



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 7, 2012	
SUBJECT/REPORT NO: 2013 Recommended Water, Wastewater and Stormwater Budget (FCS12076/PW12085) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance and Corporate Services Gerry Davis, CMA General Manager Public Works	PREPARED BY: Mike Zegarac (905) 546-2424 x2739 Dan McKinnon (905) 546-2424 x5941 Charlie Elliott (905) 546-2424 x2162 John Savoia (905) 546-2424 x7298
SIGNATURE:	

RECOMMENDATION:

- (a) That the metered water rate effective January 1, 2013, be increased by 4.25% from \$1.174 to \$1.224 per cubic meter;

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- (b) That the monthly and bi-monthly water basic charge effective January 1, 2013 be increased by 4.25%;
- (c) That the metered sanitary sewer surcharge rates effective January 1, 2013, remain 100% of the water charge;
- (d) That the combined “non-metered” water and wastewater services charge effective January 1, 2013 be increased by 4.25% from the fixed rate of \$857.06 to \$893.48 per annum;
- (e) That the 2013 Water and Wastewater Proposed User Fees and Charges be approved as per Appendix “F” to FCS12076/PW12085;
- (f) That the 2013 Water, Wastewater and Stormwater Management Rate Supported Operating Budget in the amount of \$171,971,770 be approved as per Appendix “A” to FCS12076/PW12085;
- (g) 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 2013-2022 Water, Wastewater and Stormwater Management Rate Supported Operating Budget forecast (Appendix “A”) to FCS12076/PW12085 be approved in principle;
- (h) That the 2013 Water, Wastewater and Stormwater Management Rate Supported Capital Budget and Financing Plan in the amount of \$182,443,000 be approved as per Appendix “G” to FCS12076/PW12085;
- (i) That the 2013-2022 Water, Wastewater and Stormwater Management Rate Supported Capital Budget forecast and financing plan (Appendix “I”) to FCS12076/PW12085 be approved in principle;
- (j) That the City Solicitor and Corporate Counsel be authorized and directed to prepare all necessary by-laws, for Council approval, respecting the 2013 water and wastewater user fees and charges set out in recommendations (a) through (e) of Report FCS12076/PW12085.

EXECUTIVE SUMMARY

The 2013 Rate Budget is submitted for Council’s consideration. The 2013 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.” The 2013 Rate Budget also reflects conservative assumptions with respect to funding for environmental upgrades from the Federal government. Any future commitments will improve the financing strategies reflected in the 2013 Rate Budget. Over the period

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2013 to 2022, water, wastewater and stormwater capital investment is forecast at nearly \$1.4 billion which represents a decrease of \$0.2 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 relationships. In addition to the recommended rate increase, inflationary increases for most other water and wastewater user fees are requested.

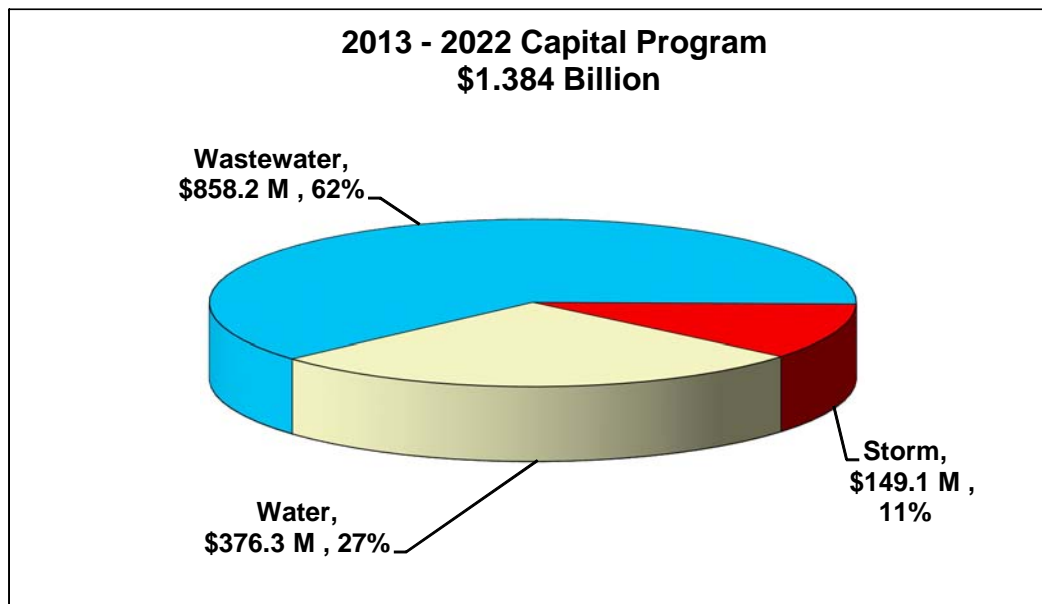
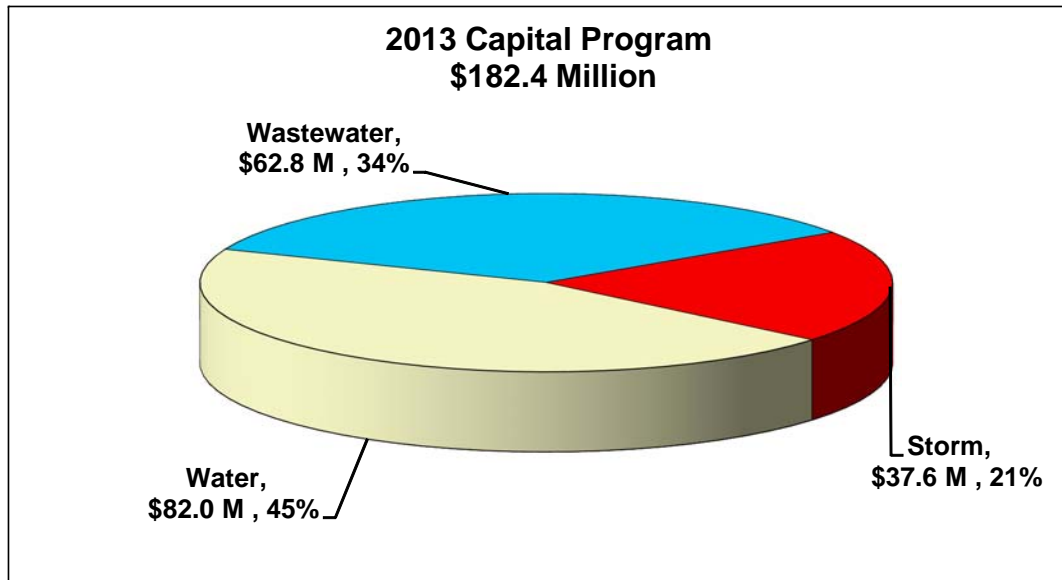
Support for total operating expenditures are forecast to increase by approximately \$7.3 million in part from modest consumption growth, bringing the total operating budget request to approximately \$172.0 million, compared with \$164.7 million for 2012.

It should be noted, while the recommended rate increase is 4.25%, metered revenues are forecast to increase by 4.4% or \$7.1 million. This increase is forecast to support increases in program expenditures and capital financing of 3.7% and 5.0%, respectively. The following table summarizes the budget changes for the 2013 Requested budget:

Summary of the 2013 Operating Budget				
(\$ million's)	2012	2013	2013 Requested /2012	
	Restated Budget	Requested Budget	Restated	Change
			\$	%
Expenditures				
Program Expenditures	\$72.20	\$74.90	\$2.70	3.7%
Capital/Debt Financing	\$92.50	\$97.10	\$4.60	5.0%
Total Expenditures	\$164.70	\$172.00	\$7.30	4.4%
Revenues				
Rate Revenue	\$162.20	\$169.30	\$7.10	4.4%
Non-Rate Revenue	\$2.50	\$2.70	\$0.20	8.0%
Total Revenue	\$164.70	\$172.00	\$7.30	4.4%
Average Residential Water/Wastewater Bill	\$578.00	\$602.00	\$24.00	4.25%

The following charts summarize the \$1.384 billion capital program and the financing requirement for the 2013 – 2022 water, wastewater and storm capital budget. Of this amount, \$858.2 million or 62% is for wastewater, \$376.3 million or 27% is for water and \$149.1 million or 11% for the storm program. A total of \$629.5 million or 45% of the 10 year capital program is required in the first three years (2013 – 2015). The capital program also includes \$269 million for growth infrastructure related to GRIDS which will be funded from Development Charges, except for \$84 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.



Provincial/Federal Subsidy Programs

It should be noted that the forecast includes \$100 million of already received Provincial infrastructure funding. The City received \$100 million from the Province in 2010, with a commitment of \$100 million of Federal funding from the Green Infrastructure Fund on a claim reimbursement basis. The financing strategy, like the 2011 Wastewater, Water

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and Stormwater DC By-law, does not reflect the Federal commitment. When a commitment is finalized in regards to the Federal funding the Wastewater, Water and Stormwater DC By-law and Rate Supported financing strategy will be amended to reflect the terms and conditions of the commitment.

In the fall of 2011, City staff met with both Provincial and Federal representatives to discuss the changing pressures in Hamilton impacting the original implementation plan and the City's ability to meet the 2014 funding deadline and to explore options that would allow the City to retain the original GIF commitment. It was agreed by all parties at that time that the City provide the funding partners with a revised implementation plan based on proceeding with a Water Quality Upgrade for the WWTP having a completion date of 2017-2018 and deferring the expansion for growth to 2023.

The rate supported debt is projected to peak at \$394 million in 2016, compared with the 2012 budget forecasted debt peak at \$280 million in 2018. The debt funded from DC's is projected to peak at \$325 million in 2017, whereas the 2012 forecast was \$525 million in 2019. Total rate and DC supported debt is forecast to peak at \$714 million in 2016, a decrease of about \$70 million from last year's forecast.

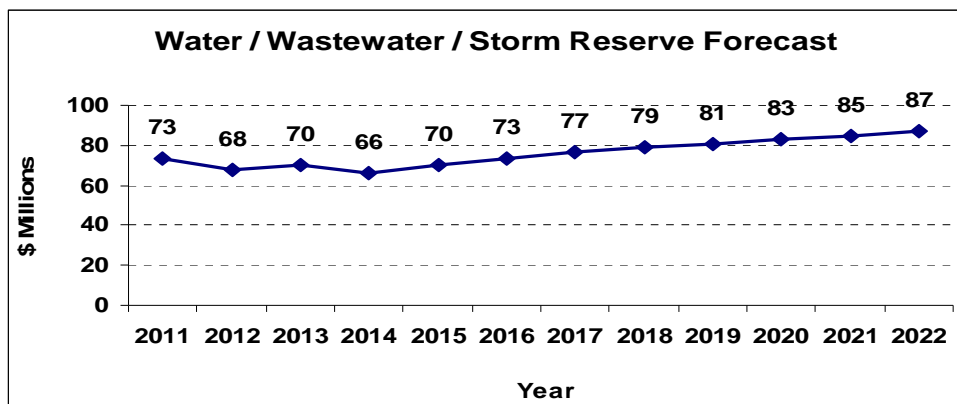
It is important to note that the base debt forecast excludes the aforementioned \$100 million federal grant. If Hamilton receives the grant, the Rate funded debt would be approximately \$176 million lower than the current projected debt.

The table below provides the ten year debt forecast compared to the 2012 Budget forecast.

Projected Rate & DC Supported Outstanding Debt										
(\$ Millions)										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2012 Rate Budget										
Funded from Rates (15 Yr)	215	278	262	244	279	280	259	234	209	183
Funded from DC's (20 Yr)	240	319	358	369	435	491	525	515	500	472
Total	455	597	620	613	714	771	784	749	709	655
2013 Rate Budget										
Funded from Rates (15 Yr)	144	251	378	394	379	353	326	297	267	236
Funded from DC's (20 Yr)	102	186	283	320	325	320	325	320	320	319
Total	246	437	661	714	704	673	651	617	587	555
Increase (Decrease)	(209)	(160)	41	101	(10)	(98)	(133)	(132)	(122)	(100)

The following graph provides the projected reserve balances for the Water, Wastewater and Storm programs. The reserve forecast reflects utilizing \$40 million in reserve funds to fund previously approved capital in 2011, \$5 million budgeted capital funding in each year 2013 and 2014, to reduce reliance on debt. As well, the reserve forecast reflects a

total of \$13.6 million in contributions to the reserve from projected revenue surpluses over the 10 year period. The \$13.6 million in contributions to the reserve is net off by \$10.1 million in reserve funding to the operating budget in 2012 and 2013 to offset the 3 year phase-in (2011 – 2013) of budgeted revenue reductions in the ICI sector. The reserve forecast also reflects utilizing \$5.7 million in total from the reserve in years 2011 to 2013 to provide future compassionate flood relief to residential property owners in addition to contributions to support previous flooding commitments.



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 slightly from \$73 million in 2011 to \$66 million in 2014 and then increase over the years to \$87 million in 2022.

In regards to the overall rate structure, as directed by Council, staff are reviewing the City's approach to charging for the provision of water, wastewater and storm services and will a final report back by June 2013 with rate structure alternatives for Council's consideration.

The 2013 recommended water and wastewater rate increase is 4.25% or approximately \$24 per typical household. Other water and wastewater user fees have generally been increased by an inflationary factor, with limited new fees.

Impact of Recommended 4.25% Rate Increase on Water and Wastewater Rates		
	2012 Rates	2013 Requested Rates
Basic Monthly Charge	\$8.42	\$8.78
Consumption Rate* (per cubic metre)	\$1.174	\$1.223
*Note: the consumption rate applies to water consumed beyond the first 5m ³ per month, as the first 5m ³ of consumption per month is included in the monthly basic charge at no additional charge.		

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

IMPACT OF RECOMMENDED 2013 WATER AND WASTEWATER RATE INCREASE ON A TYPICAL RESIDENTIAL BILL		
(based on annual water consumption of $220m^3$)		
2012 Residential Bill		\$578
2013 Residential Bill		\$602
<i>Recommended Change (\$)</i>		<i>\$24</i>
<i>Recommended Change (%)</i>		<i>4.25%</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 are detailed further in later sections of this report.

- Federal funding for upgrades to the Wastewater Treatment Plant
- 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.

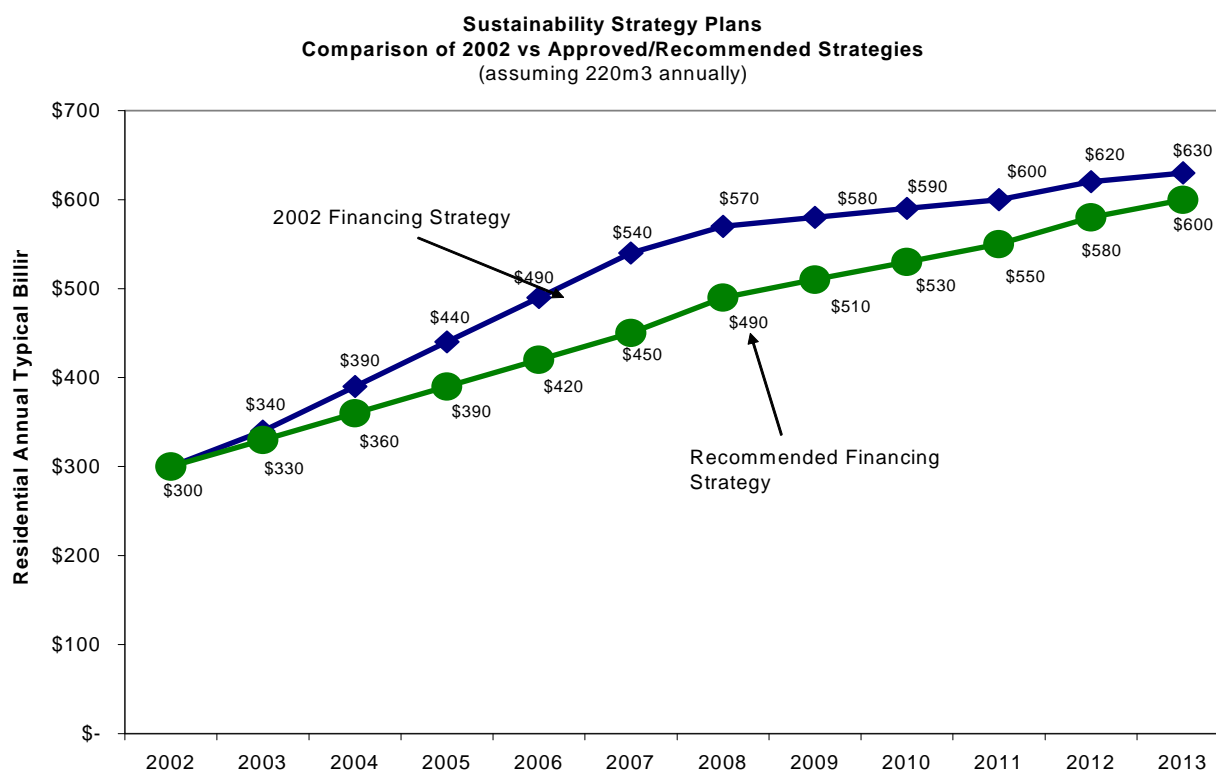
The recommended 2013 Rate Supported strategy endeavours to achieve a balance between capital investment, rate of growth and rate stability. The 2013 Rate Supported Strategy links the change in demand for water with a staged approach to necessary capital investments at the Woodward wastewater treatment plant.

While it is true that 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 2013 – 2022 strategy is a continuation of the previous year's strategy which assumes rate increases of 4.25% annually over the 10-year period.

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In 2001, staff recommended an amended Strategy based on achieving a target funding level of \$140 million (2000\$) by 2006 (refer to report TOE01017/FCS01017). The amended Strategy called for a 15% rate increase in each year up to and including 2006.

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 2013 strategy, annual water and wastewater billings based on the 2013 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 2013 of approximately \$97 million (2012\$) and climbing to \$151 million (2012\$) by 2022.

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

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: As per Recommendation (f) of Report FCS12076/PW12085, approval of the 2013 Water, Wastewater and Stormwater Management Rate Supported Operating Budget will support operating and capital expenditures of \$171,971,770 for 2013.

Staffing: As a result of the reorganization of Public Works staffing structure, the 2013 Rate Supported staffing reflects a net reduction of 2.0 FTEs as reflected in Appendix “E” to FCS12076/PW12085.

Legal: Recommendation (j) of Report FCS12076/PW12085 relates to By-laws requiring Council approval, respecting the implementation of 2013 water and wastewater user fees and charges set out in the recommendations (a) through (e) of Report FCS12076/PW12085.

HISTORICAL BACKGROUND (Chronology of events)

The 2013 Rate Budget continues to support the priority of investing in infrastructure as evidenced by the 2013 to 2022 forecast investment of approximately \$1.4 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 2013 Rate Supported strategy incorporates:

- Sustainable Rate Strategy
- Proposed 2013 Water and Wastewater Rates
- Operating Budget Highlights
- Capital Budget Highlights
- Water Consumption Review and Forecast

POLICY IMPLICATIONS

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

RELEVANT CONSULTATION

N/A

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Appendix A-1 of the Water, Wastewater and Stormwater Budget Services Overview Book summarizes the 2013 operating expenditures (program and capital) and revenues relative to the 2012 forecast and 2012 restated budget.

In addition to the recommended rate increase, inflationary increases for most other water and wastewater user fees are requested. Within the Water Distribution user fee schedule (refer to Appendix F-3 of the Budget Services Overview Book) new proposed fees have been recommended related to unmetered City provided water used during new construction. Similar user fees are charged by many other Ontario municipalities whereby a flat charge for each new water service line is applied when a building permit is taken out. The fees vary according to type of construction namely single residential, multi-residential and ICI. The new fees related to new construction recognize that unmetered water is used for construction purposes for some length of time until a water meter is installed and further supports user fee principles.

ALTERNATIVES FOR CONSIDERATION:

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

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 2013 Capital Budget submissions.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ◆ Financially Sustainable City by 2020
- ◆ Effective and Sustainable Growth Management
- ◆ Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner
- ◆ Full life-cycle costing for capital
- ◆ Sustainable Tri-parti Government Agreement

Intergovernmental Relationships

- ◆ Acquire greater share of Provincial and Federal grants (including those that meet specific needs)
- ◆ Maintain effective relationships with other public agencies

Environmental Stewardship

- ◆ Natural resources are protected and enhanced
- ◆ Reduced impact of City activities on the environment
- ◆ Remove Hamilton Harbour from Great Lakes area of concern list by 2015
- ◆ Aspiring to the highest environmental standards

Healthy Community

- ◆ Plan and manage the built environment
- ◆ Adequate access to food, water, shelter and income, safety, work, recreation and support for all (Human Services).

APPENDICES / SCHEDULES

N/A