



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members Committee of the Whole
COMMITTEE DATE:	May 13, 2020
SUBJECT/REPORT NO:	Lead Water Service Replacement Loan Program Review (FCS19025(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	John Savoia (905) 546-2424 Ext. 7298
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the General Manager of Corporate Services be authorized to amend the Lead Water Service Replacement Loan Program so that effective May 13, 2020, zero interest loans may be provided under the Lead Water Service Replacement Loan Program for property owners of owner-occupied dwellings who have qualified for low-income energy customer programs such as the Low-Income Energy Assistance Program or the Ontario Electricity Support Program;
- (b) That the City Solicitor be authorized to make necessary changes to documents related to the Lead Water Service Replacement Loan Program to implement Recommendation (a) of Report FCS19025(a);
- (c) That the Planning and Economic Development Department be directed to undertake an amendment to the Water and Wastewater Infrastructure Support Community Improvement Project Area and Community Improvement Plan so the Lead Water Service Replacement Loan Program can be incorporated into the Community Improvement Plan to extend loans to residential rental properties and report back at a future Planning Committee meeting.

EXECUTIVE SUMMARY

The City's Lead Water Service Replacement Loan Program ("the Program") 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 Program is to provide homeowners with the continued opportunity to access funding, through an interest-bearing loan from the City, to assist homeowners to reduce their potential risk of exposure to lead in tap water that could be coming from their private lead water service line.

The Program enables eligible residential property owners that meet the program requirements to borrow from the City up to a maximum of \$2,500 to assist in repaying the cost of private lead water service replacements. The annual payments are added to the homeowner's tax roll and repaid to the City over a period of up to 10 years. As of May 1, 2019, loan amounts provided under the Program have been added to the property owner's Alectra Utilities (Alectra) water account to be repaid on a monthly basis over a period of up to 10 years (refer to Report FCS19025). As of December 31, 2019, over 2,200 loans have been issued since the pilot Program began in October 2007 representing a total outlay of approximately \$4,495,405 with a current outstanding loan balance of approximately \$2,063,243.

The Program has been reviewed with the view to enhance the role of the Program as part of Hamilton Water's multi-pronged proactive approach to minimize customers' exposure to lead. The interest charged on an annual basis is based on the City's 10-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 at the start of each calendar year based on the City's 10-year cost to borrow. The Program interest rate charged (for 2020 it is 2.89%) is favourable relative to financing otherwise available to residential property owners. For example, economists' median average forecasts for prime rate are 3.45% by year-end 2020, with most secured lines of credit interest based on prime rate plus 1 to 2%.

Relative to other identified municipal programs, Hamilton's Program has proven to be very effective in providing financial assistance to enable the replacement of over 2,200 private lead water lines since 2007, which otherwise, may have previously not been replaced due to the costs being perceived as prohibitive. Over 20% of all lead service line replacements have occurred with the support of the Program. However, even with low borrowing costs, there may be some low-income property owners where the interest cost may present a financial burden to replacing their private lead water line.

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The Ontario Energy Board has mandated that all Ontario electrical utilities offer a number of special programs to help low-income energy consumers. One such program is the Ontario Electricity Support Program (OESP) that provides monthly on-bill credits for lower-income customers to reduce their electricity bills. Another assistance program is the Low-Income Energy Assistance Program (LEAP) that helps individuals or families who are struggling to pay their electricity bills throughout the year. In order to qualify, the household income must fall below a certain limit.

Staff contacted Alectra regarding the LEAP in Hamilton and have been advised that there are approximately 15,300 accounts enrolled in LEAP with nearly 50% being homeowners. Hence, it is reasonable to expect that there are low income homeowners who would like to replace a lead service line but are challenged financially to do so.

Recommendation (a) of Report FCS19025(a) seeks Council approval for loans to be zero interest for property owners who have qualified for LEAP or OESP. Such interest-free loans would only be available to owner-occupied dwellings. The loan will remain interest-free unless the customer defaults on payments.

Many lead service lines are attached to rental properties where tenants would have very little control or leverage over pipe replacement. From an environmental and public health fairness perspective, the argument could be made that landlords should be making the investment to replace private lead services as part of their business. However, many choose not to.

The Program provides loans to replace private water service lines of homes that are owner-occupied specifically and not to residential rental properties. There are bonusing provisions within the *Municipal Act* (Section 106) whereby a municipality shall not assist directly or indirectly any commercial enterprise by, giving or lending any property of the municipality, including money. However, the *Planning Act* (Section 28) allows municipalities, to designate by By-law, a Community Improvement Plan (CIP) that authorizes municipalities to provide grants or loans to commercial enterprises for a defined variety of rejuvenation / rehabilitation purposes, without contravening the *Municipal Act, 2001* prohibition against bonusing.

In March 2013, Council approved a by-law to designate a CIP for the Water and Wastewater Infrastructure Support Community Improvement Plan. This incorporated the existing Residential Protective Plumbing Subsidy Program (3P), which is designed to improve the City's adaptability to climate change by reducing the impacts of severe storms, particularly basement sewer backups. The CIP also enabled extension of the 3P to rental dwellings by ensuring that such extension does not constitute bonusing under the *Municipal Act, 2001*.

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The Water and Wastewater Infrastructure Support Community Improvement Plan also provided a policy structure for the potential addition of other related water and wastewater programs in the future, though such additions would require an amendment to the CIP. Recommendation (c) of Report FCS19025(a) provides direction to Planning Division staff to bring forward a report before the Planning Committee to amend the Water and Wastewater Infrastructure Support Community Improvement Plan to incorporate the Program in order to extend loans to residential rental properties.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The loans under the Program are funded from the City’s bank account with the net outstanding Program balance reflected in a long-term receivable balance sheet account. With the loans being interest-bearing, the opportunity costs related to investment returns of water reserve funds is essentially offset. The receivable account balance increases in years where loan repayments inclusive of loan interest amounts to less than the loan amounts issued.

It is unknown the number of zero interest loans under the Program that will be issued as a result of Recommendation (a) of Report FCS19025(a). The lack of associated interest charges will result in the long-term receivable balance to increase over time. The interest rate cost over the full 10-year repayment period for a maximum loan of \$2,500 at the current interest rate of 2.89% amounts to approximately \$382.

Staffing: There are no long-term staffing implications. As of May 2019, the Program loan collection workload shifted from Corporate Services, Finance and Administration staff, to Alectra at no additional expense to the City. Even with potentially increased loan activity, as a result of the recommendations of Report FCS19025(a), it is anticipated there is in place sufficient City and Alectra staff resources to manage the loan application intakes, disbursements and collections effectively.

There are one-time staffing implications as staff from the Planning Division will be required to undertake the amendments to the Water and Wastewater Infrastructure Support Community Improvement Project Area and Community Improvement Plan (CIP).

Legal: As part of the loan program, the property owner agrees to have the loan amount, including applicable interest, added to the property owner’s Alectra water account for repayment to the City with monthly payments for a term of up to 120 months.

HISTORICAL BACKGROUND

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.

The City's Lead Water Service Replacement Loan Program ("the Program") 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 Program is to provide homeowners with the continued opportunity to access funding, through an interest-bearing loan from the City, to assist homeowners to reduce their potential risk of exposure to lead in tap water that could be coming from their private lead water service line.

The Program enables eligible residential property owners that meet the program requirements to borrow from the City up to a maximum of \$2,500, to assist in repaying the cost of private lead water service replacements. The annual payments were added to the homeowner's tax roll and repaid to the City over a period of up to 10 years. As of May 1, 2019, loan amounts provided under the Program have been added to the property owner's Alectra Utilities (Alectra) water account to be repaid on a monthly basis over a period of up to 10 years (refer to Report FCS19025). As of December 31, 2019, over 2,200 loans have been issued since the pilot Program began in October 2007 representing a total outlay of approximately \$4,495,405 with a current outstanding loan balance of approximately \$2,063,243.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

None identified.

RELEVANT CONSULTATION

Corporate Services – Legal Services and Risk Management Division has been consulted in the preparation of Report FCS19025(a).

Corporate Services – Hamilton Water, Finance and Administration Section, has provided input into Report FCS19025(a).

Public Works – Hamilton Water Division has been consulted and supports the recommendations in Report FCS19025(a).

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Planning and Economic Development – Planning Division supports Recommendation (c) of Report FCS19025(a).

Alectra Utilities has been consulted and advised of implementation requirements that arise from the adoption of recommendations of Report FCS19025(a) and have indicated they can support the City with these initiatives.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

The Program has been reviewed with the view to enhance the role of the Program as part of Hamilton Water’s multi-pronged proactive approach to minimize customers’ exposure to lead. The interest charged on an annual basis is based on the City’s 10-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 at the start of each calendar year based on the City’s 10-year cost to borrow. The Program interest rate charged (for 2020 it is 2.89%) is favourable relative to financing otherwise available to residential property owners. For example, economists' median average forecasts for prime rate are 3.45% by year-end 2020, with most secured lines of credit interest based on prime rate plus 1 to 2%.

Relative to other identified municipal programs, Hamilton’s Program has proven to be very effective in providing financial assistance to enable the replacement of over 2,000 private lead water lines since 2007, which otherwise may have previously not been replaced due to the costs being perceived as prohibitive. Over 20% of all lead service line replacements have occurred with the support of the Program. However, even with low borrowing costs, there may be some low-income property owners where the interest cost may present a financial burden to replacing their private lead water line.

The Ontario Energy Board has mandated that all Ontario electrical utilities offer a number of special programs to help low-income energy consumers. One such program is the Ontario Electricity Support Program (OESP) that provides monthly on-bill credits for lower-income customers to reduce their electricity bills. Another assistance program is the Low-Income Energy Assistance Program (LEAP) that helps individuals or families who are struggling to pay their electricity bills throughout the year. In order to qualify, the household income must fall below a certain limit.

The amount of income it takes to qualify depends on two factors:

- How many people live in the house
- The combined household income

For example, a home with four people and an annual after-tax income of \$37,000 would be eligible for a LEAP Emergency Financial Assistance (EFA) grant. The following chart outlines income eligibility:

LEAP EFA income eligibility criteria

Family Size	Income (after taxes)
1	< \$28,000
2	< \$28,000
3	< \$39,000
4	< \$39,000
5	< \$48,000
6	< \$48,000
7+	< \$52,000

Note: Amounts shown are set by the Ontario Energy Board, based on statistics from Statistics Canada.

Staff contacted Alectra regarding the LEAP in Hamilton and have been advised that there are approximately 15,300 accounts enrolled in LEAP with nearly 50% being homeowners. Hence, it is reasonable to expect that there are low income homeowners who would like to replace a lead service line but are challenged financially to do so.

Recommendation (a) of Report FCS19025(a), seeks Council approval for loans to be zero interest for property owners who have qualified for LEAP or OESP. Such interest-free loans would only be available to owner-occupied dwellings. The loan will remain interest-free unless the customer defaults on payments.

Many lead service lines are attached to rental properties where tenants would have very little control or leverage over pipe replacement. From an environmental and public health fairness perspective, the argument could be made that landlords should be making the investment to replace private lead services as part of their business. However, many choose not to. A significant proportion of remaining private lead service lines are believed to be associated with residential rental properties.

The Program provides loans to replace private water service lines of homes that are owner-occupied specifically and not to residential rental properties. There are bonusing provisions within the *Municipal Act* (Section 106) whereby a municipality shall not assist directly or indirectly any commercial enterprise by, giving or lending any property of the municipality, including money. However, the *Planning Act* (Section 28) allows municipalities, to designate, by By-law, a Community Improvement Plan (CIP) that authorizes municipalities to provide grants or loans to commercial enterprises for a defined variety of rejuvenation / rehabilitation purposes, without contravening the *Municipal Act, 2001* prohibition against bonusing.

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In March 2013, Council approved a by-law to designate a Community Improvement Area for the Water and Wastewater Infrastructure Support Community Improvement Plan. This incorporated the existing Residential Protective Plumbing Subsidy Program (3P), which is designed to improve the City's adaptability to climate change by reducing the impacts of severe storms, particularly basement sewer backups. The CIP also enabled extension of the 3P to rental dwellings by ensuring that such extension does not constitute bonusing under the *Municipal Act, 2001*.

The Water and Wastewater Infrastructure Support Community Improvement Plan also provided a policy structure for the potential addition of other related water and wastewater programs in the future, though such additions would require an amendment to the CIP. Recommendation (c) of Report FCS19025(a) provides direction to staff to bring forward a report before the Planning Committee to amend the Water and Wastewater Infrastructure Support Community Improvement Plan to allow the Program to be extended to residential rental properties.

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Healthy and Safe Communities

Hamilton is a safe and supportive City where people are active, healthy, and have a high quality of life.

Clean and Green

Hamilton is environmentally sustainable with a healthy balance of natural and urban spaces.

APPENDICES AND SCHEDULES ATTACHED

N/A

JS/dt