



INFORMATION REPORT

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: April 11, 2011	
SUBJECT/REPORT NO: Water and Wastewater Rate Structure Review (FCS11025(a)) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager, Finance & Corporate Services Department	PREPARED BY: John Savoia (905) 546-2424 x7298 Mike Zegarac (905) 546-2424 x2739
SIGNATURE:	

Committee Direction:

The General Issues Committee (GIC) at its meeting of March 22, 2011, requested additional information regarding the use of a consultant resource as a result of the discussions around Item 8.2, Water and Wastewater Rate Structure Review (FCS11025) with the following motion:

"That the recommendations contained in Report FCS11025 respecting the Water and Wastewater Rate Structure Review be tabled in their entirety pending receipt of information respecting implications on the department's work plan."

Information:

Report FCS11025 - Water and Wastewater Rate Structure Review was brought forward to the March 22, 2011 GIC meeting in response to direction provided to staff at Council's meeting of January 26, 2011:

"That staff be directed to report back on alternative measures of water costing for the 2012 rate budget."

In order to undertake the Water and Wastewater Rate Structure Review ("Review"), staff proposed to utilize a consultant resource to be funded as per recommendation (b) of Report FCS11025.

Staff has conducted a literature review that identified a number of similar rate structure reviews have been undertaken by Ontario municipalities in recent years as summarized in the table below:

Municipality	Review Completion
Barrie	2010
Brant County	2009
Guelph	2008
London	2008
Niagara Falls	2007
Ottawa	2009
Toronto	2007
Wasaga Beach	2010

Many Ontario municipalities have chosen to review their existing rate structures, in order to develop water and wastewater rate structure strategies which would meet full cost recovery, required under the *Sustainable Water and Sewage Systems Act* and the financial plan requirements under the *Safe Water Drinking Act*. Other factors driving the rate structure reviews include the adoption of universal metering, declining consumption and increasing costs which are all applicable to Hamilton's situation. The previous rate structure review for Hamilton occurred with the Region Municipality of Hamilton-Wentworth in the late 1990's. As such, since rate structure reviews are a very extraordinary undertaking, it is quite normal to outsource all parts of this work to external consultants with specialized expertise.

In reviewing the experience of other Ontario municipalities, it was observed that the use of consultant resources was utilized regardless of the size of the municipality. The scope of work to conduct a rate structure review (as described in Report FCS11025) and report back to GIC by September 2011 is significant. The Review should include a variety of analytical tasks. The tasks would include (but not limited to) gathering relevant information, modelling and analysis of rate structures and a comparative study of the financial impacts on ratepayers. These tasks would conclude in a final report and presentation to GIC.

The breadth of data required to be accumulated and analyzed for the Review is uncommon and accounts for the reliance of consultant resources by municipalities to undertake rate structure reviews. The following is a preliminary list of data elements that will be required:

Category	Data Description
Billed Consumption	<ul style="list-style-type: none"> • Annual billings (over 150,000 records) • Monthly volumes by class • Largest 10 users by billing period • Information on residential customer billing profile • Individual customer examples for impact analysis (2010 data)
Customers	<ul style="list-style-type: none"> • Number by class • Number by meter size
Operating & Capital Budget	<ul style="list-style-type: none"> • Needs to be broken down by water, sewer and storm systems
Revenue Budget	<ul style="list-style-type: none"> • Broken down by category • Analysis of 2010 actuals
Water & Wastewater Volumes	<ul style="list-style-type: none"> • Comparison with billed consumption

Staff contacted Guelph, London and Ottawa to gain a further understanding of their rate reviews and specifically the consultant resource requirements and cost. Both Guelph and London reported that their consultant costs exceeded \$100,000 with both reviews completed in 2008. Ottawa reported their consultant costs were over \$200,000, albeit, the scope of their review was expanded to include a full cost accounting of their water, sanitary and stormwater systems.

Staff also noted that two consultant firms have supported the majority of the rate reviews undertaken by Ontario municipalities. An additional advantage of the reliance on these firms is that they have extensive knowledge and experience of the practices/policies of other water utilities across the province. One of these firms has provided services to Hamilton recently related to water and wastewater financial planning and development charges. Hence, this firm would have a solid understanding of many of the data elements described earlier in this report. Staff considered this for the proposed upset limit of \$70,000 to conduct the Review cost as this amount represents a much lower cost relative to the higher costs experienced by comparator municipal rate reviews conducted within the last few years.

The following factors resulted in the recommended use of consultant resources to undertake the Review:

- Significant work content required is beyond the limited capacity of the Financial Planning and Policy division of Corporate Services. In order to support the Review internally would defer progress with respect to financial sustainability planning as a

deliverable in 2011 and potentially, the budget process leading into the 2012 Rate Budget may be compromised.

- The directed deliverable of providing alternative rate structures for Council's consideration for the 2012 rate supported budget requires the Review to be complete to report back to GIC by September 2011 as per recommendation (c) of Report FCS11025. This timeline for the Review to be completed is aggressive relative to the timelines of similar reviews completed in other municipalities which in many cases required 12 months to complete even with the use of consultant firms that have the experience and expertise to perform such reviews.