



2021 Division Road North
Kingsville, Ontario N9Y 2Y9
(519) 733-2305
www.kingsville.ca
kingsvilleworks@kingsville.ca

Date: March 15, 2019
To: Mayor and Council
Author: Ryan McLeod, CPA, CA
RE: 2019 Water & Wastewater Rates
Report No.: FS-2019-07

AIM

To increase municipal water and wastewater rates to ensure sufficient revenue is available to finance the current and long-term needs of the Town's water distribution and wastewater processing systems.

BACKGROUND

Water

The Town's current water rate structure consists of 3 components; a wholesale rate, a distribution rate, and a quarterly capital charge. The wholesale rate is intended to cover the cost of water supplied by the Union Water Supply System (UWSS). The distribution rate funds the municipal water department's operating expenses. The quarterly capital charge is intended to fund future capital projects such as water main replacements.

Wastewater

The Town's wastewater rate structure is currently comprised of a flat rate charge for residential homes and a consumption based charge for multi-residential, commercial and industrial customers. Separate rates are established for each sewage service area based on the operating and capital costs of the area. As the Kingsville and Lakeshore West (KLW) facilities are integrated, these service areas share common rates.

The flat rate and consumption based charges include an allocation for future capital costs. Based on the current sewage rate by-law, 16.5% of sewage revenue is to be allocated to reserves for capital expenditures. The balance of this levy is intended to fund operating expenditures.

DISCUSSION

On March 25, 2019, Council will be provided with an updated Water and Wastewater Rate Study. This study forecasts the capital and operating costs associated with each system for a 10-year period and provides recommendations for establishing rates. This study was prepared to ensure these systems are financial sustainable, where the Town is able to replace its existing infrastructure as required without an over reliance on debt. This study will form the basis for management's recommendations for annual adjustments the Town's water and wastewater rates.

Water

Administration is proposing the following amendments to the Town's current water rates.

| | Current | Proposed | Increase |
|---------------------------------|--------------------------|--------------------------|-------------------------|
| Wholesale Rate (UWSS) | \$0.61 / m3 | \$0.62 / m3 | \$0.01 / m3 |
| Distribution Rate | \$0.34 / m3 | \$0.35 / m3 | \$0.01 / m3 |
| Total | \$0.95 / m3 | \$0.97 / m3 | \$0.02 / m3 |
| Quarterly Capital Charge | \$19.00 / Quarter | \$20.25 / Quarter | \$1.25 / Quarter |

The increase to the wholesale rate is necessary to keep pace with the rates established by the UWSS. On January 16, 2019, the UWSS Board approved a recommendation to increase their water rates to \$0.6197 per cubic metre, effective April 1, 2019.

The increase to the distribution rate is necessary to keep pace with rising operating costs and to protect the municipality from unexpected fluctuations in sales volumes, water losses or maintenance expenses.

The increase to the quarterly capital charge is necessary to ensure sufficient funds are available to replace the Town's existing infrastructure as required.

The proposed rates are consistent with the 2019 Water and Wastewater Rate Study.

Based on a median household consumption of 15 m3 per month, the proposed increases to the Town's water rates will equate to approximate \$0.72 per month for the average household.

Wastewater

In 2018, the Kingsville / Lakeshore West Sewage Facility generated an operating surplus of approx. \$200,000. However, based on the capital forecasts included in the 2019 Water and Wastewater Rate Study, it is apparent that additional revenue will be required to finance capital expenditures over the next 10 years. The study recommends an average annual rate increase of 4% or \$16 / per household, per year, to reach fully sustainable lifecycle funding levels by 2039. Council should note that even with the recommended rate increases, interim financing may be required to address our more immediate capital funding requirements.

In 2018, the Cottam Sewage Facility generated an operating surplus of approx. \$70,000 however, this facility has a \$1.2M deficit from prior year capital improvements which needs to be recovered through ratepayers. The Rate Study recommends annual increases of 4.5% to reduce Cottam's working capital deficit to zero over the next 15 to 20 years.

Based on the 2019 Water and Wastewater Rate Study, Administration is recommending the following changes to the Town's sewage rates for 2019:

| BUILDING | AREA 1: COTTAM FACILITY | | AREAS 2 & 3: KINGSVILLE / LAKESHORE WEST FACILITY | | |
|---|--|--|--|--|---|
| | Current | Proposed | Current | Proposed | |
| Residential | \$85.00 | \$89.00 | \$83.00 | \$87.00 | per quarter per residential unit |
| Multi- Residential, Commercial, Industrial | 130% | 130% | 130% | 130% | of total water charges |
| Greenhouse | \$1.24 | \$1.29 | \$1.24 | \$1.29 | per m3 of sewage discharge |
| Foreign Worker Housing | Occupant Load / 3.2 x \$85.00 | Occupant Load / 3.2 x \$89.00 | Occupant Load / 3.2 x \$83.00 | Occupant Load / 3.2 x \$87.00 | per quarter |

The proposed fee increases to the Town's wastewater rates will result in an additional \$1.33 per month per household.

Wastewater Rate Structure Changes – 2020 and beyond

The 2019 Water and Wastewater Rate Study presents two rate structures for Council's consideration. The current rate structure, as proposed for 2019, consists of a 100% fixed rate charge for residential customers. This rate structure provides residents with

predictability and consistency in their wastewater bills. No matter how much water a household uses, their wastewater charges remain the same.

The downside of this rate structure is that it does not provide residents with any ability to control their wastewater charges. Over the past few years some residents have expressed frustration with this rate structure, particularly those who live alone and use a minimal amount of water and those who only live in Kingsville on a seasonal basis. As steady increases to the base charges over the next decade are evident, the fixed rate structure may also become an affordability issue for some residents.

Appendix A illustrates the difference in wastewater billings for each local municipality based on low (5 m³ / month), median (15 m³ / month) and high (25 m³/ month) consumers.

Administration is seeking Council's direction to adopt the "alternative rate structure" outlined in the 2019 Water and Wastewater Rates Study for the year 2020 and beyond. The alternative rate structure, consisting of a fixed and variable component, will provide residents with more control over their wastewater charges and will help facilitate future rate increases. Early direction is necessary so that Administration can implement the necessary technical changes to our billing software and to effectively communicate the changes to the public. Prior to the adoption of the 2020 rates, Administration will also provide mechanisms, such as wastewater charge limits or 'caps', to address concerns that certain residents may experience significant increases to their wastewater charges due to lawn watering or water leaks.

LINK TO STRATEGIC PLAN

Effectively manage corporate resources and maximize performance in day-to-day operations.

To become a leader in sustainable infrastructure renewal and development.

FINANCIAL CONSIDERATIONS

Based on a median household consumption of 15 m³ per month, the proposed increases to the Town's water and wastewater rates would equate to approximately \$2 per month for the average household with water and wastewater services.

Despite these increases, the average Kingsville household will continue to enjoy the lowest combined water and wastewater rates in the county. See appendix B for a comparison of local municipal water and wastewater rates.

CONSULTATIONS

Tiffany Hong, Manager of Financial Services
Andrew Plancke, Director of Municipal Services
Watson & Associates Economists Ltd.

RECOMMENDATION

Council receive the 2019 Water and Wastewater Rate study.

Council approve the 2019 water and wastewater rates as proposed, effective April 1, 2019

Council approve the implementation of a fixed and variable residential wastewater rate structure for 2020.

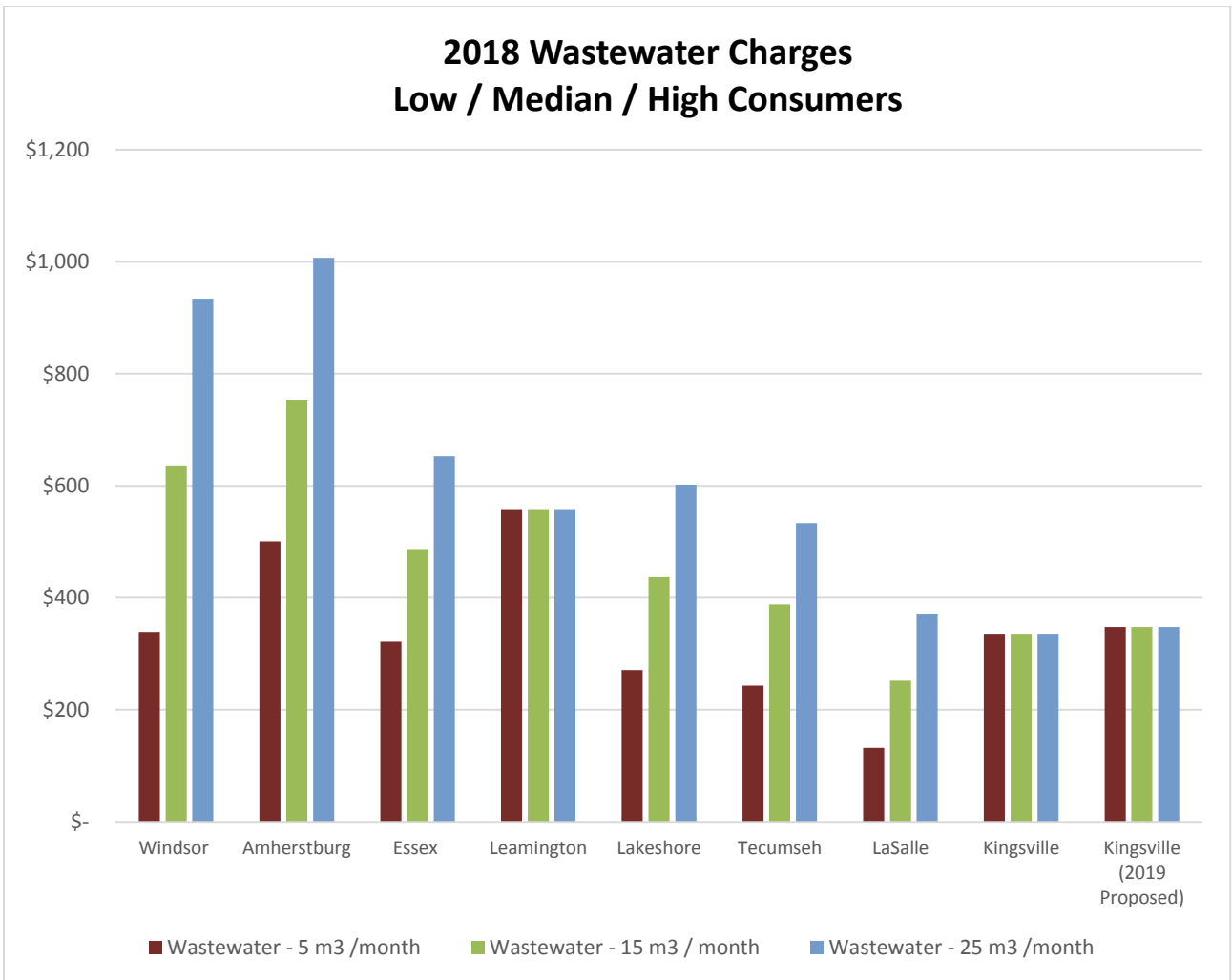
Ryan McLeod

Ryan McLeod, CPA, CA
Director of Financial Services

Peggy Van Mierlo-West

Peggy Van Mierlo-West, C.E.T.
Chief Administrative Officer

Appendix A



Appendix B

