

Report To: Committee of the Whole

Meeting Date: March 6, 2023

Subject: Wastewater Rate Methodology

Recommendation(s)

1. That report FIN-23-08, Wastewater Rate Methodology, dated March 6, 2023, be received for information and referred to the 2023 budget process;
2. That Council approve the revised wastewater rate methodology, being a Hybrid Levy and Fee Model starting in the 2023 budget with 50% funded from the tax levy and 50% from user fees (wastewater rate); and
3. That the rate analysis presented by DFA Infrastructure International Inc. be received for information purposes and referred to the 2023 budget process.

Background

Revised Rate Methodology

On August 30, 2021 Municipal Tax Equity (MTE) Consultants Inc. conducted a Council Education Workshop. Within this workshop, MTE provided a general overview of core municipal revenue options, and examined the Town's current Sewer Special Area Rate ("SAR") with a look at potential risks and weaknesses that had been identified. Included within **Appendix A** is the MTE Council Education Workshop document.

On November 1, 2021 the Finance Department provided Council with report FIN 21-29 Sewer Levy Review. Within this report, staff outlined options for changes to the sewer rate structure, which could be applied to the 2022 and 2023 fiscal years. As a result of this report, Council endorsed Scenario 2: Hybrid Levy and Fee Model with a proposed implementation for the 2023 taxation year. As part of the implementation staff were asked to seek public feedback on the proposed approach and prepare final communications to residents outlining the next steps for implementation. A copy of FIN 21-29 Sewer Levy Review has been included within **Appendix B**.

Rate Review

The 2022 budget included an operating budget to do a comprehensive review of our water and wastewater rates in order to establish a rate model for the 2023 budget. The Town retained the services of DFA Infrastructure International Inc. (“DFA”) to complete this review. Knowing that this financial modeling would also be used to support the financial reporting requirements under O. Reg.453/07, the Water Financial Plan regulation, staff requested that DFA’s review include a full rate study for both water and wastewater. The total cost of this engagement was \$20,000 and will be completed within the approved budget.

Analysis/Comments

Revised Rate Methodology

As part of Council's endorsement of the change, staff committed to seeking public feedback and ensuring appropriate communication of this change. On July 11, 2022 we launched – Let’s talk Grimsby – Wastewater Billing Model Review¹. This was communicated through a news release at launch and later as part of the 2022 Final Tax Billing insert. At the time of report, we have received 429 site visits with 14 comments; 9 in support, 3 in disagreement, and 2 not applicable. Please refer to the Let’s Talk page to see comments and responses provided through Frequently Asked Questions.

To communicate this upcoming change in alignment with the 2023 budget and tax and water billings, we plan to continue to communicate through news releases on our website, the Town’s social media accounts, newspaper advertisements, and notification on an insert in our final tax bills.

Rate Review

Staff entered into an agreement with DFA in October 2022 to prepare a 2023 Water and Wastewater Rate Study. The main purposes of this contract were to:

- Develop the full cost of water and wastewater services over the long-term;
- Review the Town’s current water and revenue levels and prepare new rate projections based on the existing rate structure, to ensure:
 - Recovery of the full cost of services;
 - Reduce the risk of revenue shortfall (i.e. ensure revenue stability); and
 - Provide long-term financial sustainability;

¹ <https://www.letstalkgrimsby.ca/wastewater-billing-model-review>

- Develop a consumption (variable) rate for wastewater to recover 50% of the cost of service. [The other 50% would continue to be recovered through the property taxes (fixed fee)];
- Prepare the O.Reg.453/07 Water Financial Plan for renewal of the Town's drinking water system licence; and
- Prepare a Wastewater Financial Plan that would include the same elements as the O.Reg.453/07 Water Financial Plan.

Financial Impact

Revised Rate Methodology

The financial impact of changing the approach to how the Town raises funds to support the wastewater program shifts how the tax burden is distributed among property types and residents. The total amount of funds collected will continue to be approved through the Town's annual budget process.

This report seeks final approval of the Hybrid Levy and Fee Model starting in the 2023 budget with 50% funded from the tax levy and 50% from user fees (wastewater rate). As a result of the 2023 rates being approved by council as part of the budget process, and consistent with previous years, the 2023 rates, once approved by Council, will be effective May 1, 2023.

The delay in the implementation of the wastewater rate will mean that the Town will not be able to collect the rate portion of the wastewater budget from January 1 – April 30, 2023. To accommodate this timing difference, the 2023 budget will include a one-time adjustment to how the wastewater program is funded to support the transition, with 100% of the program being from the tax levy from January 1 – April 30. This will result in 66% of the wastewater budget being funded from the tax levy and 33% being funded from user fees (wastewater rate); this will occur in 2023 only. The following examples are provided to illustrate how the rates will be applied.

Table 1 – Example of Impact to Ratepayer – Water

Water - Residential Customer Impact				
Component	2022 Charge	2023 Charge	\$ Change	% Change
Base Charge	\$ 313.80	\$ 326.35	\$ 12.55	4.0%
Volumetric Rate ¹	\$ 286.20	\$ 297.65	\$ 11.45	4.0%
Total Water	\$ 600.00	\$ 624.00	\$ 24.00	4.0%

1 - Assumed 193.38 cubic metres of water consumed per year

Table 2 – Example of Impact to Ratepayer – Wastewater

Component	Wastewater - Residential		Customer Impact		
	2022 Charge	2022 Restated	2023 Charge	\$ Change	% Change
Special Area Rate ²	\$ 569.40	\$ 379.79	\$ 394.94	\$ 15.15	4.0%
Volumetric Rate ¹	\$ -	\$ 150.86	\$ 158.45	\$ 7.59	5.0%
Total Wastewater	\$ 569.40	\$ 530.65	\$ 553.39	\$ 22.74	4.3%

1 - Assumed two-thirds of 193.38 cubic metres of billed wastewater flows per year

2 - Assumed a residential property with an assessed value of \$442,000

Rate Review

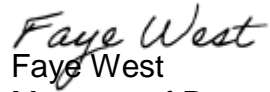
The Water and Wastewater Rate model prepared by DFA recommends an increase of 6.3% and 5.1% in our total water and wastewater 2023 expenditure budgets respectively. The impact on the 2023 water rates is a proposed increase of 4.0%. The wastewater rate will be introduced in 2023 at \$1.23 per cubic metre. The main drivers for these increases are increased regional rates (5.2% for water and 10.6% for wastewater) and increased transfers to our water and wastewater reserves to sustain our program needs over the next ten years. If these rate increases are supported by Council we will be on track to close our infrastructure deficit as was communicated in our 2022 Asset Management Plan for Core Assets in July 2022. The 2022 Asset Management Plan estimated an annual funding gap of \$780,000 which would be reduced to \$0 if the proposed annual increases in the model are approved.

The 10 year financial models for water and wastewater have been attached to the report as **Appendices C and D**. The full cost of services over the 10 years was developed using information provided by staff and in alignment with the 2022 Asset Management Plan and includes operating and maintenance costs, debt charges, regional charges and capital asset replacement contributions. Costs have been escalated to reflect inflation estimates over the next 10 years. Volume estimates were also provided by staff and annual customer growth aligns with the development charge study.

Conclusion

Moving towards a fee-for-service model incentivizes water conservation and is in alignment with best practice. The proposed water and wastewater rates for the Town, if approved, will close our capital infrastructure gap and supports the sustainability of our program over the long term.

Respectfully prepared by,



Faye West
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Respectfully submitted by,



Beth Brens
Director of Finance/Treasurer

Respectfully approved by,



Sarah Kim
Acting Chief Administrative Officer

Appendices

- **Appendix A** – Municipal Tax Equity (MTE) Consultants Inc. – Council Education Workshop Presentation
- **Appendix B** – FIN 21-29 Sewer Levy Review
- **Appendix C** – DFA Infrastructure International Inc. Wastewater Rate Analysis
- **Appendix D** – DFA Infrastructure International Inc. Water Rate Analysis