



Councillor Victor Pietrangelo, Chair
and Members of the Corporate Services Committee
City of Niagara Falls, Ontario

Members:

**Re: CPS-2008-03
Water and Sewer Rate Structure Update**

RECOMMENDATION:

That additional analysis and public consultation should be undertaken to determine what is appropriate for a new water and sewer rate structure.

BACKGROUND:

On April 14, 2008, the Corporate Services Committee received the presentation of the final report by R.M. Loudon Ltd., a consultant engaged to provide a water and sewer rate structure review. Mr. Loudon advised that the review provided principles, a sample of what a different rate structure would look like and a discussion around impacts of changing the rate structure. Following that presentation the Committee directed Mr. Loudon to prepare recommendations for a water and sewer rate structure.

Staff's report addresses the recommendations which have been received and have already been circulated to members of Committee. In total there are nine (9) recommendations as follows;

1. *That the principles checked off below in Column A – User Rate Format Priority, are recommended for adoption with respect to the formulation of the water and sewage rates:*

Working Together to Serve Our Community

Corporate Services Division

Principles	A - User Rate Format Priority	B - Other Methods are More Suitable for Implementation
Revenue adequacy & security	✓	
Legality	✓	
Practicality	✓	
Fairness & User Pay	✓	
Affordability		✓
Simplicity	✓	
Conservation & Water use efficiency		✓
Encourage industrial development		✓

The principles in Column B may also be City priorities, but they are best implemented using other strategies.

Staff Comment

Staff supports the principles shown in the above chart. Staff is satisfied with the cross section of principles and with the rating format. It should be noted that the Fairness and User Pay principle has received more weighting as a result of public forums held in January and attended by approximately 25 members of the public. Staff cautions the Committee that this may not be a satisfactory representation of the rate payers for water and sewer services.

Staff has circulated Mr. Loudon's report dated April 2, 2008 to the Chamber of Commerce and the City's Business Improvement Areas. The Chamber of Commerce, BIA's and others may provide comments to the Committee on May 5, 2008.

2. *That combined water and sewage rates be used to bill customers with City water and sewage services. A separate water-only rate would still be required for water-only customers. A water-only rate with volumetric and service charge components is preferred for the water-only customers, but a water rate expressed as a percentage of the combined water and sewage rates is acceptable if necessary for administrative reasons.*

Staff Comment

The use of separate rates for water and sewer services is intended to ensure that sufficient revenues are received and billed for each of the systems. The combining of the two rates would blend the two systems giving the appearance that water and sewer services are all one system. As Committee is aware the costs for each of these systems drives the revenue generation and therefore the individual rates for water and sewer services.

By combining the rates there would be a difficulty for the ratepayer to determine the cost of water and sewer service. Ratepayers who want the breakdown between water and sewer billing would find it difficult to determine that difference. By

combining the rates it would be difficult to have a rate structure that provided some relief on sewer rates to those who contend that they are using water only. This concern was raised by public forum participants who use water for gardening. Staff's concern is that combining the water and sewer rates would in effect hide the rates.

3. *That a two-part rate format with a single-block volumetric rate and service charges varying by meter size continues, but without the current approach of linking Regional costs to the volumetric rate and City costs to the service charge.*

Staff Comment

There are many rate formats and staff cautions the Committee that there has not been a full examination of the impacts to various ratepayers. The single-block volumetric rate will not promote water conservation and efficiency. Staff would be interested to look at alternative volumetric rates in order to fully explore the impacts that could be favourable to a variety of ratepayers.

Along with the volumetric rate, Staff would like to review how the service charges would vary in terms of other factors. Other factors could be chosen to differentiate between the size of services and thereby impact the amount of fixed charge per meter service.

4. *That the proportion of costs allocated to the volumetric charge be increased to 75% and the proportion of costs allocated to service charges be decreased to 25%. (Note that customers' bills will have varying percentage shares of volumetric charges and service charges depending on volume used by the customer and the customer's meter size.)*

Staff Comment

Staff is very concerned about the allocation of a 75/25 split, for a volumetric rate structure. The report explains what kinds of costs would qualify for a volumetric or a fixed rate. However, this recommendation simply suggests a percentage split of the total costs for both water and sewer systems. Also, the 25% fixed component is below the survey average of 30% that was shown in Mr. Loudon's report. (see Attachment 1, Comparative Charges).

The percent allocation would not be in effect for all ratepayers. Depending on a rate payer's volume, the percentage split in their billing would differ from other rate payers. This example shows the difference for three residential taxpayers.

	<u>17.5 m³/mo.</u>		<u>36 m³/mo.</u>		<u>50 m³/mo.</u>	
	\$	%	\$	%	\$	%
Volume	398	59	842	75	1,138	80
Fixed	<u>278</u>	<u>41</u>	<u>278</u>	<u>25</u>	<u>278</u>	<u>20</u>
Total	676	100	1,120	100	1,416	100

Since most of the total costs are fixed, a move to a 75% volumetric rate increases the risk for revenue adequacy and accuracy. Staff would anticipate multi-year budgets for volumetric rates so that sufficient revenues are collected.

5. *That a phase-in from the current rate formulation to the 25%/75% cost allocation approach over a period of two to three years be considered.*

Staff Comment

Staff supports a phased-in implementation for any change in the rate structure for water and sewer rates. Due to the importance for rate payers to adjust, a new rate structure may take several years to fully implement. In each year Staff will need to evaluate how the change has impacted rate payers, and how it has impacted water and sewer revenues.

6. *That the 25%/75% service charge versus volumetric rate cost split approach be revisited for the 2013 water and sewage user rates.*

Staff Comment

Staff supports the issue be revisited in a five-year time frame, as the last review occurred after a seven-year period which has proven to be too long.

7. *That in recognition of the high cost of supplying water to meet seasonal irrigation demands and to encourage conservation, no special rate or billing concessions be adopted for residential summer increases in usage.*

Staff Comment

A special rate or billing concession was one of the concerns that was loudly presented at the public forum. There must be some attempt to address the concerns of rate payers who are in need of some concession on their sewage billings in the summer season. Staff would explore various rate concessions, while maintaining revenue sufficiency.

8. *That, in order to offset the potential loss in revenue security resulting from a reduction in revenues generated from fixed charges (i.e., a reduced service charge component), projections used to set future user rates be made on a conservative basis and a Rate Stabilization Reserve Fund (RSRF) to cushion against unexpected user rate revenue shortfalls be established and funded. A target level for the RSRF along with a funding approach need to be established.*

Staff Comment

Staff supports the provision of a Rate Stabilization Reserve Fund. With an RSRF the Committee can be assured that any interim revenue shortfalls can be drawn from the fund, and the fund can be replenished by adjusting future rates.

9. *That in general the installation of bulk meters is preferred over individual unit metering by the City for residential multi-unit customers such as condominium corporations and apartment buildings. Multi-unit customers with individual direct connections to City mains and shut-offs at the property line, such as freehold townhouse developments, would continue to have individual City meters.*

Staff Comment

Over the past several years condominium developments have not been restricted to the installation of bulk meters. This has resulted in inequities between condominium corporations. Staff advises that for fairness and user pay there should be special consideration for these billings. In the future, staff advises that

new development or redevelopment of condominium units should be required to use a bulk meter.

Additional Comments

During the presentation made by Mr. Loudon concerns were expressed with the charges for water and sewer that residents in Niagara Falls were paying as compared to other municipalities (see Attachment 1, Comparative Charges). One of the driving factors has been the increases to infrastructure spending that Council has approved to deal with the challenges that the City faced.

In 2000, when metering was introduced, the total funding for water and sewer infrastructure was \$2,720,000. In 2007, the approved funding was \$8,725,000 and increase of 220.7% (\$6,005,000) over the seven year period. (see Attachment 2, Infrastructure Budget) In comparison, if the funding only increased 3% per year, 22.99% over five years, the infrastructure funding for 2007 would have been approximately \$3,345,000 which is \$5,380,000 less than approved. Using the 3% scenario the total water/sewer charges in Niagara Falls for 2007 based on 240 m³/year would have been \$644.

Another factor to consider is the wholesale rates for water and sewer for the Region. For 2007 the water and sewer charges were \$0.5120/m³ and \$0.6130/m³ respectively. Based on 240 m³/year the cost for the Regional charges are \$270. Factoring in the unaccounted for water and extraneous flows entering the sewer systems the amount becomes \$350.

Summary

Staff has reviewed the nine recommendations as prepared by Mr. Loudon in response to Committee's request. The recommendations are a good beginning to focus Committee's attention on this important decision. However, more analysis and public consultation should be undertaken to determine what is appropriate for a new water and sewer rate structure.

Recommended by:



Ken Burden, Executive Director of Corporate Services

Recommended by:



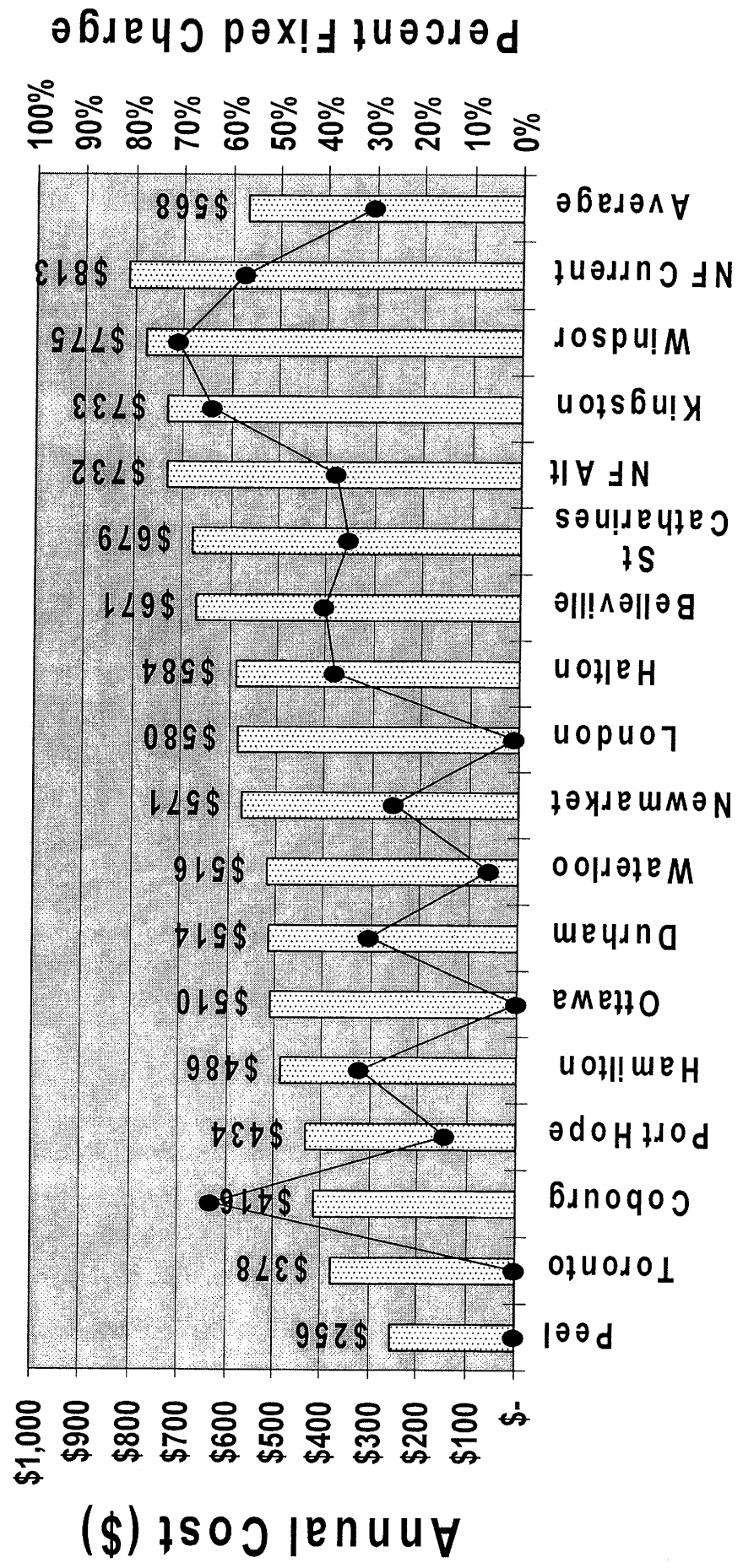
Ed Dujlovic, Executive Director of Community Services

Respectfully submitted:



John MacDonald, Chief Administrative Officer

Comparative Charges (240 m³/yr)



Attachment 2

**INFRASTRUCTURE BUDGET -
UTILITY**

UTILITY	2000	2001	2002	2003	2004	2005	2006	2007
Sanitary Sewer	\$1,300,000.00	\$1,505,000.00	\$1,800,000.00	\$1,975,000.00	\$2,271,250.00	\$2,612,000.00	\$3,300,000.00	\$4,645,000.00
Water	\$1,420,000.00	\$1,900,000.00	\$2,000,000.00	\$2,700,000.00	\$4,101,800.00	\$4,717,000.00	\$4,000,000.00	\$4,080,000.00
TOTAL	\$2,720,000.00	\$3,405,000.00	\$3,800,000.00	\$4,675,000.00	\$6,373,050.00	\$7,329,000.00	\$7,300,000.00	\$8,725,000.00