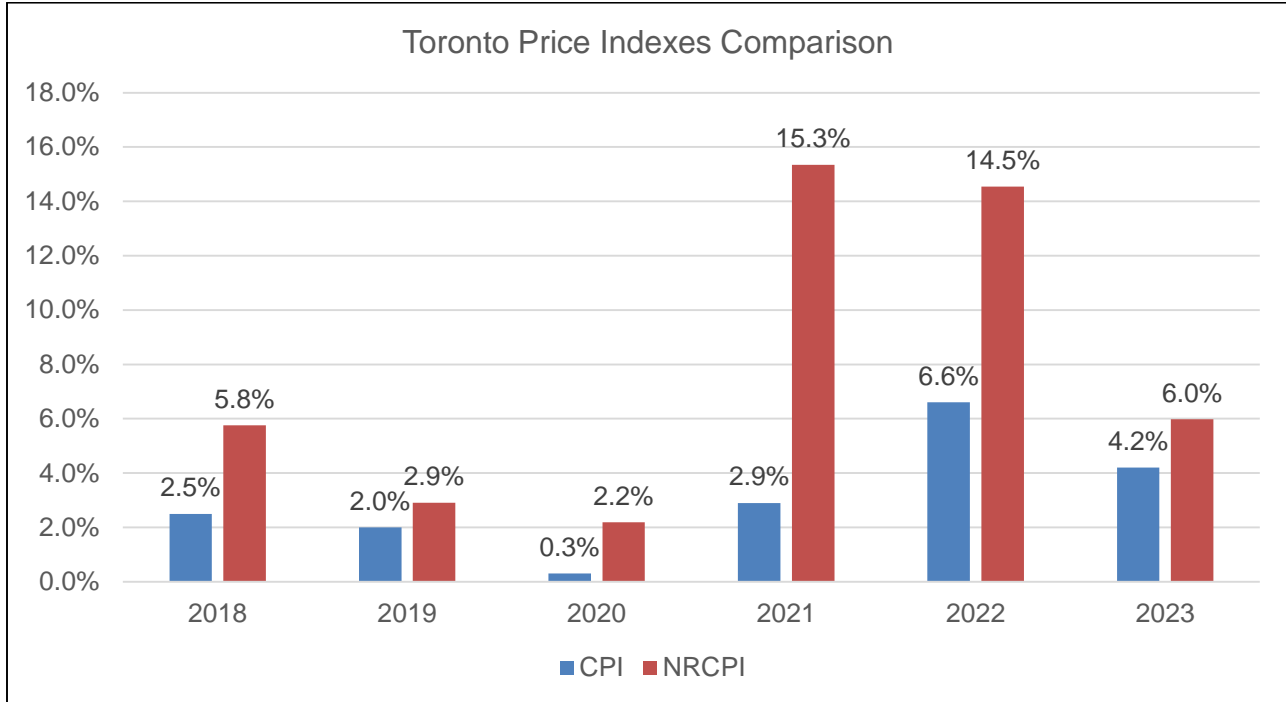
Georgina residents currently enjoy a two percent (2.0%) prompt payment discount on the gross fees of water and sewer bills if they pay within twenty-one (21) days from the billing dates as outlined in bylaws 2024-0001(PWO-3) and 2024-0002(PWO-3).

The Town’s Municipal Drinking Water License (MDWL) under The Safe Drinking Water Act (SDWA) is set to expire on May 23, 2026 and the Town must apply for license renewal by November 23, 2025. The SDWA and the Ontario Regulation 453/07 require that the Municipality prepare Water Financial Plans as part of the renewal. The previous Water and Wastewater Rate Study was completed in 2020.

In June 2022, the Town Council endorsed the Town’s Core Asset Management Plan (Core AMP) and the purpose of the AMP is to deliver a financial and technical roadmap for the management of the Town’s core municipal infrastructure, including the Water Supply and Wastewater Collection system, to provide a means for the Town to maximize value from its assets, at the lowest overall expense, while providing enhanced service levels for its residents. The AMP identifies the necessary funding goals and benchmarks based upon the condition and levels of service of each asset class. The AMP’s lifecycle model also illustrates the behavior and deterioration of assets over time, and provides a 10, 25, and 50 year reinvestment forecast for water and wastewater infrastructure; to quantify the necessary increases to capital and operating budgets. Staff have been updating the 10-year capital plan to gradually include the recommendations outlined in the AMP.

The inflation related to non-residential construction has increased significantly since the 2020 water and wastewater financial plan and rate study. While the non-residential building construction price index (NRCPI) is usually higher than the consumer price index, it spiked in 2021 and 2022. This puts significant pressure on Town’s reserves to carry out infrastructure replacement projects.

Graph 1: Toronto Index: Consumer price index (CPI) vs non-residential building construction price index (NRCPI)



Source: Statistics Canada

Similar to capital cost escalation, the Town is facing rising costs in operating and maintenance services. Several repair and maintenance contracts were renewed in 2024, including those for Sewer & Culvert Flushing, Wet Well Cleaning, Pumping Station Electrical Services, and Mechanical Services. The Water and Wastewater Emergency Repairs Contract is scheduled for renewal in 2025. Since 2023, the Town has experienced an increase in emergency repairs, including those related to the Water Distribution System, Wastewater Collection System, pumping station emergency repairs, watermain breaks, and service leaks.

The Town has initiated an update to the study prior to the five year mark due to increasing costs, a new asset management plan and a more robust non-growth related capital plan to maintain system operations.

4. **ANALYSIS:**

Hemson Consulting Ltd. (Hemson) has been retained to conduct a study to analyze the water and wastewater operations and capital costing, reserve requirements and other expenditures, and to propose reasonable and fair water and wastewater rates for the Town that meets the full cost recovery model.

The recommended rates are calculated based on the following needs:

- Full recovery of operating costs
- Full recovery of annual capital needs
- Contribution to Reserve for future asset replacement

Hemson will also produce a financial plan that will satisfy and be compliant with the Safe Drinking Water Act (SDWA) and associated regulation O.Reg 453/07: Financial Plans.

Per existing bylaws 2024-0001(PWO-3) and 2024-0002(PWO-3), residents currently receive a two percent (2.0%) prompt payment discount on the gross fees of water and sewer bills if they pay within twenty-one (21) days from the billing dates. Staff recommend discontinuing the two percent (2.0%) prompt payment discount which is budgeted at approximately \$140,000 a year. The resulting amount will be incorporated into the new fee structure and reduce pressures from the remaining households.

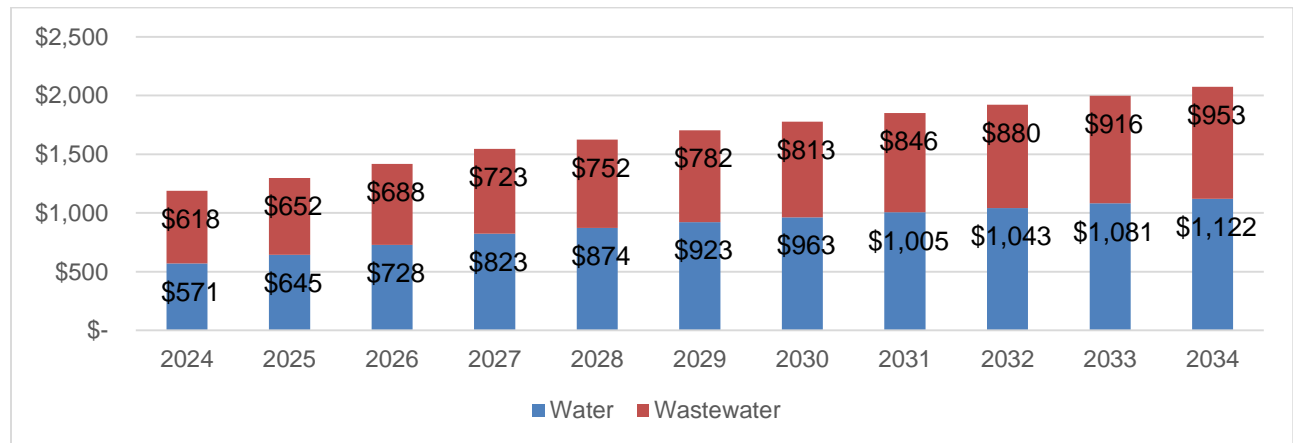
In addition to the above recommendation, the proposed plan will also recommend strategies to bridge the funding gap in our 10-year capital plan, operating needs and to increase contribution to the reserves to build them to more appropriate levels. The strategies are a combination of rate increases, uses of debt and improving metering accuracy.

The result of the plan will result in the below year over year rate increases:

Table 3: Summary of Rate Impacts Per Typical Household of 165m³ per year

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Water	\$ 571	\$ 645	\$ 728	\$ 823	\$ 874	\$ 923	\$ 963	\$ 1,005	\$ 1,043	\$ 1,081	\$ 1,122
Wastewater	\$ 618	\$ 652	\$ 688	\$ 723	\$ 752	\$ 782	\$ 813	\$ 846	\$ 880	\$ 916	\$ 953
Total	\$ 1,189	\$ 1,296	\$ 1,417	\$ 1,546	\$ 1,626	\$ 1,705	\$ 1,776	\$ 1,851	\$ 1,923	\$ 1,997	\$ 2,075
Change (\$)		\$ 108	\$ 120	\$ 130	\$ 79	\$ 79	\$ 71	\$ 75	\$ 72	\$ 74	\$ 78
Change (%)		9%	9%	9%	5%	5%	4%	4%	4%	4%	4%

Chart 2: Annual Water and Wastewater Impact per Typical Metered Household (165m³ per year)



Should council choose not to discontinue the early payment discount, this will result in a 10% increase in the first year, opposed to 9%.

5. RELATIONSHIP TO STRATEGIC PLAN:

The water and wastewater financial plan and rate study supports the below strategic pillars in the 2023-2027 Corporate Strategic Plan:

- **Delivering Services Excellence**
Proactively manage infrastructure and assets to ensure service continuity.
- **Ensuring Balanced Growth**
Promote and ensure responsible growth and long-term planning by completing a water and wastewater fee study.

6. FINANCIAL AND BUDGETARY IMPACT:

Staff have been working with Hemson to ensure that all water and wastewater expenses are properly captured in the study. Staff provided Hemson growth projections as well as any previously approved studies and budget documents such as: Asset Management Plan (AMP), 10-year capital plan (as approved in the 2024 budget) and information on water/wastewater accounts. In addition, Staff provided future operating initiatives to capture expenses related to growth, service enhancements, maintenance, inspection and monitoring programs. For example: staffing requirements to support growth and increase to maintenance programs.

To ensure that the water and wastewater system remains financially sustainable over the next ten years, staff recommend that Council endorse the proposed rate increases to be included in the rate study.

Along with removal of the early payment discount, additional measures should be considered and incorporated into the Water and Wastewater Study and Financial Plan to mitigate the immediate pressures on rates:

- Increase in Debt financing
- Advancement of the Water Meter Replacement Project

Debt Financing

Town's Corporate Debt Management Policy stipulates that the annual payments for debenture cannot exceed a maximum of 15% use of the Annual Repayment Limit (ARL) set annually by the Ministry of Municipal Affairs and Housing. The ARL at the end of 2023 is \$19.3 million, of which the Town used \$3.2 million, or 4.2%. The projected usage of the ARL at the end of 2024 is 8.9%, inclusive of the debenture payments for the MURC construction. Further, the debenture issued for the Willow Beach Water and Sewer construction will be paid off by the end of 2026. It frees up \$1.25 million of ARL to fund the capital projects in the near term. The usage of debt should be considered in

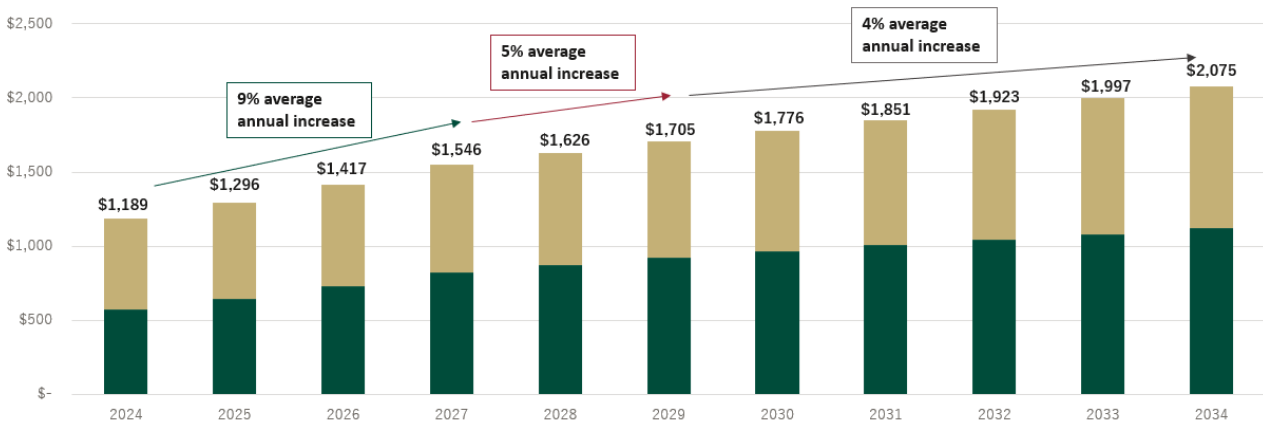
the proposed financial plan to deliver on capital projects while mitigating the pressures of increasing costs on the rates.

Water Meter Replacement Project

A water meter replacement program has been ongoing since 2018. The program changes out water meters that are reaching their life expectancy of 20 years and thus might have the potential of metering inaccuracy. Approximately 2,700 meters have been changed out from 2018 to 2024. Staff will recommend a capital project in 2025 budget to accelerate changing out the remaining meters and to install 8-10 data collectors that will enable the Town to have automated meter readings off the data collectors. The new meters installed are read with radio frequency technology. They offer Staff additional information and capabilities when dealing with high water bills and offer residents an enhanced customer service experience in targeting sources of high consumption water usage using this data logging technology. Staff recommend funding the project with a debenture in the amount of \$4 million, to be repaid over 20 years with future water and wastewater revenue. The water meter replacement project and the corresponding debt have been incorporated in the proposed financial plan and will be presented to council as part of 2025 budget process.

Chart 3 below summarises the impacts on rates while incorporating the strategies identified in this report.

Chart 3: Annual Rate Impact per Typical Metered Household (165m³ per year)



7. PUBLIC CONSULTATION AND NOTICE REQUIREMENTS:

There is no specific requirement to have public consultations or notice requirements when completing a rate study, however, the Water Financial Plan must be made available upon request to the public and provide notice of availability to those served by the system.

The financial plan and rate study are necessary to ensure the financial stability of the water and wastewater system. Staff are only seeking an endorsement of the future water and wastewater rates. Each year, staff will report back during budget deliberations with a by-law to enact the anticipated rates for that budget year. Each year, the Town provides several options for public engagement into the overall budget process, including the water and wastewater budgets.

8. CONCLUSION:

Increasing costs, a new asset management plan and a more robust non-growth related capital plan are driving annual increases to the utility rates. In an effort to mitigate the immediate pressures on residents, the Town should undertake additional debt which will spread out the financial impacts more evenly over a period of time. The Town should also consider the discontinuation of the early payment discount to manage cost pressures more evenly across all residents.

APPROVALS

Prepared By: Alison Yu, CPA, CMA
Senior Financial Analysis

Dina Havkin, CPA, CMA
Manager of Financial Strategy and Planning / Deputy
Treasurer

Recommended By: Michael Vos
Director, Operations and Infrastructure

Rob Wheeler, CPA, CA
Deputy Chief Administrative Officer / Treasurer

Approved By: Ryan Cronsberry
Chief Administrative Officer

Attachments:

Council Information Session Water and Wastewater Rate Study - Presentation by Hemson Consulting Ltd.