



**Meeting Date:** November 15, 2023

**Submitted by:** Rob Cascaden, P.Eng. – Director, Public Works and Engineering

**Report No:** PWE 51-2023

**Subject:** 2024 Water, Wastewater and Stormwater Rate Proposal

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**Recommendation:**

THAT Report PWE 51-2023, re: 2024 Water, Wastewater and Stormwater Rate Proposal be received;

AND THAT the 2024 water rates be increased 1% over the 2023 water rate;

AND THAT the 2024 wastewater rates be increase 4% over the 2023 wastewater rate;

AND FURTHER THAT the 2024 stormwater rates be increased 2.5% over the 2023 stormwater rates.

**Purpose:**

To request Council's approval of the 2024 water, wastewater, and stormwater rates for Middlesex Centre.

**Background:**

Under Ontario Regulation 453/07, all municipalities are required to prepare a minimum six (6) year Water Financial Plan for all municipal drinking water systems. The Financial Plan must be submitted to the Ministry of Municipal Affairs and Housing and made available to the public. This regulation is part of the Province's long term strategy to ensure that all municipal drinking water systems are financially viable.

In 2021, BMA Management Consulting Inc. was engaged to undertake a Water Long Range Financial Plan Study. This report was approved by Council on May 13, 2021. This study reviewed a 10-year timeframe from 2021 to 2030. Based upon the information available at the time of the report, BMA projected that water rates would be required to increase 1% annually for the next 10 years. The most recent wastewater rate study was approved by Council on January 20, 2016 (prepared by BMA Management Consulting).

Also in 2016, BMA Management Consulting Inc. was engaged by departmental administration staff to undertake a stormwater financial review to fund its stormwater management program and to make recommendations in the recovery of stormwater management costs based on best practice research. BMA was also tasked with calculating a proposed rate using the 2016 Operating and Capital Budget provided by the Municipality. At such time, the recommended and Council endorsed funding approach for stormwater management operating and infrastructure lifecycle costs as detailed in BMA's report was a flat rate per property. It was further recommended and endorsed that a threshold be established at 0.4 hectares (1 acre) for industrial, commercial and institutional properties whereby a flat monthly rate is charged to all properties, consistent with the flat rate for the residential class plus an incremental per hectare rate for hectares exceeding the threshold. The 2016 rate was based on current operating costs with an annual contribution to reserves for lifecycle infrastructure funding.

The Municipality hoped to undertake a Long-Range Financial Plan for wastewater and stormwater in 2022 to provide guidance on future rates and required reserve contributions to maintain the existing assets however this study was deferred until the completion of the Master Servicing Plan that is underway and will be wrapping up in early 2024. Municipal staff are recommending a **4% increase to wastewater rates** in 2024 as the transfer to reserves for wastewater lags behind the transfers to water reserves and it is anticipated that capital spending in the next 10 years will be significantly higher on the wastewater side. Staff are recommending a **1% increase to water rates** in 2024 to stay in line with the 2021 Water Long Range Financial Plan. Staff are also recommending a **2.48% increase to stormwater rates** in 2023 based on currently planned capital projects and reserve fund balance projections. It is important to note that the 2020 AMP recommended annual rate increase of over 7 and 11% respectively for wastewater and stormwater rates.

The Municipality's existing rate structure includes a uniform volumetric rate structure, a minimum monthly fee, and a fixed infrastructure lifecycle rate. The Municipality's water, wastewater, and stormwater rates were frozen from 2016 to 2019 with increases applied to water and stormwater rates in 2020, all frozen in 2021, and water frozen in 2022 and 2023 with a small, proposed increase in 2024. The following summarizes the existing water and wastewater rates which are imposed upon owners, or upon tenants of each lot that is connected to the water and/or wastewater systems:

2023		Water	Wastewater
Total Fixed Monthly Charge		\$24.00	\$31.09
Water Usage Charge (Volumetric) 0-8 m <sup>3</sup>			
Water Usage Charge per m <sup>3</sup> for consumption exceeding 8 m <sup>3</sup>		\$3.00	\$3.88
Infrastructure Lifecycle Reserve Fund Charge based on Meter Size - Monthly			
		5/8"	\$18.00
		3/4"	\$27.00
		1"	\$45.00
		1.5"	\$90.00
		2"	\$144.00

The following service rates are imposed upon owners of each developed lot that is fronting but not connected to the wastewater system:

2023		Water	Wastewater
Total Fixed Monthly Charge		\$24.00	\$31.09
Infrastructure Lifecycle Reserve Fund Charge		\$18.00	\$18.38

The following summarizes the proposed stormwater rates:

2023	Rate
Monthly rate for all customers	\$16.15
For Industrial, Commercial and Institutional Customer with properties larger than 0.4 hectares an additional monthly charge applies	\$45.77
Monthly ICI Land area above 0.4 hectares per hectare	

BMA Management Consulting Inc., hereinafter referred to as BMA, was retained by administration staff to undertake a review of the existing water and wastewater rate structure in 2021.

**Analysis:**

BMA Management Consulting Inc. was engaged by the Municipality of Middlesex Centre provide a long-range water financial plan in 2021. A similar plan will be undertaken for wastewater and stormwater in 2024 after the completion of the Servicing Master Plan and Development Charge study. The intent is to review and access future financial requirements to ensure revenue stability and financial sustainability of these systems.

The existing rate structure supports the goals and objectives of the Municipality and a detailed review of the rate structure was undertaken several years ago. As such, consideration of alternative rate structures was not undertaken for the calculation of 2024 rates but maybe considered in a future year.

The analysis for the water long range financial plan was undertaken using the most current information available to the Municipality including:

- Customer account information by meter size;
- Current 3-year consumption trend information;
- A draft 10-year Operating Budget from 2021 to 2030; and,
- A draft 10-year Capital Budget and Asset Management Plan.

The following table provides the respective 2023/2024 opening and projected ending reserve balances:

	2023 Opening Balance	2023 Projected Ending Balance	2024 Projected Ending Balance
Wastewater Reserve	\$5,655,794	\$4,562,256	\$5,094,996
Water Reserve	\$6,574,370	\$4,767,365	\$6,017,998
Stormwater Reserve	\$2,678,021	\$2,961,379	\$3,849,834

It is important to ensure that financial sustainability goals are maintained in terms of adequate contributions to reserves in relation to the future capital program to ensure the timely repair or replacement of assets as they come due for replacement as well as the need to fund the growth-related costs that are not recoverable from DCs.

Middlesex Centre continues to be faced with the challenge of costly water and wastewater systems to operate with relatively fewer customers, particularly ICI customers, to support these costs. The 2015/2016 Long Range Financial Plan (LRFP) recommended eliminating the annual funding gap in water by approximately 2025 and 2027 in wastewater.

The 2020 Asset Management Plan identified that annual rate increases of 2.2%, 7.3% and 11.5% would be required in annual water, wastewater and stormwater billing revenues in order to fully fund the recommend asset lifecycle activities over 100 year forecast period. The increase in billing revenues is partially provided by additional system users from new growth however growth also results in additional future asset operation, maintenance and replacement costs so it is not realistic to think that increased revenue should be generated by new growth only.

The Council endorsed Asset Management Plan recommends significant increases in wastewater and stormwater rates and Middlesex Centre currently has a significant long term funding gap for these services based our projected transfers to reserves. However, staff recommend capping the 2024 rate increases at 4.0%, 1.0% and 2.48% for wastewater, water and stormwater respectively with future rate increases to be established after the more in-depth Long Range Financial Plans for stormwater and

wastewater in 2024 which will include a review of 10 year projected operating and capital budgets.

The following are the proposed rates for 2024:

2024		Water	Wastewater
Total Fixed Monthly Charge		\$24.24	\$32.32
Water Usage Charge (Volumetric) 0-8 m <sup>3</sup>		No additional charge	
Water Usage Charge per m <sup>3</sup> for consumption exceeding 8 m <sup>3</sup>		\$3.03	\$4.04
Infrastructure Lifecycle Reserve Fund Charge based on Meter Size - Monthly			
	5/8"	\$18.18	\$19.12
	3/4"	\$27.27	\$28.67
	1"	\$45.45	\$47.79
	1.5"	\$90.90	\$95.54
	2"	\$145.44	\$152.88
	4"	\$545.40	\$573.27

The following service rates are imposed upon owners of each developed lot that is fronting but not connected to the wastewater system:

2024		Water	Wastewater
Total Fixed Monthly Charge		\$24.24	\$32.32
Infrastructure Lifecycle Reserve Fund Charge		\$18.18	\$19.12

The following summarizes the existing stormwater rates:

2024	Rate
Monthly rate for all customers	\$16.55
For Industrial, Commercial and Institutional Customer with properties larger than 0.4 hectares an additional monthly charge applies	\$16.55 per property + \$46.91/ha
Monthly ICI Land area above 0.4 hectares per hectare	(for all hectares above the threshold)

## Financial Implications:

The rates for water, wastewater and stormwater fees will increase by 1%, 4% and 2.48% respectively (for both fixed and volumetric fees).

### Rate Impact

The average rate impact across water, wastewater and stormwater fees is approximately 2.6% to 2.7% for most users when weighted across the 3 services. The impact to each property will vary slightly depending on water consumption. The lowest percentage increase will be to those who only pay water fees or water and stormwater. The table below provides a summary of the impact of the rate increases at various usage levels.

#### Annual Combined Fees for Water, Wastewater and Stormwater

Annual Water Usage (m <sup>3</sup> )	2023	2024	\$ Increase	% Increase
96	\$1,291.44	\$1,324.92	\$33.48	2.59%
180	\$1,869.36	\$1,918.80	\$49.44	2.64%
360	\$3,107.76	\$3,191.40	\$83.64	2.69%
Stormwater Only	\$193.80	\$198.60	\$4.80	2.48%

### Water Rates

The proposed 1% increase in water rates will generate approximately an additional \$44,000 of revenue which will aid to increase the budgeted transfer to reserves for the water reserve fund.

The 2024 update to the water Long Range Financial Plan will set updated targets for annual contributions to reserve funds with a goal of establishing long range reserves. The outcome of this long-term review may have significant impacts on future water and wastewater rates for 2025 and beyond.

### Wastewater Rates

The proposed 4% increase in wastewater rates will generate approximately an additional \$140,000 of revenue which will aid to increase the budgeted transfer to reserves for the wastewater reserve fund.

The 2024 update to the wastewater Long Range Financial Plan will set updated targets for annual contributions to reserve funds with a goal of establishing long range reserves. The outcome of this long-term review may have significant impacts on future water and wastewater rates for 2025 and beyond.

## Stormwater Rates

Based on the budget and the number of customers, the proposed 2.48% increase to the stormwater rate for 2024 will generate approximately an additional \$27,500 of revenue which will aid to increase the budgeted transfer to reserves for the stormwater reserve fund.

## Conclusion

Based upon the detailed analysis undertaken by departmental administration staff, the 2021 Water Long Range Financial Plan targets and proposed 2024 operating and capital budgets., departmental administrative staff are supportive of increasing the water, wastewater, and stormwater rates by 1.0%, 4.0% and 2.48% respectively from 2023 to 2024.

Should Council not support the proposed rate adjustments, an alternate option can be put forth and staff will report back with the financial impact.

## **Strategic Plan:**

This matter aligns with following strategic priorities:

- Sustainable Infrastructure and Services

This report responds directly to Objective 4.3 – By communicating clearly with the public on capital spending priorities in terms of costs, benefits, funding sources and timing. Additionally building on our communications with the public regarding the mandatory legal requirements underlying our water rates, including mandatory full cost accounting and annual contributions toward life cycle replacement costs.

## **Attachments:**

Appendix A – BMA Water and Wastewater Rate Review – 2021

Appendix B – 2023-120 - 2024 Stormwater Rates

Appendix C – 2023-121 - 2024 Water and Wastewater Rates