



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Planning and Policy Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	February 8, 2016
<b>SUBJECT/REPORT NO:</b>	Lead Water Service Replacement Loan Program Amendments (FCS16002)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	John Savoia (905) 546-2424, Extension 7298
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance and Corporate Services
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That an increase to the Lead Water Service Replacement Loan Program (LWSRLP) maximum loan amount from \$2,000 to \$2,500 be approved;
- (b) That the General Manager of Finance and Corporate Services be authorized to review the maximum loan amount under the LWSRLP on a quinquennial (every five years) basis and increase the maximum loan amount based on the Statistics Canada Construction Price Index;
- (c) That an administrative fee be approved in the amount of \$50.00 (plus applicable taxes) payable by all property owners participating in the LWSRLP, and that the City Solicitor be authorized and directed to prepare for Council approval, all necessary by-laws to add this fee to the 2016 Water and Wastewater/Storm Fees and Charges By-law;
- (d) That the General Manager of Finance and Corporate Services, in consultation with the City Solicitor, be authorized to make necessary administrative changes to the LWSRLP, including but not limited to, periodically reviewing and updating all documentation related to the LWSRLP to account for revised maximum loan amounts, loan repayment conditions and current legislative considerations.

## **EXECUTIVE SUMMARY**

The City's Lead Water Service Replacement Loan Program (LWSRLP) was approved by Council in October 2008 as an ongoing program following its inception as a pilot program in October 2007 (refer to Report FCS07087(a)/PW07121(a)). The purpose of the LWSRLP is to provide homeowners with the continued opportunity to access funding, through an interest bearing loan from the City, for the purpose of assisting homeowners to reduce their potential risk of exposure to lead in tap water that could be coming from their lead water service line. The City's goal remains to replace the City's service stub (located on City property) in conjunction with the property owner replacing the service extension (located on private property), subject to the availability of funds.

The LWSRLP enables eligible residential property owners that meet the program requirements to borrow a loan amount to assist in repaying the cost of lead water service replacements. The loan amount is added to the homeowner's tax roll and is required to be repaid to the City over a period of up to 10 years. Currently, each household is eligible for a maximum loan of \$2,000. The interest charged on an annual basis is based on the City's ten year cost to borrow and the rate is maintained for the entire period of the loan. The interest rate has been reviewed annually and reset, as required, at the start of each calendar year based on the City's ten year cost to borrow.

Transferring the loan to the tax roll enables homeowners who want to replace their lead water service with an option to repay the cost over a number of years and provides the City with a convenient method in which to collect repayment of the loan.

Report FCS16002 seeks Council approval to revise the maximum loan amount from the current maximum of \$2,000 to \$2,500 as recommended. The water service replacement cost estimates (excluding restoration) received in recent years reflect increased costs for water service line replacements suggesting that the current average cost is approximately \$2,500. This average cost supports raising the \$2,000 loan maximum of Hamilton's LWSRLP to \$2,500 so that the maximum loan amounts does not create an impediment for property owners to pursue a loan amount that actually covers the costs of replacing a lead water service line.

Additionally, in order to ensure that the LWSRLP remains a viable financing alternative for homeowners, it is recommended that authority to increase the LWSRLP maximum loan amount be delegated to the General Manager of Finance and Corporate Services following a review of the maximum loan amount every 5 years compared to inflationary cost increases as reflected by the Statistics Canada Construction Price Index.

The Water/Wastewater User Service Fee and Charges Policy, approved by Council in February 2013, requires that user fees be established to recover the full cost of providing specific services provided on an individual basis to customers such as water turn on or off, laboratory services, etc. These fees are necessary to recover the full costs of such water/wastewater services otherwise these services would be subsidized

by water consumers at large. Accordingly, it is recommended that loan applicants be charged a \$50.00 administration fee (plus applicable taxes) to offset the administrative costs related to applications made under the LWSRLP.

Since the inception of the LWSRLP in the fall of 2007 to December 31, 2015, 1,193 loans have been issued with a total loan value of approximately \$2,250,561. Approximately 10% of LWSRLP loans are repaid prior to the end of the 10 year amortization period, often as part of the sale of the related property. There have been a few instances where there has been some difficulty in securing full repayment of outstanding loan amounts. The various loan documents will be reviewed and updated to strengthen loan repayment conditions and account for current legislative considerations.

The recommended amendments to the LWSRLP would be effective April 2016.

***Alternatives for Consideration – Not Applicable.***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)**

**Financial:** The loans under the LWSRLP are funded from the Waterworks reserve. With the loans being interest-bearing, the opportunity costs related to investment returns of water reserve funds is essentially offset. The goal of the LWSRLP is to provide financial assistance to property owners, through an interest-bearing loan, repayable to the City over a period of up to 10 years. The interest rate charged is based on the City's 10-year cost to borrow plus 0.25% for loan administration. The rate is reviewed annually and reset each January with the rate held constant for the term of each loan. It is expected that if the number of loans remains at the approximate level of 140 per year with the recommended increased maximum loan amount, that by 2018, the program will be essentially self-financing i.e. loan repayments + loan interest = loan pay-outs within the year.

**Staffing:** The workload associated with the LSWRLP has been contained within the existing staff complement for Hamilton Water and Corporate Services.

**Legal:** As part of the loan program, the property owner agrees to have the loan amount, including interest, added to the property owner's tax roll for repayment to the City. While this method of collection is used for administrative efficiency, the loan amount does not have the same priority lien status as property taxes.

**HISTORICAL BACKGROUND (Chronology of events)**

The City's Lead Water Service Replacement Loan Program (LWSRLP) was approved by Council in October 2007 (refer to Report FCS07087(a)/PW07121(a)). The purpose

of the LWSRLP is to provide homeowners with the continued opportunity to access funding, through an interest bearing loan from the City, for the purpose of assisting homeowners to reduce their risk of exposure to lead in tap water that could be coming from their lead water service line. The City's goal, at this time, is to replace the City's service stub (located on City property) in conjunction with the property owner replacing the service extension (located on private property), subject to the availability of funds.

The LWSRLP enables eligible residential property owners that meet the program requirements to borrow a loan amount to assist in repaying the cost of lead water service replacements. The loan amount is added to the homeowner's tax roll and repaid over a period of up to 10 years. Currently, each household is eligible for a maximum loan of \$2,000.00. The interest rate charged is based on the City's 10-year cost to borrow plus 0.25% for loan administration. The rate is reviewed annually and reset each January with the rate held constant for the term of each loan.

Transferring the loan to the tax roll enables homeowners who want to replace their lead water service with an option to repay the cost over a number of years and provides the City with a convenient method in which to collect repayment of the loan.

The LSWRLP is targeted at residential property owners, as property owners have the authority to undertake capital improvements and apply for a loan that will be transferred to the tax roll.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Not Applicable.

## **RELEVANT CONSULTATION**

City Manager's Office – Legal Services Division has been consulted in the preparation of this report.

Corporate Services – Hamilton Water Finance and Administration Section has provided input into this report.

Public Works – Hamilton Water Division has been consulted in the preparation of this report.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION (Include Performance Measurement/Benchmarking Data if applicable)**

Based on best available information, it is estimated that the City of Hamilton has approximately 20,000 households with potential lead exposure associated with water services. While staff cannot identify the distribution of this figure by geographic

boundary, it can be assumed that homes built prior to the mid-1950's may be impacted by some level of risk, assuming the service lines and plumbing have not been replaced to date.

**TABLE 1**

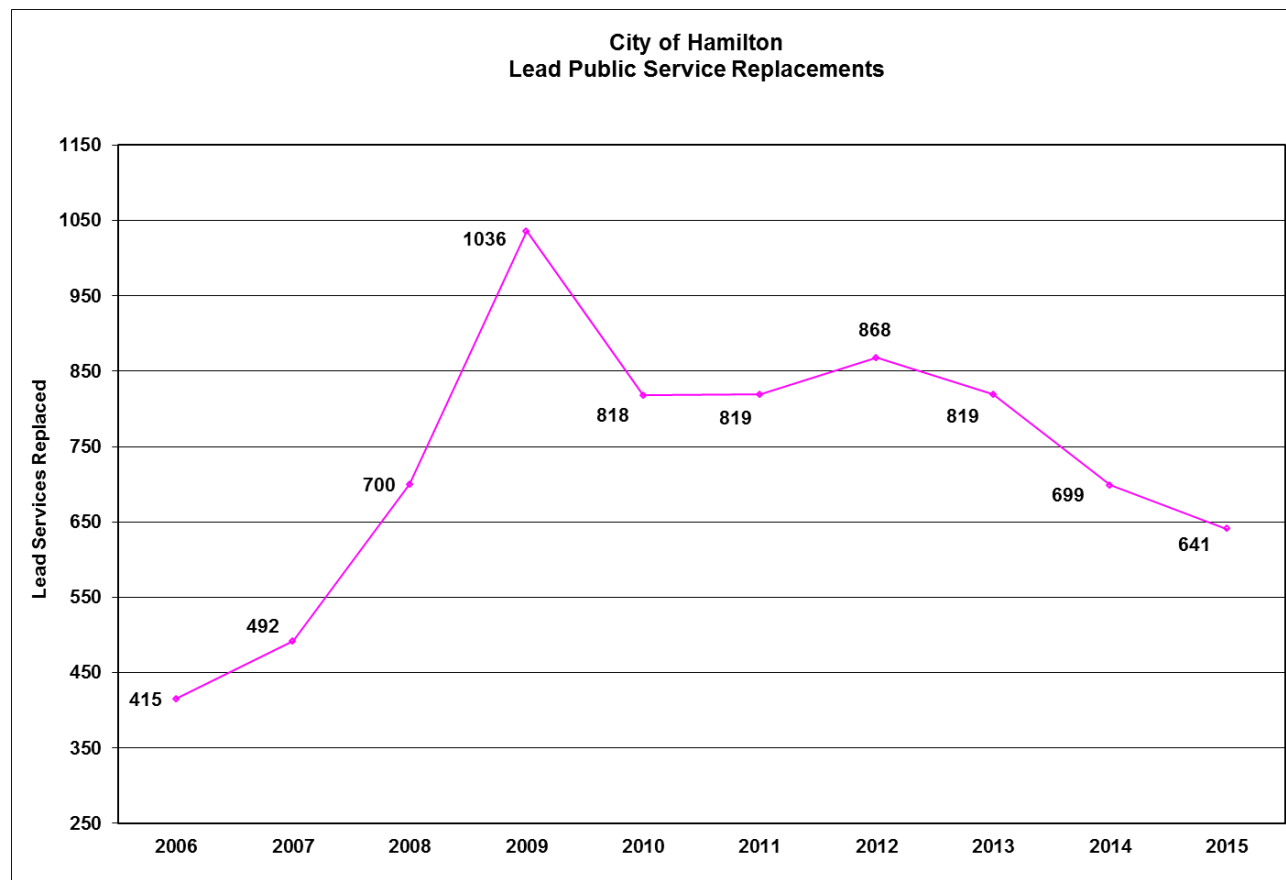


Table 1 of Report FCS16002 illustrates that since the inception of the LSWRLP, there has been an average of 800 lead water public service lines replaced annually in conjunction with private water service line replacements. It should be noted that the above chart does not include lead water public service lines replaced via coordinated road/sub-surface reconstruction projects so the actual number of lead water lines replaced is in fact greater than the 800 annual replacement average noted above.

In part, increased number of lead water service line replacements may be attributed to public education campaigns the City has conducted to raise the awareness of public health issues that may be present with a lead water service line. Additionally, the financing option created by the LWSRLP has allowed participant property owners to replace their lead water service lines who otherwise may have previously deemed the cost of a lead water service line replacement to be prohibitive.

As of December 31, 2015, 1,567 loans have been approved with 1,193 loans issued since the pilot LWSRLP began in October 2007 representing a total outlay of approximately \$2,250,561 with a current outstanding loan balance of approximately \$1,380,833. For the majority of the private service locations, the public water service line also needed to be replaced.

The water service replacement cost estimates (excluding restoration) received in recent years reflect increased costs for water service line replacements suggesting that the current average cost is approximately \$2,500. This average cost supports raising the \$2,000 loan maximum of Hamilton's LWSRLP to \$2,500 so that the maximum loan amounts does not create an impediment for property owners to pursue a loan amount that actually covers the costs of replacing a lead water service line. Eligible costs include the labour, material and equipment costs directly related to the excavation, connection and backfilling activities to replace the lead water service. The related inspection of the completed work by City staff under the water service replacement permit (2016 fee of \$238.70) is also an eligible expense. Expenses related to surface restoration are not eligible for the loan. The approximately 20% increase in costs associated with a water service line replacement is attributable to the general construction cost inflation and the introduction of the Harmonized Sales Tax (HST) in July 2010.

The Water/Wastewater User Service Fee and Charges Policy, approved by Council in February 2013, requires that the users fees be established to recover the full cost of providing specific services provided on an individual basis to customers such as water turn on or off, laboratory services, etc. These fees are necessary to recover the full costs of such water/wastewater services otherwise these services would be subsidized by water consumers at large. Accordingly, it is recommended that loan applicants be charged a \$50.00 administration fee plus applicable taxes to offset the administrative costs related to applications made under the LWSRLP. Since 2007, there have been approximately 300 LWSRLP applications that were approved, however thereafter, homeowners withdrew their loan request. Each application typically involves Hamilton Water staff (Water Distribution and Customer Service divisions) and Corporate Service Finance and Administration staff to assess eligibility under the LWSRLP guidelines. The introduction of a non-refundable administrative fee payable to the City at time of application should deter exploratory applications that may be generated by marketing from some contractors. The City of London currently charges a \$50.00 administrative fee under its respective lead service line replacement loan program.

## **ALTERNATIVES FOR CONSIDERATION**

**(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)**

N/A

## **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**

1.6 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**

2.2 Improve the City's approach to engaging and informing citizens and stakeholders.

## **APPENDICES AND SCHEDULES ATTACHED**

Not applicable.