



**Date:** August 12, 2024

**To:** Mayor and Council

**Author:** Ryan McLeod, CPA, CA, Director of Finance/Treasurer

**RE:** 2024 Water Rate Study and Ontario Regulation 453/07: Water Financial Plan

**Report No.:** FS-2024-07

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## **RECOMMENDED ACTION**

That the Town of Kingsville Water Rate Study and Ontario Regulation 453/07: Water Financial Plan, prepared by Watson & Associates Economists Ltd., dated July 2, 2024, be **APPROVED**.

## **BACKGROUND**

The Town of Kingsville retained Watson & Associates Economists Ltd. (Watson) to assist with the preparation of a Water Financial Plan as prescribed by O. Reg. 453/07. This Financial Plan is part of the five key submission requirements for obtaining a municipal drinking water license per the *Safe Drinking Water Act, 2002*. The purpose of the Financial Plan is to help ensure the long-term fiscal sustainability of the Town's water distribution system. This is completed through an in-depth analysis of future operating and capital expenditures, revenue requirements and cash-flow projections.

## **DISCUSSION**

As water services are primarily funded through user fees, a Water Rate Study was prepared to project the rates necessary to fund the operating and capital expenses associated with the Town's water distribution system over the next 10-year period.

The Water Rate Study was based on current operating expenses, capital plans, and the long-term life-cycle obligations projected in the Town's 2023 Asset Management Plan. This study required Administration to make a number of assumptions, including inflation and future water volumes.

The study recommends that the Town will need to increase its water volume and base rates by 3% per year, over the next ten years, to ensure sustainability of the water distribution system. This translates to an increase of \$6.70 - \$8.75 per year, over the

10-year study period, for the average household in Kingsville. Please refer to the executive summary in the Water Rate study for further details.

Council is advised that this Rate Study refers to Town's Distribution System only. The Town obtains its water from UWSS Inc., who is responsible for adopting its own financial plan and rates to ensure the long-term sustainability of the water treatment system.

The Water Financial Plan document converts the financial forecasts from the Water Rate Study into a format required by Ontario Regulation 453/07. In addition to an income statement, this document includes projected Balance Sheets and Cash Flow Statements for the next 10 years.

This Financial Plan and Rate Study will be used to guide future capital budgets and water rates. The timing or values included in this plan may differ from actual budgets or rates, as new information becomes available.

## **FINANCIAL CONSIDERATIONS**

These financial plans include annual increases to the Town's Water Lifecycle Reserve to help close the water infrastructure funding deficit. Based on the proposed rates, the Town is projected to fund 96% of its annual replacement costs by 2034. For reference, the Town is only currently funding 77% of its annual replacement cost for water infrastructure.

The study was prepared based on the assumption that the construction of the remaining phases of the Southwest Water Main will proceed in 2025. Based on existing DCs and growth projections, the Town may have difficulty funding its debt service obligations associated with this project through DCs alone. However, the study demonstrates that this project can be cash-flowed entirely within the proposed water rates, and not impact taxation.

If Council elects to proceed with the construction of the remaining phases of the Southwest Water Main, Administration recommends updating Development Charge Study to incorporate actual construction values (based on tender results) and interest costs, net of any grant funding (if applicable). This will ensure the full growth-related costs of the Southwest Water Main are recovered through DCs over the long-term.

## **ENVIRONMENTAL CONSIDERATIONS**

Responsible long-term financial planning is critical to ensuring a safe and reliable drinking water system for our residents.

**CONSULTATIONS**

Kyle Davies, Water Operations and Compliance Technician

Shaun Martinho, Director of Public Operations

Tim Del Greco, Senior Manager, Capital Projects and Engineering

PREPARED BY:

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Ryan McLeod, CPA, CA  
Director of Finance and Corporate Services

REVIEWED BY:

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John Norton  
CAO