

2014 FINAL BUDGET



TOWN OF AURORA GENERAL COMMITTEE REPORT No. IES14-007

SUBJECT: *Water, Wastewater and Stormwater Budget*

FROM: *I. Simanovskis, Director of Infrastructure & Environmental Services*

DATE: *January 20, 2014*

RECOMMENDATIONS

THAT report IES14-007 be received; and

THAT Council approve the 2014 Water, Wastewater, and Stormwater budgets with a combined net recoverable expenditure of \$16,767,050; and

THAT a one-time operating expense of \$474,000 be added to 2014 to complete Tender IES2013-72 – Remedial Works to Reduce Inflow and Infiltration in the Wastewater Collection System within the Town of Aurora, to be funded from reserves created from the 2013 surplus distribution; and

THAT Council approve the 2014 retail water rate of \$1.8015 per cubic meter and the retail wastewater rate of \$1.5287 per cubic meter of water; and

THAT Council approve the 2014 flat rate stormwater charge of \$4.78 per unit per month for residential and condominium properties and \$62.96 per unit per month for metered non-residential commercial/industrial and multi-residential properties; and

THAT the new approved rates become effective for all billings issued by the Town on or after May 1, 2014, and be retroactive for all consumption newly billed on such billings; and

THAT Council approve the 2014 bulk water purchase rate of \$3.3301 per cubic meter dispensed effective May 1, 2014; and

THAT Council adopt the necessary by-law to implement the above rate changes recommendations effective May 1, 2014.

PURPOSE OF THE REPORT

The purpose of this report is to present the budget for rate supported utility programs and set the 2014 rates for the water, wastewater and stormwater services for billings issued on or after May 1, 2014.

BACKGROUND

Legislative environment has been effective in increasing confidence on Ontario's water systems

The services of water supply, wastewater management and stormwater management are greatly regulated by the Province. This regulation has been a part of the industry for a long time. However, as a result of the Walkerton tragedy in 2000, significant changes to legislation occurred resulting in continued improvements to how water supply is delivered. The best practices coming out of the changes to water regulations has been of great benefit to increasing confidence and certainty in the delivery of safe water to the community. Full cost recovery, including the costs of maintaining sustainable infrastructure, is an integral expectation of the utilities.

Overseers of water systems are held to a standard of care for public safety

The Safe Drinking Water Act, 2002, focuses on water supply and outlines the expected standard of care for overseers of water supply systems. This Act is the basis of our operations and great effort is placed in ensuring compliance and continual improvement in meeting all the requirements.

Wastewater and Stormwater systems have similar Acts and Regulations

Legislation for wastewater and stormwater are also in place and have similar requirements for these services. Recent legislation for stormwater protection includes the Lake Simcoe Protection Act 2008 for which Aurora is a participating partner within this watershed.

Safe Drinking Water Act Requires that Council Assume Responsibility for Standard of Care of Water System

One of the many important recommendations that came out of the Walkerton Inquiry was that as "the safety of drinking water is essential for public health, those who discharge the oversight responsibilities of the municipality should be held to a statutory standard of care". Members of a Municipal Council have an important role to play in

ensuring that their community has access to safe, high quality drinking water and they are legally obliged to do so.

Section 19 of the Safe Drinking Water Act expressly extends legal responsibility to people with decision-making authority over municipal drinking water systems. Anyone to whom the duty of care applies is required to exercise the level of care, diligence and skill that a reasonably prudent person would be expected to exercise in a similar situation. They must also act honestly, competently and with integrity, with a view to ensuring the protection and safety of users of the municipal drinking water system.

The Safe Drinking Water Act does recognize that those persons exercising decision making and oversight roles may need to rely on experts and accordingly, allows any person subject to the duty of care to rely in good faith on a report of an engineer, lawyer, accountant or other persons whose professional qualifications lend credibility to the report.

This report and related presentation material is provided to Council with relevant information to assist Council in its decision making role.

COMMENTS

Overview of Budget Pressures

Pressures for Sustainability

Infrastructure and sustainability pressures on regional water systems passed down through wholesale rates

The municipal water industry is continuing to move through substantial changes in how services are delivered and how future sustainability is accommodated and planned for. York Region has seen significant increases in costs in its wholesale rates over the past several years that result in a direct impact on the Town's costs. Their current forecast has been revised to continue with high rate increases into the near future as they reach sustainable funding levels. The rate increases will remain at 10% per year until 2015, 8% for 2016, 6% for 2017, 4% for 2018 and 2019 and 3% for 2020. These proposed regional rate increases have a direct impact on retail rates as the regional charges reach 66% of the total Town operating costs.

Town water rate pressures is a result of wholesale costs and long term capital requirements

The Town's budget has passed on increased Regional costs to maintain current and sustainable revenue levels. The financial plan as required by the Province was submitted February 28, 2012. The financial plan is required to demonstrate to both the Province and the consumers that the Town has taken the responsibility of infrastructure

2014 FINAL BUDGET

January 20, 2014

- 4 -

Report No. IES14-007

sustainability seriously. Costs pressures related to sustainability include:

- Reduced reliance on Reserves to supplement the operating budget
- Continued infrastructure reserve contributions to support the long term, capital replacement program.

Program efficiencies and service delivery reviews continue to improve budget process

There have been a number of efficiencies introduced into the rate program budget process aimed at creating better accountability and improved service delivery and budget forecasts.

Increased Accuracy in Water Demand Forecast:

Changes in the methodology of forecasting water and wastewater wholesale and retail volumes have closed the gap in potential underfunding. The 2013 consumption actuals have virtually matched forecast volumes. This has a beneficial effect on the budget as more accurate revenue forecasts result in minimal subsidy requirements or potentially surplus funds that further maintain reserve balances.

Reductions in Unbilled and Unaccounted for Water:

There is always a portion of water consumed for operational needs, and testing. Water loss that is unrelated to operational uses also occurs. Minimizing this quantity reduces operating costs and increases revenues. Improvements have been made in how water loss is tracked and systems, such as metering the watermain flushing activities, have been introduced to more accurately track known unbilled uses. In addition, Finance is proceeding with a metering accuracy study which will be provided at a future date.

Reduced Reliance on Reserves to offset Revenue Shortfall in Operating:

The three rate supported programs are nearing full cost recovery as budgeted reliance on reserves is being reduced. Reserve reliance is expected to cease by 2015 and is being phased out at a controlled pace to manage rate increases. This is a key objective in reaching funding sustainability.

System Water Loss

Due to the early approval of the 2014 budget, final consumption data is not available to assess water loss. A separate report will be provided to Council once the 2013 water meter data is available. This report will also include an update on the ongoing Regional water loss issues and movement towards a resolution.

2014 FINAL BUDGET

January 20, 2014

- 5 -

Report No. IES14-007

2014 Rate Budget

The following tables are based on the financial forecasts presented in the 2014 Proposed Budget.

2014 Water Budget and Rate Calculation

Table 1A

<i>Rate Component</i>	<i>2013 Rate</i>	<i>2014 Proposed</i>	<i>Change (%)</i>
Wholesale Cost	\$0.8437	\$0.9281	10.0%
Operating Costs	\$0.7651	\$0.8734	14.16%
Total Retail Water Rate	\$1.6088	\$1.8015	11.97%

2014 Wastewater Budget and Rate Calculation

Table 1B

<i>Rate Component</i>	<i>2013 Rate</i>	<i>2014 Proposed</i>	<i>Change (%)</i>
Wholesale Cost	\$0.9559	\$1.0515	10.00%
Operating Costs	\$0.4160	\$0.4772	14.7%
Total Retail Wastewater Rate	\$1.3719	\$1.5287	11.43%
2014 Combined Rate	\$2.9807	\$3.3301	10.72%

Staff were able to identify savings in the water and wastewater system budgets based on some of the budget opportunities identified in this report. These savings reflect the ongoing improvements being implemented in both front line services as well as tracking and managing delivery of these services. However, continued reduction of reserve reliance as well as adjustments to volume sales forecasts are driving the Town's 2014 rate increase beyond the downward pressure of the savings.

2014 Miscellaneous Charges

Town's sale price of Bulk Water

The Town operates a bulk water filling station for contractors who require their water tank trucks to be filled. The current rate for such sale of bulk water is \$2.9807 per m³. This is the same rate charged to retail customers for both water and wastewater services combined. The Town incurs wholesale costs for both services based on metered water consumption. The 2014 bulk water rate therefore is to increase to the combined charge of \$3.3301 per m³ on May 1, 2014 to correspond to the retail rate changes. Bulk water accounts are billed at the end of each month for water dispensed

2014 FINAL BUDGET

January 20, 2014

- 6 -

Report No. IES14-007

in that period. Water dispensed on or after May 1 will be charged at the new rate.

2014 Stormwater Charges

Stormwater charges are collected as flat rate fees to residents and commercial accounts

In 1998, Aurora implemented a flat rate charge for stormwater operation and maintenance. The operating costs consist primarily of routine maintenance and periodic capital upgrades to the existing infrastructure, together with required contributions to infrastructure reserve funds for future needs. The costs are apportioned between the residential and non-residential accounts based on a fixed formula which are then calculated and charged as a monthly fixed fee per account. A summary of the costs are presented in the table below.

Table 2A

<i>Rate Component</i>	<i>2013 Costs</i>	<i>2014 Proposed</i>	<i>Change (%)</i>
Gross Operating Costs	\$372,831	\$421,608	13.1%
Storm Infrastructure Reserve Contribution	\$1,000,000	\$1,000,000	0%
Rate Stabilization	(\$59,831)	(\$108,608)	-82%
Total Recovery	\$1,313,000	\$1,313,000	0.0%

The 2014 rates are proposed to increase as shown in the table below. Note that even though revenue needs have not increased for 2014, rates have increased on a per unit basis due to adjustments to the actual number of accounts available to collect the required fees:

Table 2B

<i>Stormwater Flat Rate</i>	<i>2013 Rate</i>	<i>2014 Proposed Rate</i>	<i>Rate Change</i>	<i>Change (%)</i>
Residential/year	\$52.35	\$57.34	\$4.99	9.5%
Residential/month	\$4.36	\$4.78	\$0.42	9.5%
Non-Residential/year	\$738.33	\$755.57	\$17.24	2.3%
Non-Residential/month	\$61.53	\$62.96	\$1.23	2.3%

2014 FINAL BUDGET

January 20, 2014

- 7 -

Report No. IES14-007

LINK TO STRATEGIC PLAN

Strategic Plan Goal of Supporting an Exceptional Quality of Life for All

Objective 2: Invest in Sustainable Infrastructure

Both legislation and fiscal management lead to creating sustainable water, wastewater and stormwater infrastructure. Providing the appropriate rates ensures that sufficient revenues are generated to create financial sustainability and maintain the assets accordingly.

ALTERNATIVE(S) TO THE RECOMMENDATIONS

The rates for the various services are established each year based on coming into effect May 1 of the current year and are applied to all consumption, regardless of reading interval, on all billings prepared and issued on or after May 1. Approval of the recommendations in advance of May 1 will allow the revised rates to be charged at the appropriate time to fulfill budget projections.

FINANCIAL IMPLICATIONS

The Water and Wastewater rates are both based on the volume of water purchased by the end users. The Stormwater Rates are based on an apportioned cost per property that receives a water bill for the cost of maintaining the stormwater system. The following table summarizes the net revenues required to fund the various programs for 2014.

Table 3A- Revenue Forecast

<i>Component</i>	<i>2013 approved</i>	<i>2014 Proposed</i>	<i>Change</i>	<i>Change (%)</i>
Water	\$7,824,088	\$8,328,974	\$504,947	6.5%
Wastewater	\$6,647,055	\$7,125,076	\$478,021	7.2%
Stormwater	\$1,313,000	\$1,313,000	\$0	0%
Total	\$15,784,143	\$16,767,050	\$982,968	6.2%

The proposed rates will result in an average annual residential consumer charge as outlined in the following table and is based on a baseline consumption of 245 m³/year:

2014 FINAL BUDGET

January 20, 2014

- 8 -

Report No. IES14-007

Table 3B- Cost per average household

<i>Component</i>	<i>2013 Average Billing</i>	<i>Change</i>	<i>2014 Proposed Average Billing</i>	<i>Change (%)</i>
Water Charge	\$394.16	47.21	\$441.37	11.97%
Wastewater Charge	\$336.12	38.41	\$374.53	11.43%
Stormwater Charge	\$52.35	\$4.99	\$57.34	9.5%
Total	\$782.63	\$159.55	\$873.24	11.58%

The gross program costs are the total approved expenditures for each of the three rate supported programs and are presented in the following table:

Table 3C- Gross Program Costs

<i>Component</i>	<i>2013 approved</i>	<i>2014 Proposed</i>	<i>Change</i>	<i>Change (%)</i>
Water	\$8,231,028	\$8,645,975	\$414,947	5.0%
Wastewater	\$6,938,429	\$7,484,076	\$545,647	7.9%
Stormwater	\$1,372,667	\$1,421,608	\$48,941	3.6%
Total	\$16,542,124	\$17,551,659	\$1,009,535	6.1%

Additional Budget Item for 2014

In 2013, Council approved tender IES2013-072, Remedial Works to Reduce Inflow and Infiltration in the Wastewater Collection System within the Town of Aurora in the favour of Liquiforce in the amount of \$473,008.06 excluding taxes. This project was unable to start until the Regional approval was received for the 2C Inflow and Infiltration work plan, which identified works that the 2C developers were funding in exchange for sewage allocation. This approval was received in December 2013.

To address this project, Finance staff are recommending that \$474,000 from 2013 Budget year be allowed to go to Surplus distribution, with a 2014 Budget Item added in the same amount, to be funded from the Surplus distribution to complete the approved project.

CONCLUSIONS

The water, wastewater and stormwater programs are all funded through a rate structure based on consumption and full cost recovery. The budget for 2014 results in an overall increase of 11.58 percent for a typical residential customer. All rates are forecast to be in effect May 1, 2014 until April 30, 2015. Billing of these rates is subject to timing of billing cycles with new rates coming into force for the same period for each account. Further clarification of billing cycles and timing can be obtained from the Finance Department.

PREVIOUS REPORTS

None

ATTACHMENTS

N/A

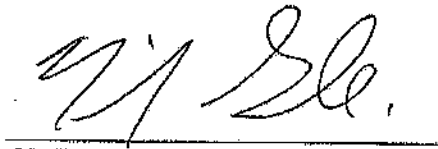
PRE-SUBMISSION REVIEW

CAO and Treasurer review, January 15, 2014.

Prepared by: Ilmar Simanovskis, Director, IES - Ext. 4371



Ilmar Simanovskis
Director, Infrastructure &
Environmental Services



Neil Garbe
Chief Administrative Officer

