

CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: February 11, 2013	
SUBJECT/REPORT NO: Water/Wastewater User Service Fee and Charges Policy (FCS11025(d)) (City Wide)	
SUBMITTED BY: Mike Zegarac Acting General Manager Finance and Corporate Services	PREPARED BY: John Savoia (905) 546-2424 x. 7298
SIGNATURE:	

RECOMMENDATION

That the Water/Wastewater User Service Fee and Charges Policy as outlined in Appendix "A" to Report FCS11025(d) be approved.

EXECUTIVE SUMMARY

At its meeting of December 5, 2012, the General Issues Committee (GIC) approved the following direction:

"That a proposed Water/Wastewater User Service Fee and Charges Policy be developed with staff to report back to the Audit, Finance and Administration Committee by June 2013."

Under the Municipal Act, municipalities have broad authority to impose fees or charges for any activity or service they provide. While municipalities can determine which services to charge for, the amount of the fee and who pays it, the Municipal Act limits them to cost recovery - in other words, municipalities cannot charge more than it costs them to provide a service.

Water and wastewater user service fees and charges in Hamilton have been set with the intention that these fees and charges directly fund the full cost of the related service. By charging the full cost of these specific services, there should be reduced pressure on general water and wastewater rates. The recently approved 2013 Rate Supported budget reflects approximately \$2.2 million in water and wastewater user service fee and charges revenues.

As a function of the initial phase of the Rate Structure Review staff have identified that no existing policy currently exists to act as a framework for setting/reviewing water/wastewater service fees and charges.

A Water/Wastewater User Service Fee and Charges Policy (“Policy”) is being recommended as outlined in Appendix “A” to Report FCS11025(d). The Policy requires identification of both the cost of the service and the fees/charges to recover such cost. With an established policy in place, it should allow staff to develop a better understanding of the cost of services and to consider the appropriateness of new/established fees and charges. It is expected that with the Policy in place, that a comprehensive water/wastewater service user fee review will be undertaken with staff to report back and reflect the results of this review as part of the 2014 Rate Supported Budget process.

The Policy will require periodic review tied to the annual budget process and update of user fees based on factors such as inflation, other cost increases, service level changes and delivery methods. There will continue to be the need to ensure that user fee revenues do not exceed the cost of providing the respective services. Furthermore, the Policy is designed to ensure there is a consistent, transparent approach for setting fees in compliance with best practices.

Alternatives for Consideration –Not Applicable

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

Financial: This report has no direct financial impact. However, approval of the recommended Water/Wastewater User Service Fee and Charges Policy has the potential for revenue enhancement through full cost recovery.

Staffing: None identified.

Legal: None identified.

HISTORICAL BACKGROUND (Chronology of events)

As a function of the initial phase of the Rate Structure Review staff have identified that no existing policy currently exists to act as a framework for setting/reviewing water/wastewater service fees and charges. Traditionally, water/wastewater user fees have been monitored and adjusted for price changes through the annual budget process. However, without a policy to guide the establishment or review of existing fees, inevitably inconsistency results in the approach taken.

In December 2012, the General Issues Committee directed staff to develop a Water/Wastewater User Service Fee and Charges Policy to guide how and when water/wastewater user service fees should be charged and to act as a guideline for regular reviews of existing fees.

POLICY IMPLICATIONS

N/A

RELEVANT CONSULTATION

Public Works – Hamilton Water Division has been consulted and supports the objectives and recommendations of this report.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

User fees and charges are applicable for various water/wastewater related 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. Similar to water rates, service fees require periodic review and amendments, as necessary, to ensure equitable rates & fees, sustain adequate reserve funds and maintain fiscal balance. User fees and charges constitute approximately \$2.2 million of the 2013 Rate supported budget and represent an important revenue source for the City.

A water/wastewater user fee and charges policy is being recommended as currently no policy exists to determine how and when fees should be charged. Policies that require identification of both the cost of the service and the fees/charges to recover such cost allows staff to develop a better understanding of the cost of services and to consider the appropriateness of new/established fees and charges.

In the absence of a cohesive user fee policy, user fees may have been established and managed without a clear set of common principles resulting in a number of inconsistent approaches with the following observations:

1. The full cost of user fee services has not been consistently determined as the basis for setting user fee rates. Some fees have considered direct costs only, others direct plus indirect costs (administration and overhead), and some reflect direct, indirect and capital costs as the basis for setting the user fees.
2. The amount of revenues collected for each user fee service is not always known nor have consistent efforts been made to ensure that user fee revenues do not exceed the cost of providing the related service.
3. The basis for setting user fees is not always known. This is especially apparent in situations where the full cost of the related service is not established or recovered.
4. The existing program-specific approach to user fee implementation does not address cross-divisional issues; nor does it consider cross-divisional implications or opportunities and synergies that might be inherent in an integrated process that includes cross-divisional consultation. For instance, in determining the cost of providing some services, the contribution of other Programs involved either directly or indirectly has not been included. The full cost of providing these services has therefore not been taken into consideration in determining the user fee rate and so it is unclear to what extent user fee services are funded.

Generally speaking service user fee and charges policies incorporate the following elements:

Establishing Fees – The following concepts are common in developing and implementing service charges:

1. Revenue fees should not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the *total cost* of delivering the service, including direct costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, data processing, vehicle maintenance and insurance.
3. The method of assessing and collecting fees should be as simple as possible so that the administration cost of collection is reduced.
4. The fee/charge structure should be sensitive to the marketplace for similar services, as well as, to smaller, infrequent users of the service.

Other Community Comparison – In setting service fees and charges in water/wastewater, the City should consider fees charged in other jurisdictions. Surveying the comparability of the City’s fees to other communities provides useful background information in setting fees for the following reasons:

1. They reflect the market for these fees and can aid in assessing the reasonableness of the City’s fees.
2. If analyzed thoroughly, they can serve as a benchmark to gauge the cost-effectiveness of City provided services.

However, it should be noted that fee surveys should not be the sole or primary criteria in setting the City’s fees as there are many factors that affect how and why other communities have set their fees at their cost levels.

Review Requirements – Service fees and charges should be reviewed on an annual basis in conjunction with the annual budget cycle to ensure that they keep pace with changes in the cost-of-living and for any changes in methods, technologies or levels of service delivery.

ALTERNATIVES FOR CONSIDERATION

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

None identified.

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
- ◆ Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

APPENDICES / SCHEDULES

Appendix “A” to Report FCS11025(d) – Water/Wastewater User Service Fee and Charges Policy



POLICY TITLE: Water/Wastewater User Service Fee and Charges Policy

POLICY NO: PP-0010

LAST REVISION DATE: February 13, 2013

EFFECTIVE DATE: February 13, 2013

MANAGER REVIEWED: Tom Hewiston

TO BE REVIEWED: January 2018

MAINTENANCE RESPONSIBILITY: Senior Policy Advisor, Financial Planning & Policy Section

I GENERAL

The Water/Wastewater User Fee and Charges Policy sets out a consistent and transparent approach for establishing and managing user fees in compliance with best practices. The Policy promotes fairness and equity by recovering the cost of services from those who receive direct benefits from the service. The Policy requires periodic review and update of user fees based on factors such as inflation, other cost increases, service level changes and delivery methods, and the need to ensure that user fee revenues do not exceed the cost of providing the respective services.

II BACKGROUND

User fees and charges are applicable for various water/wastewater related 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. Similar to water rates, service fees require periodic review and amendments, as necessary, to ensure equitable rates & fees, sustain adequate reserve funds and maintain fiscal balance.

The Water/Wastewater User Fee and Charges Policy was adopted to act as a framework for setting/reviewing water/wastewater service fees and charges on a regular basis.

III POLICY

The Water/Wastewater User Fee and Charges Policy incorporates the following elements:

Establishing Fees

The following principles are considered in developing and implementing service charges:

1. Revenue fees should not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization-wide support

costs such as accounting, personnel, data processing, vehicle maintenance and insurance.

3. The method of assessing and collecting fees should be as simple as possible so that the administration cost of collection is reduced.

4. The fee/charge structure should be sensitive to the marketplace for similar services, as well as, to smaller, infrequent users of the service.

Other Community Comparison

In setting service fees and charges in water/wastewater, the City considers fees charged in other jurisdictions. Surveying the comparability of the City's fees to other communities provides useful background information in setting fees for the following reasons:

1. They reflect the market for these fees and can aid in assessing the reasonableness of the City's fees.

2. If analyzed thoroughly, they can serve as a benchmark to gauge the cost-effectiveness of City provided services.

However, it should be noted that fee surveys are not the sole or primary criteria in setting the City's fees as there are many factors that affect how and why other communities have set their fees at their cost levels.

Review Requirements

Service fees and charges are to be reviewed on an annual basis normally in conjunction with the annual budget process to ensure that they keep pace with changes in the cost-of-living and for any changes in methods, technologies or levels of service delivery.