

Report to Council

Report Title: Water and Wastewater Financial Plans 2021 to 2026

Prepared By: Gregg Furtney, Director of Operations

Department: Utilities

Date: January 26, 2021

Report Number: UT2021-03 **File Number:** C11UT

Attachments: Water System Financial Plan 2021-2026
Wastewater System Financial Plan 2021-2026

Recommendation:

That the Council of the Municipality of Brockton hereby receives Report Number UT2021-03 - Water and Wastewater Financial Plans 2021 - 2026, prepared by Gregg Furtney, Director of Operations, and further approves the following rate increases be applied for the Water Financial Plan: 2021 =2 % ;2022 =3.8%; 2023 = 3.8%; 2024 =3.8%; 2025 =3.8%; 2026 =3.8 %.

And the Wastewater Financial Plan: 2021 =2%; 2022 =4.8%; 2023 =4.8%; 2024 =4.8%; 2025 =4.8 %; 2026 =4.8% so that they can be reported to the Ministry of Environment, Conservation, and Parks on or before February 4, 2021.

Report:

Background:

Financial Plans for municipal drinking water systems are mandated by Ontario Regulation 453/07, under the Ontario Safe Drinking Water Act. There is no such parallel mandate for wastewater systems, however, many municipalities, including Brockton, recognize the linkage ratepayers make between water and wastewater charges and also recognize the benefits of long-term financial planning for all municipal services.

Brockton has prepared and submitted, through BM Ross and Associates, water and wastewater financial plans for the period 2012 to 2016 and 2016 to 2021. The proposed plan is required because of a renewal requirement for the Municipal Drinking Water License. These new financial plans must start in the year in which the previous plans expire. Brockton's renewal license is due February 4, 2021. A decision of Council must take place on January 26, 2021 in order for the proposed plan to be ratified and submitted to the Ministry of Environmental, Conservation, and Parks (MOECP) by the February 4, 2021 deadline.

According to Stats Canada (reported June 11, 2019), the average Canadian uses 220 liters (0.22 m3) of potable water per day. Stats Canada (2016) also reported that, in Ontario, the average household has 2.58 people in it.

Therefore, the average Ontario household uses 567.6 liters (0.5676 m³) of potable water a day, or 207,174 liters (207.174 m³) a year. The general assumption is that water treated and distributed should equal the amount of wastewater collected and treated.

In 2020, Brockton residents using water from a municipal water system paid (water volume charge) \$1.34 per cubic meter. As per the previous water financial plan, a 3% increase would result in an increase of \$0.04 per cubic meter of water used (water volume charge). The 3% increase would result in a resident paying \$1.38 per cubic meter (water volume charge) in 2021. If the Stats Canada averages are applied (207,174 liters or 207.174 m³) then the average household would pay an additional \$8.29 per year ($\$0.04 \times 207.174 \text{ m}^3 = \8.286) with a 3% (\$0.04) increase in 2021.

For those that are paying a flat rate per year, the proposed 3% increase equals \$6.44 (per year) more in 2021.

Assuming that the amount of wastewater collected and treated is equal to that of the potable water treated and distributed, the numbers would be similar. The 2020 rate for wastewater volume per cubic meter was \$1.39 per cubic meter. The proposed rate for 2021 is \$1.44 per cubic meter used, an increase of \$0.05 per cubic meter. Those residents that have flat rate billing paid \$238.10 per year in 2020 and will be, if approved, paying \$244.85 per year, an increase of \$6.75 (per year) in 2021.

Analysis:

Water Financial Plan:

BM Ross and Associates has prepared four (4) options for Council to consider. The assumption is that the water financial plan rate increase will be consistent throughout the life of the plan. If not, as per the discussion at our recent budget meeting, Council has to indicate what percentage they would like to see applied to the specific year.

Option 1 – 0% Rate Increase: With no increase in revenue, the current rate of reserve fund growth combined with the proposed capital replacement will result in a 13% increase in the financial position and an increase in the rate of replacement to eighty-three (83) years.

Option 2 – 3% Annual Rate Increase (matching previous increase): Increasing revenue by 3% per year will further improve the financial position and result in a rate of replacement of fifty (50) years. This is equal to a \$0.04 per cubic meter increase. ($\$1.34 \times 1.03 = \1.38 per cubic meter)

Option 3 – 3.8% Annual Rate Increase: a 3.8% annual rate increase would result in a 25% increase in the financial position and result in a rate of replacement of forty-five (45) years. This would match the current weighted average remaining life expectancy of the assets. This is equal to a \$0.05 per cubic meter increase. ($\$1.34 \times 1.038 = \1.39 per cubic meter)

Option 4 – 6.6% Full Cost Recovery as per the MOECP Definition: This increase would achieve full cost recovery by 2026 and theoretically, there would be no need for increases beyond 2026. This is equal to a \$0.09 per cubic meter increase. ($\$1.34 \times 1.066 = \1.43 per cubic meter)

Although full cost recovery would be the ideal option from an asset management and financial perspective, Council may not agree that this is the best option for residents. **Therefore, staff are recommending a 2% rate increase in 2021 followed by a 3.8% increase in 2022 through to 2026.**

Water Financial Plan					
		Rate of			Per Avg Household
Option	Description	Replacement (Years)	2020 Rate \$1.34/ m3	Difference/ m3	Increase per m3 per year**
1	0.0%	83	\$ 1.34	\$ -	\$ -
2	3.0%	50	\$ 1.38	\$ 0.04	\$ 8.29
3	3.8%	45*	\$ 1.39	\$ 0.05	\$ 10.36
4	6.6%	32	\$ 1.43	\$ 0.09	\$ 18.65
* 45 years is the weighted average remaining life expectancy of the water assets.					
** Avg Canadian resident uses 207.174 m3 of potable water per year and the average household, in Ontario according to Stats Canada has 2.58 residents.					

Wastewater Financial Plan:

BM Ross and Associates has prepared four (4) options for Council to consider. The assumption is that the water financial plan rate increase will be consistent throughout the life of the plan. If not, as per the discussion at our recent budget meeting, Council has to indicate what percentage they would like to see.

Option 1 – 0% Rate Increase: With no increase in revenue, the current rate of reserve fund growth combined with the proposed capital replacement will result in a n 8% increase in the financial position and an increase in the rate of replacement to one-hundred and thirty-six (136) years. This is not a sustainable approach and is not recommended.

Option 2 – 2.7% Annual Rate Increase: Increasing revenue by 2.7% per year will maintain the current rate of replacement of sixty-six (66) years. This will further improve the financial position and would maintain, close to it, current reserve levels.

Option 3 – 4.8% Annual Rate Increase: Setting a 4.8% annual rate increase would result in a 31% increase in the financial position and result in a rate of replacement of forty-five (45) years which matches the current remaining life expectancy of the assets.

Option 4 – 7.2% Annual Rate Increase: Setting a 7.2% annual rate increase would achieve full cost recovery by 2026 and theoretically, no increases would be required beyond 2026.

Although full cost recovery would be the ideal option from an asset management and financial perspective, it may not be the best option for residents. **Therefore, staff are recommending a 2% rate increase in 2021 followed by a 4.8% increase in 2022 through to 2026.**

Wastewater Financial Plan					
		Rate of			Per Avg Household
Option	Description	Replacement (Years)	2020 Rate \$1.39/ m3	Difference/ m3	Increase per m3 per year**
1	0	136	\$ 1.39	\$ -	\$ -
2	2.7	66	\$ 1.43	\$ 0.04	\$ 8.29
3	4.8	45*	\$ 1.46	\$ 0.07	\$ 14.50
4	7.2	32	\$ 1.49	\$ 0.10	\$ 20.72
* 45 years is the weighted average remaining life expectancy of the water assets.					
** Avg Canadian resident uses 207.174 m3 of potable water per year and the average household, in Ontario according to Stats Canada has 2.58 residents.					

Sustainability Checklist:

What aspect of the Brockton Sustainable Strategic Plan does the content/recommendations in this report help advance?

- Do the recommendations help move the Municipality closer to its Vision? Yes
- Do the recommendations contribute to achieving Cultural Vibrancy? Yes
- Do the recommendations contribute to achieving Economic Prosperity? Yes
- Do the recommendations contribute to Environmental Integrity? Yes
- Do the recommendations contribute to the Social Equity? Yes

Financial Impacts/Source of Funding:

- Do the recommendations represent a sound financial investment from a sustainability perspective? Yes

The approved water and wastewater financial plans will impact the water and wastewater rates from 2021 through to 2026 and how the Municipality is able to continue to fund water and wastewater infrastructure.

Reviewed By:



Trish Serratore, Chief Financial Officer

Respectfully Submitted by:



Gregg Furtney, Director of Operations

Reviewed By:



Sonya Watson, Chief Administrative Officer