



## STAFF REPORT

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**Meeting Date: November 12, 2024**

**Title: Water and Sewer Rate Increase - 2025**

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**Department:** Finance

**Report Number: Finance-2024-035**

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### **Recommendation:**

**THAT Council approves an increase of 6.3% to the water and sewer billing rates effective December 31, 2024; and,**

**THAT Council approves the required amendments to the corresponding Chapters of the Municipal Code and By-Law accordingly.**

### **Background:**

On January 20th, 2011 the City of Dryden was successful in obtaining a provincial license for the municipal drinking water system as per the Safe Drinking Water Act, 2002.

One of the mandatory provisions of the Act was the preparation of a Financial Plan. The regulation 453/07 contains several key provisions concerning the Financial Plan:

- It must be approved by Council.
- It must apply to a period of at least six years.
- It must contain the following details for the drinking water system as set out in Section 3 (4):
  - i) The plan must include a statement that the financial impacts have been considered.
  - ii) The projected financial operations itemized by revenues, expenses, surplus/deficit, and accumulated surplus/deficit for each year of the plan.

- iii) The plan must be available to the public either upon request or on a website at no charge.

On June 16th, 2011 BMA Management Consulting was awarded the Water Rate Study/Billing Model and the Water Operations Financial plan. On April 12th, 2012 the first draft plan was received. After several reviews and revisions, the final plan was presented to council and approved on October 15, 2012. Highlights from the 2012 financial plan include:

- City of Dryden has \$16.2 million in water assets that have an estimated replacement cost of \$51.0 million.
- The City of Dryden has not replaced assets on a predicted timeline resulting in a \$6.2 million backlog.
- The present water reserve account is approximately \$110,000.
- This plan will create over \$6.7 million for capital over 2013-2018 which will address the backlog and existing infrastructure needs and will build the reserve to the appropriate level.
- The plan recommends a 6% fee increase annually for the next 6 years.

Meters were first introduced with Shadow Bills starting in November 2012, with the City adopting a uniform model of billing.

BMA Consulting recommended increasing water rates over the amounts used for shadow billing purposes by a range of 0.8% to 4.1%, so in May 2013 city staff made a recommendation to increase rates as suggested. The recommended increases assumed that the consumption of ratepayers would decline by an additional 5% to 10% once metered billing commenced. It was noted at that time that water consumption declines could exceed the 10% level. Council at that time declined to accept BMA Consulting's recommendation, and metered billing was implemented at the same rates in effect during the shadow billing process. There was not an increase in 2013.

At year-end in 2013, there was a shortfall in Water & Sewer revenues compared to budget (\$234K shortfall). As a result, in February 2014 staff recommended a 10% increase which was passed by Council and implemented.

The Long-Range Financial Plan was updated by BMA Management Consulting in 2015. After several reviews and revisions, the final plan was presented and approved by Council in June 2015. Highlights of the updated plan include:

- City of Dryden has approximately \$16.0 million in water assets that have an estimated replacement cost of \$61.4 million.
- There are currently insufficient transfers to the capital program to achieve full lifecycle replacement of these assets.
- The Water Reserve Account anticipated balance by the end of 2015 should be approximately \$2.9 million (actual YE balance was \$982K).

- The estimated capital requirements from 2016-2021 (forecast period of 6 years) based on replacement costs and useful life is \$7.5 million to support water assets. By 2021 the annual average of \$1.5 million in capital will be approximately equivalent to the replacement amortization.
- The plan recommends a 4% fee increase annually for the next 6 years.

In 2016, Public Sector Digest was contracted to update the City's Asset Management Plan (AMP). In August 2017, the updated AMP was presented to Council. Highlights from the AMP include:

- The Municipality's water system assets are valued at \$51.5M based on 2016 replacement costs.
- Based on age-based data, 16% of water system assets are in good to very good condition, while 74% (with a valuation of \$38M) are in poor or very poor condition.
- Estimated backlog, the aggregate investment in infrastructure that has been deferred over previous years was \$22M for water system assets.
- The Municipality's spending requirement for our water system totaled \$2.35M/year. At this level, we would meet our replacement needs without deferring projects and increasing the infrastructure deficit.
- A 4.1% annual rate increase was recommended for the next 15 years to address the water system's asset needs.
- The Municipality's sanitary services assets are valued at \$64M based on 2016 replacement costs.
- Based on age-based data, 61% of sanitary services' assets are in good to very good condition, while 32% (with a valuation of \$20.7M) are in poor or very poor condition.
- Estimated backlog, the aggregate investment in infrastructure that has been deferred over previous years was \$3.2M for sanitary services assets.
- The Municipality's spending requirement for our sanitary services totaled \$1.64M/year. At this level, we would meet our replacement needs without deferring projects and increasing the infrastructure deficit.

In preparation for the 2019 Budget, staff presented to Council details showing that for the past 3 years (2016, 2017 and 2018) actuals water and sewer revenues had fallen short from budgeted levels. For the 2019 water and sewer revenue budgets to remain at targeted levels, staff recommended a 5% increase which was passed by Council and implemented.

The Long-Range Financial Plan was updated by BMA Management Consulting in 2020. The final plan was presented and approved by Council in May 2020. Highlights of the updated plan include:

- City of Dryden has approximately \$16.7 million in water assets that have an estimated replacement cost of \$51.5 million.

- There are currently insufficient transfers to the capital program to achieve full lifecycle replacement of these assets.
- The Water Reserve Account had a 2019 year-end balance of approximately \$37K, a significant decrease from the 2015 balance of \$982K.
- As was recommended in the last financial plan, the strategy is to gradually increase contributions to the reserves to develop a financially sustainable base upon which assets and infrastructure can be replaced on a timely basis.
- The estimated capital requirements from 2021-2026 (forecast period of 6 years) based on replacement costs and useful life is \$6.0 million to support water assets.
- The plan recommends a 6.3% fee increase annually for the next 6 years.

In 2023, Hemson Consulting Ltd. was contracted to update the City's Asset Management Plan (AMP), ensuring compliance with provincial regulations (Ontario Regulation 588/17). In June 2024 the updated AMP was presented to Council. Highlights from the AMP include:

- The Municipality's water assets have a replacement cost of \$136.8M (2023 \$s).
- The overall state of the Water infrastructure was deemed to be in "Poor" condition.
  - 9% (\$11.8M) in "Very Good" condition
  - 21% (\$28.6M) in "Good" condition
  - 10% (\$13.8M) in "Fair" condition
  - 14% (\$19.9M) in "Poor" condition
  - 46% (\$62.7M) in "Very Poor" condition
- Overall, \$39.98M of the Water system assets are overdue by virtue of their design life.
- The Municipality's Wastewater assets have a replacement cost of \$192.3M (2023 \$s).
- The overall state of the Wastewater infrastructure was deemed to be in "Fair" condition.
  - 39% (\$75.7M) in "Very Good" condition
  - 19% (\$36.4M) in "Good" condition
  - 11% (\$20.3M) in "Fair" condition
  - 6% (\$11.2M) in "Poor" condition
  - 25% (\$48.7M) in "Very Poor" condition
- Overall, \$55.4M of the Wastewater system assets are overdue by virtue of their design life.
- It was noted that the current revenues are insufficient to cover the projected required lifecycle costs (est. at \$538.2M) over the next 40 years (planning period).
- Financial Strategy Options were:
  - \$132,800 (2023 \$s) annual capital spending increase from 2024-2062
    - Closes in-year funding gap by 2062
    - Infrastructure deficit continues to grow (slowing pace), with progress on reducing the infrastructure deficit starting in 2063

- \$187,250 (2023 \$s) annual capital spending increase from 2024-2052
  - Closes in-year funding gap by 2052
  - Infrastructure deficit continues to grow (slowing pace), with progress on reducing the infrastructure deficit starting in 2053
- \$510,000 (2023 \$s) annual capital spending increase from 2024-2064
  - Eliminates the water and wastewater infrastructure deficit by 2064

### **Discussion:**

Since 2012, long range financial plans (O. Reg 453/07 Financial Plan and Asset Management Plans) have called for annual rate increases. However, since 2012, there have been only four years with rate increases; a 10% increase applied in 2014, a 5% increase applied in 2019, a 10% increase applied in 2022, and a 6.3% increase applied in 2024. The 2014 and 2019 increases were based on budgeted revenue shortfalls.

Prior to 2021, the City needed to pool all revenue sources to address the financial impacts associated with the Dryden Mobility Expansion Project, so it did not make sense for the City to follow the long-range financial plans until such time that the City was in a financial position to have water and sewer rate revenues solely supporting water and sewer related Operating, Capital, and Reserve allocations (no longer pooling those revenues for other Departmental use).

Starting in 2021, with the Mobility debt paid off, the City no longer required the pooling of water and sewer rate revenues, and those revenues could then solely support the water and sewer distribution systems.

Due to the impact of the COVID-19 pandemic on Dryden's residents, Council deferred a rate increase for 2021 but approved an increase in 2022 to better align the water and sewer rates with the approved Long-Range Financial Plan.

With the implementation of the Infrastructure Renewal Fee for Unconnected Lots, Council did not approve an increase to water and sewer rates in 2023.

Aligning with the approved Long-Range Financial Plan, a 6.3% rate increase was approved in 2024

To continue to align with the approved Long-Range Financial Plan, a 6.3% rate increase is required in 2025. The 6.3% increase would enable the City to cover all water and sewer operational budget requirements, 2025 required water and sewer capital expenditures, and modest allocations to the Waterworks and Sewer/Wastewater Reserve Funds.

The Waterworks Reserve Fund's estimated year-end balance is ~\$690,000, with a targeted level of \$2,600,000.

The Sewer/Wastewater Reserve Fund’s estimated year-end balance is ~\$40,000, with a targeted level of \$1,300,000.

Please note that there is no change recommended to the Infrastructure Renewal Fee for Unconnected Lots monthly charge, the 6.3% increase would not apply to this fee.

Option for Consideration:

The City has received feedback from residential property owners that an inequity exists with the fixed component of water/sewer bills between single family homes and multi-residential properties.

Water meter fixed rates - charged monthly based on meter size as indicated in the table below:

<b>Meter Size</b>	<b>Monthly Rate</b>
5/8"	\$ 35.79
5/8 x 3/4"	\$ 35.79
3/4"	\$ 39.37
1"	\$ 50.11
1.5"	\$ 64.42
2"	\$ 103.79
3"	\$ 393.67
4"	\$ 501.02
Pit Meters	Double the monthly rate as determined by meter size

Most Residential properties are serviced with a 5/8" meter size.

Most Multi-Residential properties are serviced with a 1.5" meter size.

To address the inequity, Council could approve implementing a rate for Multi-Residential, with the rate being based on the number of units serviced by the Meter.

The By-Law Table could be amended with the following addition:

Multi-Residential	Monthly rate as determined by 5/8" meter size rate multiplied by the number of units serviced at the property
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Implementation of a new Multi-Residential water and sewer fixed rate based on the number of units would generate an estimated \$170,000 in additional revenue. As a result, an overall water and sewer rate increase would not be required to generate the 2025 revenue numbers required to align with the Long-Range Financial Plan.

**Attachments (Reference Material):**

- **2020 O. Reg Water Financial Plan Dryden**