

THE REGIONAL MUNICIPALITY OF NIAGARA

COMMITTEE OF THE WHOLE

REPORT COTW 10-2010

The Municipal Council of the Regional Municipality of Niagara met in Committee of the Whole in the Council Chamber, Regional Municipal Building, Thorold, Ontario, on Thursday, July 22, 2010 commencing at 6:30 p.m.

These are the individuals who were in attendance during the Open Session of the Committee of the Whole meeting:

ATTENDANCE

Council: Regional Chair Partington; Councillors; Augustyn; Badawey; Baty; Bentley; Burroughs; Cordiner; Garcia; Goulbourne; Greenwood; Heit, Lepp; Marshall; McMullan; Puttick; Rigby; Salci; Saracino; Smeaton; Timms.

Staff: Messrs. Brothers, Commissioner, Public Works; Hutchings, Commissioner, Community Services; Diakow, Director, Director, IT Solutions; Weaver, Director, Community & Corporate Planning; Ms. Matthews- Malone, Director, Water & Wastewater Services; Messrs. Lockyer, Interim Associate Director Financial Research & Strategy/Treasurer; Weir, Director, Administration; Steele, Associate Director, Business Management Strategies; Janas, Associate Director, Water & Staff Development; Ms. Williams, Senior Financial Analyst; Ms. Andersen, Communications Specialist; Ms. Papaiz, Associate Director, Communications; Mr. Bain, Regional Clerk; Ms. Reilly, Legislative Assistant.

Others: Mike Price, Mike Price & Associates.

CALL TO ORDER

72. Regional Chair Partington called the meeting to order at 6:30 p.m.

OPENING REMARKS

73. Regional Chair Partington

Regional Chair Partington advised that this special session of the Committee of the Whole was established to provide an update on the ongoing study of the Water and Wastewater Rate Setting and Billing Methodology applied at both the Regional and Local Area Municipality levels. Council approved this rate setting review by approving Report CSD 131-2009 and PWA 104-2009, which further requested that Memorandums of Understanding be drafted for consideration at both the Regional and Local Municipal level to undertake this review. Staff will be presenting the status of this methodology review, the issues that have been identified in limiting the financial risk in sustaining viable utility operations in the water/wastewater sector, and draft recommendations for Committee's discussion and input.

This strategic session is intended to provide a full update and seek Committee's input prior to the completion of the final report on Water and Wastewater Rate Setting and Billing Methodology, which will be forthcoming for consideration in early September of this year.

The Commissioner will provide opening remarks and context for this evening's presentations by staff, with presenters Gord Lockyer, Treasurer, and Betty Matthews-Malone, Director of Water & Wastewater Services.

74. Ken Brothers, Commissioner, Public Works

Mr. Brothers advised that the Water and Wastewater Rate Setting Methodology Study, approved last fall, commenced in the early part of this year. He introduced the Region's consultant, Mike Price of Mike Price and Associates, noting that he facilitated six Water and Wastewater Rate Methodology workshop sessions with Local Area Municipal Public Works Officials and Treasurers. The output of those sessions is consolidated in the staff presentation this evening, and will provide Councillors an opportunity to review the information, rationale and potential outcome of proposed recommendations for roundtable discussions this evening.

The current water rate setting methodology, both at the Regional and Local level, has resulted, in varying degrees, in annual revenue shortfalls, creating year-end budget deficits that have become untenable. The financial sustainability of Niagara's water and wastewater utility operations at both service levels, Regional and Local, needs to be addressed to ensure that rate revenues are achieved in support of approved annual budgets.

The Region has absorbed over \$22 million of revenue shortfalls over the past six years as a result of not obtaining sufficient annual revenue due to a reduction in water consumption. This loss of revenue had to be compensated for by utilizing reserves which had been set aside for capital expenditures. Mr. Brothers commented that establishing water rates, at the area municipal level, that reflect an appropriate balance between fixed and variable cost structures can mitigate water sale revenue shortfalls and also reflect the apportionment of actual fixed costs to the utility operations. A 50/50 cost structure also reflects user responsibility and accountability for water use, ensuring that a sufficient component of the water bill has a water consumption variable component.

Projecting water sales is both a Regional and Local issue. Collectively, the amount of water sales must be projected in a responsible way to ensure revenue requirements are met, and the appropriate rates are set, for water and wastewater revenue collection.

The draft recommendations tabled for discussion this evening, and the supporting presentation by staff will provide an in-depth review of the history, issues arising from the water and wastewater structures we have today, and a balance of pros and cons as we move forward to a proposal for consistent rate methodology and billing structure throughout the Niagara Region.

In closing, Mr. Brothers commented that it is most important to reach a sustainable financial level in utility operations in Niagara. The first step is creating consistent methodology, both at the Local and Regional level, in order to achieve a balance in water use rates and fixed cost apportionment to achieve financial sustainability.

PRESENTATION

75. Update on Water & Wastewater Rate Setting and Billing Methodology Review

Mr. Lockyer, Interim Associate director Financial Research & Strategy/Treasurer, apprised committee of the joint Region and Local Area Municipalities Rate Setting and Billing Methodology Review highlighting the key issues. Mr. Lockyer advised that it is recommended that the Region and Local Area Municipalities work together to forecast future years' water demand starting in 2011; to develop four year water demand projections in order to set the water rate for the next four years and to develop a phase-in approach, if necessary for increased water rates as a result of the lower forecasted water volumes. In respect to timing, it is recommended that the Local Area Municipalities meet with the Region to share their water demand projects and data related to forecasting in September and October of each year. The Region will set the following year's water rates/sewer requisition before the end of the current year (January after an election year).

Mr. Lockyer highlighted the methodology for the setting of the Wastewater and Water Requisitions. Following review of the current “100% fixed” methodology, the Joint Committee recommended that the Region continue with 100% of the wastewater budget being a fixed requisition to the Area Municipalities based on their average wastewater flows to the Region over the previous three years. In setting the Region’s Water Rate, the following draft recommendations were provided:

- Region will use 50% fixed requisition and 50% variable rate for the water supply.
- For the fixed water requisition:
 - Half of the Region’s water budget will be billed in 12 equal payments to the Area Municipalities based on their previous three year’s average water supply volumes
- For the variable water rate:
 - 50% of the Region’s water budget will be divided by the estimated supply volume to determine the rate. The variable amount will be billed monthly based on the previous month’s metered flows to each Area Municipality.

Ms. Matthews-Malone, Director, Water & Wastewater Services, highlighted the Local Area Municipalities billing approaches noting that there is an array of recovery methodologies across Niagara’s municipalities. A chart was provided comparing each municipality’s “Fixed Base Charges” based on a residential customer. The Director outlined the implications of inconsistent rate setting at the Area Municipality Level and presented the following summary of draft recommendations:

- Area Municipalities will work towards a consistent approach to their Water & Wastewater cost recovery by targeting approximately 50% of their Water & Wastewater budgets to be recovered through the fixed water meter charge and the remaining revenue for Water & Wastewater will be collected based on a variable rate per cubic metre of water used multiplied by the water meter reading.
- The Area Municipalities will work towards setting their 2011 rates using the new approach and implement this structure based on the Region’s four year rate projections.

Ms. Matthews-Malone outlined the implications of inconsistent fixed service charges and Meter Multipliers. The Director commented that the Meter Multiplier is an appropriate way of ensuring that the fixed service charge is allocated fairly to all classes of customer (ICI & Residential). The following draft recommendations related to Meter Multipliers were presented:

- Local Area Municipalities will implement the meter multiplier principle for all their customers using meters 25mm (1 in.) or greater and will also
- Conform to the latest American Water Works Association recommended values.

To describe the combined effect of the above recommendations, a chart depicting "Order of Magnitude" Comparison of existing to possible fixed rates under the draft recommendations was presented. Ms. Matthews-Malone commented that there is no question that in vetting the 50% fixed charge for water and wastewater at the local level that the analysis would need to be undertaken by each of the municipalities. The Director also presented the Pros and Cons of the proposed recommendations.

Ms. Matthews-Malone described what a Rate Stabilization Reserve is, noting that the reserve is intended to put money in the reserve during the years where revenues exceed expenditures but then be in place to fill the void left when revenues fall short of required expenditures.

The following summary of recommendations re: Rate Stabilization Reserves was presented:

- The Region and Local Area Municipalities agree to work together to establish Wastewater and Water Rate Stabilization reserves, in each municipality, that target 5 to 10% of the annual revenue as the ideal Reserve balance.
- Funded to be accomplished by annual allocation in budgets and/or through any surpluses in one year being set aside for future year revenue shortages.

The importance of a good communications plan was discussed and the following draft recommendation presented:

- Communication plan to be developed and implemented collaboratively between Region and Local Area Municipalities, identifying vehicles and channels (e.g. websites, water bill inserts, print materials, advertising, etc.) to educate and inform residents about Water & Wastewater rates.

The following "Next Steps" were presented:

- Finalization of Recommendations based on Committee of the Whole feedback.
- Regional Council approval of Recommendations for 2011 Requisition & Rate Setting.
- Local Municipal approval of Recommendations.
- If approved, start process for 2011 rate setting
 - Demand forecasting to start September
 - Phasing strategy
 - Develop and implement communications plan

(A copy of the "Update on Water & Wastewater Rate Setting and Billing Methodology Review" presentation is attached to the minutes.)

Following the question and answer period regarding the presentation, staff confirmed that a report on the Water and Wastewater Rate Methodology will be presented for consideration in September.

ADJOURNMENT

The Committee of the Whole meeting adjourned at 9:15 p.m.

Peter Partington
Regional Chair

Gail Reilly
Legislative Assistant

Kevin Bain
Regional Clerk