

THE REGIONAL MUNICIPALITY OF NIAGARA
JOINT CORPORATE SERVICES COMMITTEE
&
INTEGRATED COMMUNITY PLANNING & PUBLIC WORKS COMMITTEE

REPORT CSC & ICPPWC 1-2009

Minutes of a meeting of the Joint Corporate Services Committee and Integrated Community Planning & Public Works Committee held in Council Chambers, Regional Municipal Building, Thorold, Ontario, on Wednesday, February 25, 2009, commencing at 11:10 a.m.

ATTENDANCE

Committee: Councillors Martin, Co-Chair, CSC; Rigby, Co-Chair, ICPPWC; Partington, Regional Chair; Augustyn; Badawey; Baty; Bylsma; D'Angela; Goulbourne; Greenwood; Henderson; Hodgson; Marshall; Saracino; Smeaton; Timms.

Staff: Mr. Trojan, Chief Administrative Officer; Mr. Bergsma, Commissioner, Corporate Services; Mr. Robson, Commissioner, ICP; Ms. Reilly, Legislative Assistant.

Staff

Others: Corporate Services: Mr. Lockyer, Treasurer/Director, Financial Management & Reporting; Ms. M. Murphy, Associate Director, Current & Capital Budgets; Mr. Pilon, Associate director, Service Quality & Improvement; Mr. Roach, Manager, Public Works Financial Services; Ms. Williams, Senior Financial Analyst.

Administration: Mr. Roberts, Executive Officer to Regional Chair.

Integrated Community Planning: Ms. Lambe, Communications Specialist; Mr. J. Murphy, Manager, Policy Planning & Development; Mr. Weaver, Director, Corporate & Community Planning.

Public Works: Mr. Cousins, Director, Transportation Services; Mr. Janas, Associate Director, Water & Wastewater Services; Ms. Matthews-Malone, Director, Water & Wastewater Services; Mr. Steele, Associated Director, Business Strategic Management.

PRESENTATION

1. Introduction

Mr. Bergsma, Commissioner, Corporate Services introduced Mr. Jim Bruzzese, Principal and Partner of BMA Management Consulting Inc. Mr. Bruzzese has over 30 years experience in the municipal sector and has an extensive background in financial modeling, water/wastewater rate setting and best practices, economic impact analysis, and policy development. Mr. Bruzzese has first hand knowledge of the Niagara Region as he assisted in the development of the Niagara Region's previous rate setting policy. In addition, he has included the Region for many years in his annual Municipal Competitiveness Study. The Study has been undertaken annually for eight years and includes comparators for 80 Ontario municipalities; representing over 80% of Ontario's population. Leading up to today's presentation Mr. Bruzzese worked closely with the Joint Water and Wastewater Cost Recovery Working Group, which included financial and public work representatives from the Region and Local Municipalities, to refine Niagara's 2009 rate recovery policy.

Mr. Bergsma advised that in accordance with the budget recently passed, the Region's total water and wastewater costs charged to municipalities will increase by 3.4 per cent this year. Of this, 2.4% will cover an increase in operating costs and 1% will be applied to reserves used to fund capital projects. The Commissioner advised that in determining the annual water rate, a certain volume is estimated in order to recover the necessary costs. If volume is actually lower than estimated, the Region experiences "requisition deficits". The water requisition deficit for 2008 is \$6 million with 5 year cumulative deficit of \$18 million. Mr. Bergsma advised that in recognizing the sensitivities of local area municipalities and the promotion of water conservation, the Region is proposing to charge one half of its water costs to the area municipalities based on the prior year's area municipal consumption and the remaining one half of the costs will continue to be recovered based on a volumetric rate. This shares and balances the risk between the Region and the local municipalities.

2. Water and Wastewater Rate Setting And Cost Recovery Review

Mr. Jim Bruzzese, BMA Management Consulting Inc. provided an overview of the Water/Wastewater Wholesale Rate Study. The Terms of Reference were presented as follows: Update the existing Water/Wastewater Wholesale rate structure based on the following parameters:

- Must maintain or improve the existing equity or fairness of the allocations between generations (minimize inter-generational transfer).
- Must maintain or improve the certainty of water and wastewater revenues to the Region in respect to system funding sustainability.
- Identify any shifting in the allocation of costs between municipalities, in comparison with the current method of recovery and identify appropriate mitigation or phasing measures of those shifts.

Mr. Bruzzese advised that the goals and objectives of the 2009 rate setting study was to recommend a method of recovery of Regional Water and Wastewater treatment costs that will give consideration to ratepayer affordability, financing flexibility, system revenue sustainability and stakeholder acceptability. Mr. Bruzzese commented that the Region operates a very complex and capital intensive water and wastewater system with six separate water systems, twelve separate wastewater systems and 500 kms. of watermains, sewers and forcemains. The 10 Year Capital Budget is projected at \$736 million. Due to new PSAB regulations, the Region is undertaking an asset condition assessment which may increase needs. The Region requires a stable revenue source to fund it's significant capital needs.

A chart providing an analysis of the Capital Reserve was presented as follows:

	<u>Replacement Cost</u>	<u>Capital Reserve Balance</u>	<u>% of Total</u>
Water	\$ 875,100,000	\$ 48,700,000	5.6%
Wastewater	\$ 1,400,000,000	\$ 41,600,000	3.0%

It was noted that approximately 50% of the water and wastewater assets have been depreciated.

Regional initiatives to address affordability include:

- Applied \$13 million of gas tax revenues to wastewater capital
- Reviewing the Development Charge allocations
- Employed energy saving initiatives

A chart depicting water budget increases for the years 2002 to 2009 was presented and it was noted that expenditures have been maintained in line with inflation For the past three years.

An analysis undertaken by the Region indicates that the majority of the Region's costs do not vary by volumes produced. Up to 90% of costs are fixed in the Region's water budget and approximately 70% of costs are fixed in the Region's wastewater budget. Without a cost recovery method that addresses the fixed nature of these costs, revenue shortfalls have been experienced at the Regional level, particularly in the water operations, due to the current approach to cost recovery, and as a result, sustainability is compromised.

A chart depicting the water cumulative deficits for the years 2004 to 2008 was presented, indicating a water cumulative deficit in excess of \$18 million by the end of 2008.

Mr. Bruzzese advised that the Province has mandated that a sustainable utility be maintained. This requires a sustainable level of revenue to meet or exceed environmental protection standards while providing sufficient resources for future rehabilitation and replacement needs.

The consultant provided an overview of the current Region wholesale rate for water outlining the following challenges with the current approach: significant revenue losses of approximately \$18.3 million over the last 5 years; no stabilization reserves and losses were taken from the capital reserve; situation is not sustainable or fair to future taxpayers. Several options for estimating 2009 volumes were considered for purposes of establishing the 2009 water rate and it was concluded that a 3 year average would be more appropriate to average wet/dry years and conservation impacts.

In order to balance conservation objectives, the proposed approach for Water is to recover:

- 50% of Regional water costs from area municipalities based on their proportional share of the Region's prior year's consumption – fixed cost allocation (still leaves some risk of revenue shortfall)
- 50% Regional water costs from area municipalities based on actual meter water flows in that year – volumetric

Mr. Bruzzese provided an overview of current cost recovery methods for Wastewater outlining the following challenges: as more debt is issued or as debt matures, there will be peaks and valleys using the meter equivalency methodology which is difficult at the local level to manage; the vast majority of costs are currently being recovered from 3 year average flows and administratively, maintaining accurate meter equivalencies on an annual basis for each municipality has proven to be challenging.

The following recommendations for Wastewater recovery were presented:

- Recommend that all wastewater costs be recovered using 3 year rolling average historical flows
- (noting there is very little difference between allocating all costs based on 3 year rolling average for wastewater and using meter equivalency for the debt portion.

In summary:

- Move to 50/50 fixed/volumetric for Water to improve sustainability, cost recovery, revenue stability, fairness and equity and promote conservation
 - 50% fixed based on prior year's actual consumption
 - 50% volumetric based on current year's consumption
- Limited changes required to the Wastewater rate structure
 - All costs to be recovered through a fixed charge based on the 3 year rolling average of volumes

The Impact Analysis was presented as follows:

<u>2008 Rate</u>	<u>Expenditure Increase</u>	<u>Increase Related to Consumption/ Flow Changes</u>	<u>Total Notional Rate Change</u>
Water % change	3.4%	8.9%	12.3%
Wastewater % change	3.3	0.5%	3.8%
Blended Wholesale Notional Rate Change			7.9%

ITEMS FOR CONSIDERATION

3. 2009 Water & Wastewater Rate Setting and Cost Recovery Review and Uniform Wholesale Rates and Area Municipal Requisitions
CSD 40-2009/PWA 19-2009

Moved by Councillor Baty
Seconded by Councillor Timms

That these Committees recommend to Regional Council:

- A) That the following changes to the Region's Water and Wastewater Rate Setting and Cost Recovery Methodology be approved:

- i. That total Regional wastewater costs be recovered annually from area municipalities based on their proportional share of the Region's three year average wastewater treatment flows;
- ii. That 50% of Regional water costs be recovered annually from area municipalities based on their proportional share of the Region's prior year water flows;
- iii. That 50% of Regional water costs be recovered from area municipalities based on actual metered water flows multiplied by the Region's annually set uniform water rate;

- B) Water System

- i. That the uniform rate charged to the area municipalities for actual consumption of water be established at \$0.311 per cubic meter for the period March 1, 2009 to February 28, 2010;
- ii. That the area municipal water consumption charge be billed monthly based on actual monthly volumes;

- iii. That \$20,397,225, representing 50% of Regional water costs, be apportioned to each area municipality based on their proportionate share of the Region's prior year's water flows as detailed in recommendation "B4";
- iv. That the following apportionment of Regional water cost be requisitioned to the area municipalities as follows;

Water Requisition

Municipality	Flow Requisition
Niagara Falls	\$5,133,525
Port Colborne	\$1,038,455
St. Catharines	\$6,046,810
Thorold	\$828,822
Welland	\$2,527,126
Fort Erie	\$1,538,385
Grimsby	\$859,951
Lincoln	\$775,148
NOTL	\$922,220
Pelham	\$496,683
West Lincoln	\$230,100
Totals	\$20,397,225

- v. That the Regional water cost identified in Recommendation "B4" be requisitioned to the area municipalities in twelve equal monthly billings effective March 1, 2009.

C) Wastewater System

- i. That the Regional wastewater treatment costs be apportioned to the area municipalities based on their proportionate share of the Region's three year average historical wastewater flows as detailed in recommendation "C2"

- ii. That the following apportionment of total Regional wastewater costs be requisitioned to the area municipalities as follows:

Wastewater Requisitions

Municipality	Flow Requisition
Niagara Falls	\$11,945,232
Port Colborne	\$3,112,536
St. Catharines	\$17,300,503
Thorold	\$2,411,880
Welland	\$9,290,113
Fort Erie	\$5,049,531
Grimsby	\$2,985,898
Lincoln	\$2,094,150
NOTL	\$1,702,086
Pelham	\$1,109,319
West Lincoln	\$659,954
Totals	\$57,661,202

- iii. That the total Regional wastewater cost be requisitioned monthly to the area municipalities in twelve equal monthly billings effective March 1, 2009.
- D) That the Regional Clerk be directed to ensure that the appropriate by-laws be prepared for presentation to Regional Council.
- E) That this report be circulated to the Area Municipal Clerks for information.

Carried.

(Councillor D'Angela wished to be recorded as opposed to the foregoing motion.)

ITEMS FOR INFORMATION

4. Moved by Councillor Marshall
Seconded by Councillor Timms

That the presentation from Mr. Jim Bruzzese, BMA Management Consulting Inc., regarding the Water and Wastewater Rate Setting and Cost Recovery Review, be received.

Carried.

5. Moved by Councillor Timms
Seconded by Councillor Marshall

That the BMA Management Consulting Inc. document regarding the Water and Wastewater Rate Setting and Cost Recovery Review, be received.

Carried.

ADJOURNMENT

Committee adjourned at 12:32 p.m.

Doug Martin
Co-Chair

Tim Rigby
Co-Chair

Gail Reilly
Legislative Assistant

Pam Gilroy
Regional Clerk