

## CITY OF NORTH BAY

### REPORT TO COUNCIL

Report No: CORP 2007- 166

Date: October 29, 2007

Originator: Brian Rogers / Lorraine Rochefort

Subject: Water and Sanitary Sewer Rates - 2008

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#### RECOMMENDATIONS:

- 1. That, in accordance with the direction contained in the Sustainable Water and Sewage Systems Act, 2002, the current policy of recovering all water and sanitary system operating, capital and financing costs from user rates be maintained.**
  - 2. That the Water Rates By-Law 2007-37 be amended by increasing all water rates by 4.6% effective January 1, 2008.**
  - 3. That the sanitary sewer surcharge remains at 106% of water charges.**
  - 4. That the Water Filtration Capital Surcharge authorized in clause 3.e) of By-Law 2007-37 be reduced from 12% to 10% of the gross water component of water accounts effective January 1, 2008.**
  - 5. The net increase on a typical flat rate residential account would be 3.8% or \$2.02 per month.**
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#### BACKGROUND:

The last review of water and sanitary sewer rates was completed during the 2007 Operating Budget review at which time the water and sanitary sewer rates were increased by 9.0% effective March 1, 2007, with the passing of By-Law 2007-37 on March 5, 2007.

Prior to 1998, only a part of the costs of the water and sanitary sewer systems were recovered from user rates. The costs not recovered from user rates were levied against taxpayers in the Urban Service Area. In 1998, City Council adopted a full cost recovery policy for the water and sanitary sewer systems, established a Water and Sanitary Sewer Reserve Fund and authorized the Chief Financial Officer to transfer any year-end surplus (or deficit) generated by water rates and or the sewer charge to (or from) this reserve fund. This reserve fund had a balance of \$1,122,638 at the beginning of year 2007.

The water and sanitary sewer system operations is projected to end the year 2007 with a deficit of \$369,998 resulting from higher maintenance and restoration costs and slightly lower revenues generated. In accordance with the existing policy, the 2007 deficit will be funded from the reserve fund. The reserve fund balance at the end of 2007, after offsetting the projected deficit, is estimated to be \$811,000.

The 2008 Operating Budget for the water and sewer system as presently recommended would require an overall increase of \$662,500 or 4.6% resulting from:

Investment in infrastructure replacement program (Inflationary increase only)	\$177,500
Inflationary increase in repairs and maintenance (adjusted for 2007 experience of 9.5%)	\$384,500
Inflationary increase in cost of Ontario Clean Water Agency contract of 2.3%	70,000
Inflationary increase in Administration Costs of 2.7%	\$30,500

This 4.6 % recommended increase in water rates will result in generating revenues required to offset estimated water and sanitary sewer systems expenditures for the year 2008, leaving only an additional \$137,120 in contingency or to top up the reserve fund. This together with the 2% reduction in the Water Filtration Surcharge, results in a net increase on a typical flat rate residential bill of 3.8%.

The majority of the approximately 13,800 residential water users (including duplexes) are billed on a flat rate structure, which has a fixed component and a variable component based on number of water fixtures. About 10,300 residential 'flat rate users' are billed every four months, in the month following the period. About 3,700 residential 'flat rate users' have chosen a pre-authorized monthly payment option.

A typical monthly residential flat rate water/sewer bill would increase by \$2.02 (from \$53.84 to \$55.86) per month calculated as follows:

Description	Current	Proposed
Basic charge, each dwelling unit	\$10.57	\$11.06
Three piece bathroom		
- toilet	2.76	2.89
- washbasin	1.23	1.29
- bath/shower	2.76	2.89
Two piece bathroom		
- toilet	1.23	1.29
- washbasin	0.63	0.66
Laundry outlet	2.76	2.89
Hose outlet	2.76	2.89
<b>Total Water Charge</b>	<b>24.70</b>	<b>25.86</b>
Water Filtration Plant Capital Surcharge ( 12.0%/10% of Total Water Charge)	2.96	2.59
Sanitary Sewer Surcharge at 106% of Total Water Charge (excluding Capital Surcharge)	26.18	27.41
<b>Total Monthly Water Bill</b>	<b>\$53.84</b>	<b>\$55.86</b>

There are approximately 1,385 metered commercial, industrial and multi-residential accounts that are billed monthly, based on consumption. Each account currently pays a basic fixed rate of \$3.51 per residential unit or commercial/industrial account. This basic fixed rate would increase to \$3.67, adjusting for a 4.6% increase. There is a minimum bill component of 20.29 for consumption up to 6,000 gallons; this would increase to 21.22 adjusting for the 4.6% increase. Minimum rates per month also apply. The current minimum monthly rate for a metered account with one unit is \$51.89. This minimum monthly rate would increase to \$53.77, adjusting for a 4.6% increase and the 2% decrease in the Water Filtration Surcharge.

Metered consumption charges would be based on the following rates:

<b>Line</b>	<b>Description</b>	<b>Current</b>	<b>Proposed</b>
1	Basic charge, each dwelling unit / account	\$3.51	\$3.67
2	Minimum bill up to 6,000 gallons	20.29	21.22
3	For the first 50,000 gallons (per 1,000 gallons)	3.21	3.36
4	For the second 50,000 gallons (per 1,000 gallons)	2.94	3.08
5	On the balance	2.46	2.57
6	Water Filtration charge Percentage of Lines 1 & 2	12.0%	10.0%
7	Minimum monthly rate (including Water Filtration)	\$51.89	\$53.77

Metered water billings are completed by the 10<sup>th</sup> of each month for the previous month's consumption. Pre-authorized monthly payments are processed about the 27<sup>th</sup> of each month for that month.

The City of North Bay continues to enjoy one of the lowest water and sanitary sewer rates for residential households in the Province of Ontario. The following are excerpts from a survey of 80 Ontario Municipalities conducted by BMA Management Consulting Inc., for the year 2006:

- 10 municipalities reported rates lower than the City of North Bay
- 69 municipalities reported rates higher than the City of North Bay
- average cost per residential household of 80 municipalities surveyed was \$756
- City of North Bay's cost per residential household is \$554

It is recommended that all rates be adjusted as at January 1, 2008. The new rates would then impact the flat rate monthly pre-authorized accounts in January 2008. Metered accounts would pay the new rates starting with the February billing. Flat rate accounts that pay every four months would not see the new rates until the March 2008 billing which would include two months at the old rate (for November and December) and two months at the new rate (for January and February). The by-law will be brought forward to the December 17, 2007 Council Meeting, reflecting increased rates effective January 1, 2008. Implementing the rate increase January 1 instead of March 1 will generate an additional \$110,000 in revenue during the fiscal year and moderates the need for a larger rate increase.

Ontario Regulation 244/02 made under the *Municipal Act, 2001*, sets out conditions that apply to municipalities imposing fees or charges for the use of a waste management system, for the use of a sewage system or the consumption of water as follows:

**Conditions:**

- Amount of fees or charges shall not exceed the cost of providing the system.
- A by-law, if not repealed earlier, expires on December 31 of the following year. Thus, any by-law passed during 2008 will expire December 31, 2009. Amendments to the by-law do not affect the expiry date.
- The City must hold at least one public meeting and allow any person attending to make a presentation. This meeting is being scheduled for Monday, December 10 at 7:00 p.m.
- The City must give a minimum of 21 days notice of the public meeting.  
Notice will be published in the Nugget on November 10 and November 17 of a public meeting to be held on December 10 at 7:00 p.m.
- The City must give written notice to anyone requesting notice within the last five years.
- Prior to adoption of a by-law, the City must make available information regarding description of the service, the cost of the service, the amount of the fees or charges and the rationale for imposing the charge.

City Council has adopted a policy of recovering all water and sanitary sewer operating, capital and financing costs from user rates. Our budget disclosure in recent years and the current Water Rates By-Law 2007-37 satisfies the new requirements contained in the *Sustainable Water and Sewage Act, 2002 and the Municipal Act, 2001*.

A Universal Water Metering Report was brought forward to Council on December 6, 2004, which recommended the implementation of a Universal Water Metering Program within a three to five year time frame.

Resolution No. 2007-460 was passed by Council at its Regular Meeting held Monday, June 25, 2007 as follows:

“That staff be directed to develop a Request for Proposal to hire a firm to develop a long - term Universal Metering Strategy and source out all funds and options available for installation and financing.”

The Request for Proposal closed on September 19, 2007 and a Report will be brought forward to Council on November 5, 2007.

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**OPTIONS / ANALYSIS:**

**Option 1 – No Rate Increase:**

- 1) Assumes budget being recommended to the Engineering and Works Committee
- 2) Assumes no water or sanitary sewer rate increases in 2008

- 3) Without rate increase, projected deficit for 2008 would be \$524,880
- 4) Projected deficit of \$524,880 would use most of reserve fund balance estimated at \$286,000 by the end of 2008, and
- 5) Could require a Special Urban Area Tax Levy to recover any higher deficit that might materialize during the year.
- 6) Would not comply with the current full cost recovery policy
- 7) Would not comply with the requirements contained in the *Sustainable Water and Sewage Systems Act, 2002* or the *Municipal Act, 2001*

**This option is not recommended.**

**Option 2 – 4.6% Rate Increase Effective January 1, 2008**

- 1) Assumes budget being recommended to the Engineering and Works Committee
- 2) Assumes a 4.6% water rate increase effective January 1, 2008, and a concurrent increase in the revenue generated by the existing 106% sanitary sewer rate
- 3) 4.6% rate increase would allow for a breakeven budget for 2008
- 4) Balance in reserve fund is estimated at \$1,259,000 by the end of 2008
- 5) Would not require a Special Urban Area Tax Levy
- 6) Would comply with the current full cost recovery policy
- 7) Would comply with the requirements contained in the *Sustainable Water and Sewage Systems Act, 2002* and the *Municipal Act, 2001*

This would leave the reserve fund balance a level equal to about 8.0% of the operating budget expenditures. This provides only minimal protection from unexpected costs arising from water main and sanitary sewer breaks and frozen pipes.

**This option is recommended.**

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**RECOMMENDED OPTIONS / FINANCIAL IMPACTS:**

1. That, in accordance with the direction contained in the *Sustainable Water and Sewage Systems Act, 2002*, the current policy of recovering all water and sanitary system operating, capital and financing costs from user rates be maintained.
  - The *Sustainable Water and Sewage Systems Act, 2002* requires that this policy be in effect for all municipal water and sanitary sewer systems in Ontario.
2. That the *Water Rates By-Law 2007-37* be amended by increasing all water rates by 4.6% effective January 1, 2008.

- To ensure compliance with the Sustainable Water and Sewage Systems Act, 2002, and the Safe Drinking Water Act, 2002, the Water and Sanitary Sewer Operating Budget, as being presented at the budget meeting on December 2007, is recommended to be adopted. The 4.6% increase is required to ensure that all costs are recovered from user rates and reasonable Water and Sanitary Sewer Reserve Fund is maintained. The projected reserve fund balance at December 31, 2008 would be approximately \$1,259,000, which is about 8.0% of the Water and Sanitary Sewer Operating Budget.
  - The resultant increase on a typical residential flat rate water bill would be \$2.02 per month. The new typical monthly residential flat rate water bill would be \$55.86 and at \$670 annually is still lower than the average 2006 rates reported in the 2006 BMA Municipal Study.
3. That the sanitary sewer charge remains at 106% of water charges
- There is no need to reconsider the relative level of the sanitary sewer charge at this time.
4. That the Water Filtration Capital Surcharge authorized in clause 3.e) of By-Law 2007-37 be reduced from 12% to 10% of the gross water component of water accounts.
- This would generate about the same level of funding as in 2006 and would be sufficient to fund the annual principal and interest charges on the debenture debt scheduled to be issued by the end of 2007 for the Water Filtration Plant currently under construction.
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Respectfully submitted,

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Brian Rogers, C.A.  
Chief Financial Officer

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Lorraine Rochefort, AMCT  
Manager of Revenues and Taxation

I concur in this report and recommendation.

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David Linkie  
Chief Administrative Officer

Personnel designated for continuance: Manager of Budgets

Attachments: Water and Sanitary Sewer Reserve Fund - Summary for the Years 2000 to 2007  
Water and Sanitary Sewer System – Budget Summary