



Hamilton

CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

and

PUBLIC WORKS DEPARTMENT
Hamilton Water Division

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: December 6, 2013	
SUBJECT/REPORT NO: 2014 Recommended Water, Wastewater and Stormwater Budget FCS13082/PW13085 (City Wide)	
SUBMITTED BY: Mike Zegarac Acting General Manager Finance and Corporate Services Gerry Davis, CMA General Manager Public Works	PREPARED BY: Charlie Elliott (905) 546-2424, Extension 2162 John Savoia (905) 546-2424, Extension 7298 Victoria Terella (905) 546-2424, Extension 4169
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RECOMMENDATION

- (a) That the metered water consumption charges for residential properties in the City of Hamilton be imposed at the following rates, as of January 1, 2014:

Monthly Water Consumption (m3)	Rate (\$/m3)
0 – 10	0.65
10 +	1.29

- (b) That the metered water consumption charge for commercial, industrial, institutional, and multi-residential (bulk meter) properties in the City of Hamilton be imposed at the rate of \$1.29 per cubic metre, as of January 1, 2014;
- (c) That daily water fixed charges for properties in the City of Hamilton be imposed at the following rates, as of January 1, 2014:

Meter Size	Daily Rate
15 mm	\$0.29
16 mm	\$0.29
20 mm	\$0.29
25 mm	\$0.73
38 mm	\$1.45
50 mm	\$2.32
75 mm	\$4.64
100 mm	\$7.25
150 mm	\$14.50
200 mm	\$23.20
250 mm	\$33.35
300 mm	\$49.30

- (d) That the wastewater/storm treatment charges for residential properties in the City of Hamilton be imposed at the following rates, effective January 1, 2014:

Monthly Water Consumption (m3)	Rate (\$/m3)
0 – 10	0.66
10 +	1.32

- (e) That the wastewater/storm treatment charge for all commercial, industrial, institutional, and multi-residential (bulk meter) properties in the City of Hamilton be imposed at the rate of \$1.32 per cubic metre, effective January 1, 2014;

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- (f) That daily wastewater/storm fixed charges for properties in the City of Hamilton be imposed at the following rates, effective January 1, 2014:

Meter Size	Daily Rate
15 mm	\$0.29
16 mm	\$0.29
20 mm	\$0.29
25 mm	\$0.73
38 mm	\$1.45
50 mm	\$2.32
75 mm	\$4.64
100 mm	\$7.25
150 mm	\$14.50
200 mm	\$23.20
250 mm	\$33.35
300 mm	\$49.30

- (g) That the non-metered annual water rate be imposed at the flat rate of \$461.62 per annum, effective January 1, 2014;
- (h) That the non-metered annual wastewater/storm rate be imposed at the flat rate of \$467.60 per annum, effective January 1, 2014;
- (i) That the combined non-metered annual water and wastewater/storm rate be imposed at the flat rate of \$929.22 per annum, effective January 1, 2014;
- (j) That the Private Fire Line rates be imposed at the following rates, effective January 1, 2014:

Connection Size (mm)	Monthly Rate
25	\$ 3.00
38	\$ 6.90
50	\$ 12.00
75	\$ 27.00
100	\$ 48.00
150	\$ 108.00
200	\$ 192.00
250	\$ 192.00
300	\$ 192.00

- (k) That the 2014 Water, Wastewater & Storm Proposed User Fees and Charges be imposed as per Appendix "G" to FCS13082/PW13085, effective January 1, 2014;

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- (l) That the 2014 Water, Wastewater and Stormwater Management Rate Supported Operating Budget in the amount of \$ 178,403,366 be approved as per Appendix “A” to FCS13082/PW13085;
- (m) That the long-term financing plan for the Water, Wastewater and Stormwater programs and related rate increases required to meet sustainable financing, as identified in the 2014-2023 Water, Wastewater and Stormwater Management Rate Supported Operating Budget forecast (Appendix “A” to FCS13082/PW13085) be approved in principle;
- (n) That the 2014 Water, Wastewater and Stormwater Management Rate Supported Capital Budget and Financing Plan in the amount of \$ 154,401,000 be approved as per Appendix “H” to FCS13082/PW13085;
- (o) That the 2014-2023 Water, Wastewater and Stormwater Management Rate Supported Capital Budget forecast and financing plan (Appendix “I” to FCS13082/PW13085) be approved in principle;
- (p) That the City Solicitor be authorized and directed to prepare, for Council approval, all necessary by-laws respecting the 2014 water and wastewater/storm user fees, charges and rates set out in recommendations (a) through (k) of Report FCS13082/PW13085;
- (q) That, in addition to any amendments required pursuant to subsection (p), the Sanitary Surcharge and Wastewater Abatement By-law No. 03-272 be amended to implement changes related to the Wastewater Abatement Program application process and to limit any approved retroactive rebates to the date the application is submitted to the City as described in Report FCS13082/PW13085.

EXECUTIVE SUMMARY

The 2014 Rate Budget is submitted for Council’s consideration. The 2014 Rate Budget balances the need to invest in environmental infrastructure upgrades and changing trends in demand for water and growth in users relative to “Places to Grow.” Over the period 2014 to 2023, water, wastewater and stormwater capital investment is forecast at nearly \$1.5 billion which represents an increase of \$0.1 billion from last year’s 10-year forecast. This budget continues to focus on a number of Council’s Strategic Objectives, including, growing our economy, environmental stewardship, financial sustainability and effective inter-governmental relations.

The 2014 requested operating budget for water, wastewater and storm is approximately \$178 million, which represents an increase over the 2013 Budget of approximately \$6.4 million, or 3.7%.

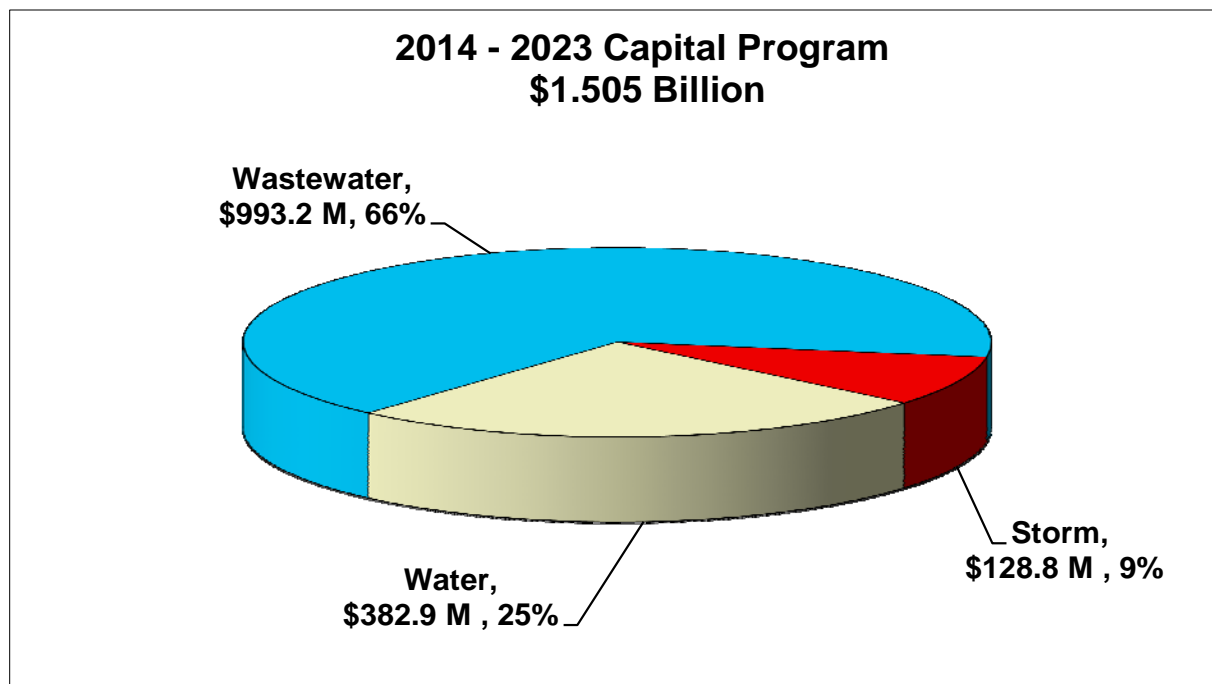
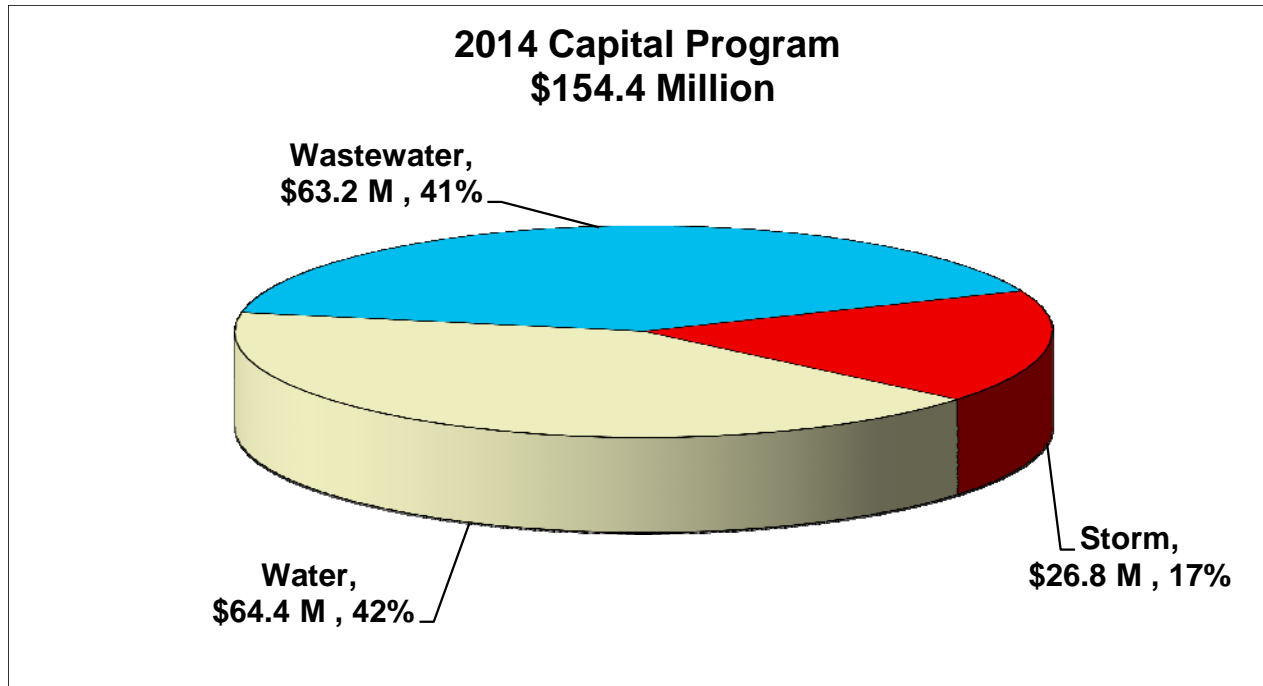
It should be noted, while the recommended combined rate increase is 4.0%, metered revenues are forecast to increase by 3.9%, in part due to forecast decline in consumption. The following table summarizes the budget changes for the 2014 Requested Budget:

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Summary of the 2014 Operating Budget				
(\$ millions)	2013 Restated Budget	2014 Requested Budget	2014 Requested /2013 Restated Change	
			\$	%
Expenditures				
Program Expenditures	\$ 74.67	\$ 74.88	\$ 0.21	0.3%
Capital/Debt Financing	\$ 97.33	\$ 103.52	\$ 6.19	6.4%
Total Expenditures	\$ 172.00	\$ 178.40	\$ 6.40	3.7%
Revenues				
Rate Revenue	\$ 169.35	\$ 175.88	\$ 6.53	3.9%
Non-Rate Revenue	\$ 2.65	\$ 2.52	-\$ 0.13	-4.8%
Total Revenue	\$ 172.00	\$ 178.40	\$ 6.40	3.7%
Average Residential Water/Wastewater/Storm Bill	\$ 580.58	\$ 603.80	\$ 23.22	4.0%

Other water and wastewater service user fees have been reviewed in accordance with the Water/Wastewater User Service Fee and Charges Policy approved by Council in February 2013. The Policy requires identification of both the cost of the service and the fees/charges to recover such cost with the intent that full cost recovery is achieved. Many service fees have remained unchanged with full cost recovery currently being achieved with others undergoing varying fee increases to achieve full cost recovery.

The following chart and table summarizes the \$1.505 billion capital program and the financing requirements for the 2014 - 2023 water, wastewater and storm capital budget. Of this amount, \$993.2 million or 66% is for wastewater, \$382.9 million or 25% is for water and \$128.8 million or 9% is for the storm program. A total of \$667 million or 44% of the 10 year capital program is required in the first three years (2014 – 2016). The capital program also includes \$233 million for growth infrastructure related to GRIDS which will be funded from Development Charges, except for \$72 million in Development Charge exemptions which the city is legislatively required to fund from rates revenues if Council chooses to discount its DC's or recover less than 100% of growth-related capital costs.



It should be noted that the forecast includes \$100 million received in 2010 of Provincial infrastructure funding related to the Wastewater Treatment Plant (WWTP) water quality improvement project. Recently the City received confirmation of \$100 million of Federal funding for the WWTP project from the Green Infrastructure Fund on a claim reimbursement basis which has been incorporated into the 2014-2023 financing plan.

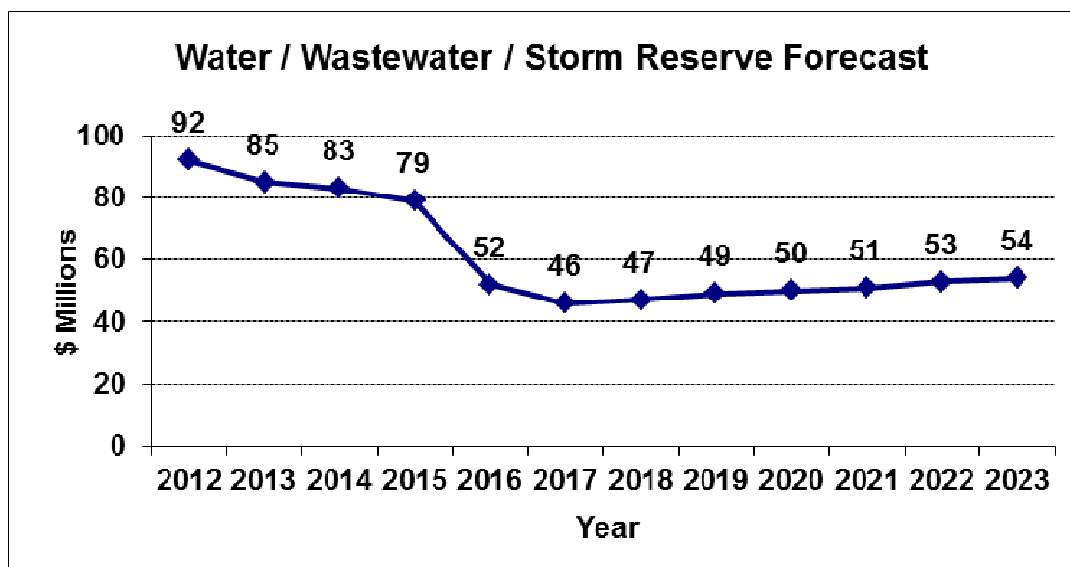
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The rate supported debt is projected to peak at \$308 million in 2017, compared with the 2013 budget forecasted debt peak at \$394 million in 2016. The debt funded from DC's is projected to peak at \$297 million in 2019, whereas the 2013 forecast was \$325 million in 2017. These levels of debt supported by development charges represent a significant risk if future growth does not materialize as planned; however, relative to forecasts in previous years, the risk has been deferred as a significant portion of the growth component of the Wastewater Plant Expansion is now planned in the years beyond the next 10 years until after 2023. This will allow an opportunity to monitor growth and DC Revenues over the next 10 years (2014 – 2023) and make adjustments to the plant expansion project and associated financing plan to align with growth requirements.

The table below provides the ten year debt forecast compared to the 2013 Budget forecast.

Projected Rate & DC Supported Outstanding Debt										
(\$ Millions)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2013 Rate Budget										
Funded from Rates (15 Yr)	251	378	394	379	353	326	297	267	236	204
Funded from DC's (20 Yr)	186	283	320	325	320	325	320	320	319	300
Total	437	661	714	704	673	651	617	587	555	504
2014 Rate Budget										
Funded from Rates (15 Yr)	129	200	287	308	288	267	246	224	200	176
Funded from DC's (20 Yr)	62	151	260	286	291	297	296	297	292	289
Total	191	351	547	594	579	564	542	521	492	465
Increase (Decrease)	(246)	(310)	(167)	(110)	(94)	(87)	(75)	(66)	(63)	(39)

The following graph provides the projected reserve balances for the Water, Wastewater and Storm programs. The reserve forecast reflects utilizing \$40.0 million in reserve funds to fund the WWTP - Clean Harbour project in years 2015 (\$5 million), 2016 (\$30 million) and 2017 (\$5 million) in order to reduce the reliance on debt to fund the project. As well, \$5.0 million is being used to fund the Wastewater System Lining Program in 2015, which also reduces the reliance on debt.



Reserves are essential to assist the City in mitigating unanticipated events such as consumption fluctuations, unforeseen increase in capital costs and potentially to decrease future debt issuance. The current reserve forecast indicates the reserve balance will decrease from \$92 million at the end of 2012, to \$46 million in 2017 and then increase over the years to \$54 million in 2023.

The 2014 recommended water and wastewater/storm rate increases will result in an annual cost impact of approximately \$23 per typical household. The impact of the recommended rate increases on the water and wastewater/ storm fixed charges as well as the water consumption and wastewater/storm treatment charges are identified in the table below.

Impact of Recommended Rate Increases on Water and Wastewater/Storm Rates			
	2013¹	2014	Increase
Water Fixed Charge (daily) ²	\$ 0.29	\$ 0.29	\$ -
Consumption Charge Block 1 (cubic metre)	N/A ³	\$ 0.65	\$ -
Consumption Charge Block 2 (cubic metre)	\$ 1.22	\$ 1.29	\$ 0.07
Wastewater/Storm Fixed Charge (daily) ²	\$ 0.29	\$ 0.29	\$ -
Treatment Charge Block 1 (cubic metre)	N/A ³	\$ 0.66	\$ -
Treatment Charge Block 2 (cubic metre)	\$ 1.22	\$ 1.32	\$ 0.10

¹ 2013 rates restated to reflect the rate structure changes effective Jan. 1/14.
² Rate is for a 15-20 mm meter which most residential homes have installed.
³ Two tier system introduced as of Jan. 1/14 and did not exist in 2013.

The following table identifies the impact of the proposed rate increase on a residential customer:

Impact of Recommended 2014 Water and Wastewater/Storm Rate Increases on a Typical Residential Bill	
<i>(based on annual water consumption of 210m³)</i>	
2013 Residential Bill	\$580.58
2014 Residential Bill	\$603.80
<i>Recommended Change (\$)</i>	<i>\$23.22</i>
<i>Recommended Change (%)</i>	<i>4.00%</i>

This report identifies the steps staff have incorporated in the current 10-year forecast related to significant risks that have been identified related to a variety of conditions which may impact ratepayers, and more significantly, in combination may place significant financial pressures on ratepayers. These risk factors detailed further in later sections of this report include:

- Declining consumption
- Sustainability of grant/subsidy programs funded by water/wastewater rates
- Sustainability of stormwater management program

Staff pursued a variety of measures in an effort to control the impact of the above risks in order to maintain a safe and reliable service at a reasonable cost.

The recommended 2014 Rate Supported strategy endeavours to achieve a balance between capital investment, rate of growth and rate stability. The 2014 Rate Supported Strategy links the change in demand for water with a staged approach to necessary capital investments at the Woodward wastewater treatment plant.

While the Rate Supported Strategy has changed from time to time, the overall goal, of achieving a sustainable level of funding to support the necessary infrastructure investments, has not. The Strategy has been in place since 1997, which at that time, called for water rates to increase by three to seven percent after adjusting for inflation over a 15-year period. The 2014 – 2023 Strategy is a continuation of the Strategy which assumes combined annual rate increases ranging from 4.0 - 4.5% over the 10-year period.

Since 2001, staff have recommended further amendments, for reasons including changing economic conditions, which in effect resulted in lower rate increases in the short-term and extending the period for rate increases in excess of inflation. When comparing the 2002 Strategy versus the 2014 Strategy, annual water and wastewater/storm billings based on the 2014 Strategy continue to be lower than had staff and Council continued based on the 2002 Strategy.

In general, the goal of the Strategy has been to support the water, wastewater and storm programs through a sustainable level of funding. While revenue forecasts have

been adjusted from time to time, for a variety of reasons, so too have expenditure forecasts, and the need for additional financial resources. It should be noted that the intention of the 2002 Strategy was to provide approximately \$92.5 million (2000\$) in support to the capital program in the form of capital financing (contribution and debt). The current Strategy calls for capital funding in 2014 of approximately \$104 million (2013\$) and climbing to \$153 million (2013\$) by 2023.

The 2013 Strategy includes financing from the Federal and Provincial Governments with respect to the WWTP rehabilitation and upgrades, specifically in support of the Hamilton Harbour Remedial Action Plan.

Water and Wastewater/Storm Rate Structure Review

The City reviewed its pricing structure for potable water, wastewater (sewer) collection and treatment, and stormwater management over the past few years. The process included a review of existing practices, costs and revenue sources; research on industry standards and best practices; a review of municipal rate structures used across Ontario; the development of goals and objectives to evaluate various options; and analysis to understand how any changes to the rate structure may affect typical customers.

The review and recommendations were intended to create a fair and consistent rate structure for all three essential services. The new rate structures will have no financial impact to the average residential customer. Other customer sectors (multi-residential, industrial, commercial and institutional) are impacted differently depending on the customer's consumption and size of the meter servicing the property. Larger consumers are responsible for more of the overall infrastructure costs.

In June 2013, Council has approved a Water and Wastewater/Storm Rate Structure that continues Hamilton's position as a leader with respect to pricing and delivery of these services (refer to report FCS11025(e)). The Rate Structure is transparent, cost effective, easy to maintain and ensures a sustainable future for all customers with proper financing and maintenance of these essential services.

Wastewater Abatement Program

Staff have reviewed the Wastewater Abatement Bylaw 03-272 and have identified that there are a number of housekeeping issues related to fees and charges and retroactivity that need to be addressed and are being proposed in this report relating to recommendation Q of this report. Recommended changes to the language in Sections 10, 11 and 12 of the Bylaw will clarify application and reporting requirements, as well as, retroactivity entitlements.

Alternatives for Consideration - See Page 13

FINANCIAL / STAFFING / LEGAL IMPLICATIONS

Financial: As per Recommendation (I) of Report FCS13082/PW13085, approval of the 2014 Water, Wastewater and Stormwater Management Rate Supported Operating Budget will support operating and capital expenditures of \$178,403,366 for 2014.

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Staffing: The 2014 Rate Supported staffing complement reflects no change in total FTE headcount as reflected in Appendix “F” to FCS13082/PW13085.

Legal: Recommendation (p) of Report FCS13082/PW13085 relates to By-laws requiring Council approval, respecting the implementation of 2014 water and wastewater user fees and charges set out in the recommendations (a) through (k) of Report FCS13082/PW13085.

HISTORICAL BACKGROUND

The 2014 Rate Budget continues to support the priority of investing in infrastructure as evidenced by the 2014 to 2023 forecast investment of approximately \$1.5 billion in water, wastewater and stormwater capital infrastructure.

The Water, Wastewater and Stormwater Budget Services Overview Book outlines the various aspects and components that the recommended 2014 Rate Supported strategy incorporates:

- Sustainable Rate Strategy
- Proposed 2014 Water and Wastewater/Storm Rates
- Operating Budget Highlights
- Capital Budget Highlights
- Water Consumption Review and Forecast

POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS

The recommended options support the principle of a user-pay water and wastewater/storm system.

RELEVANT CONSULTATION

City Manager’s Office - Legal Services Division has been consulted for this report’s recommendations.

ANALYSIS / RATIONALE FOR RECOMMENDATION

Appendix A-1 of the Water, Wastewater and Stormwater Budget Services Overview Book summarizes the 2014 operating expenditures (program and capital) and revenues relative to the 2013 forecast and 2013 restated budget.

Other water and wastewater service user fees have been reviewed in accordance with the Water/Wastewater User Service Fee and Charges Policy approved by Council in February 2013. The Policy requires identification of both the cost of the service and the fees/charges to recover such cost with the intent that full cost recovery is achieved. By charging the full cost of these specific services, there should be reduced pressure on general water and wastewater rates.

Accordingly, staff have undertaken a comprehensive water/wastewater service user fee review. A number of services were identified as no longer provided by the City or are provided by City divisions other than Hamilton Water and therefore no longer a Rate related service. Many service fees have remained unchanged with full cost recovery currently being achieved with others undergoing varying fee increases to achieve full cost recovery. A number of new fees were identified related to the installation of new/replacement water meters for specific meter sizes that previously were not identified in the fees and charges schedules. Similarly, there are additional new fees identified by Laboratory Services for testing of specific substances also not previously identified in prior years.

Wastewater Abatement Program

Staff have reviewed the Wastewater Abatement Bylaw 03-272 ("Bylaw") and have identified housekeeping issues related to fees and charges and retroactivity that are addressed in this report through recommendation Q of this report. Recommended changes to the language in Sections 10, 11 and 12 of the Bylaw will clarify application and reporting requirements, as well as, retroactivity entitlements.

Application Process Changes

Currently an applicant pays an Initial Application fee and submits a hard copy of the application to the Hamilton Water Director's office. The Director then verifies the applicant's calculation to determine if the minimum 25% wastewater diversion requirement has been met and advises in writing if the applicant appears to qualify to move on to the next step of the qualification process.

Staff are proposing that the application form itself, which will be made available online, serve as a pre-screening tool to determine whether the information entered in the web form is eligible to proceed. The applicant will not be able to submit the online form or pay the fee if the minimum requirements of the program are not met.

Staff are proposing that the Initial Application Processing Fee be eliminated so that there will be only a single processing fee replacing the previous Supplementary Application Fee with the remaining fee to cover the full costs associated with processing the application. These proposed fee changes have been incorporated into the Wastewater Abatement Fee Schedule found in Appendix "G-13" to Report FCS13082/PW13085. Staff are also proposing that the language in this section be clarified as to the requirement of engineering reports that may be necessary to assess eligibility so that such reports will no longer be required unless requested by the Director. However, once requested by the Director, the failure to submit a report within six months of the request will result in the application fee being forfeited, and the customer re-applying and paying a new application fee.

Retroactivity Entitlement Changes

Currently the Bylaw allows for any approved wastewater abatement rebates to be retroactively applied to the beginning of the calendar year in which the application was received. For instance, if the application is received on December 31, 2013, once the

wastewater abatement rebate is granted, the rebate would be paid retroactively to January 1, 2013.

Staff conducted a brief study of other municipalities who have a similar program and it was determined that most comparator municipalities only allow retroactive rebates to the date the application was received, if at all. Similarly, staff are now proposing that retroactive payments be applied back to the date the application was submitted. This proposed change will eliminate the influx of “last minute” applications being received at the end of the year and may assist in potentially reducing abatement rebate amounts.

ALTERNATIVES FOR CONSIDERATION

Beyond the recommended rate increase, staff can direct changes to this budget submission albeit any changes, in all likelihood, would require a review of the 2014 Capital Budget submissions

ALIGNMENT TO THE 2012 - 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

- 1.2 Continue to prioritize capital infrastructure projects to support managed growth and optimize community benefit.
- 1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

- 3.1 Engage in a range of inter-governmental relations (IGR) work that will advance partnerships and projects that benefit the City of Hamilton.

APPENDICES / SCHEDULES

None