TO: Mayor and Members  
General Issues Committee  

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: January 11, 2011

SUBJECT/REPORT NO:  
2011 Recommended Water, Wastewater and Storm Budget (FCS11009/PW11004)  
(City Wide)

SUBMITTED BY:  
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General Manager  
Finance and Corporate Services  

Gerry Davis, CMA  
General Manager  
Public Works

PREPARED BY:  
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SIGNATURE:  

RECOMMENDATION:  

(a) That the metered water rate effective January 13, 2011, be increased by 4.25% from $1.080 to $1.126 per cubic meter;
(b) That the monthly and bi-monthly water basic charge effective January 13, 2011 be increased by 4.25%;

(c) That the metered sanitary sewer rates effective January 13, 2011, remain 100% of the water charge;

(d) That the combined “non-metered” water and wastewater services charge effective January 13, 2011 be increased by 4.25% from the fixed rate of $788.59 to $822.11 per annum;

(e) That the 2011 Water and Wastewater Proposed User Fees and Charges be approved as per Appendix “E” to FCS11009/PW11004;

(f) That the 2011 Water, Wastewater and Stormwater Management Rate Supported Operating Budget in the amount of $159,267,671 be approved as per Appendix “A” to FCS11009/PW11004;

(g) That the long-term financing plan for the Water, Wastewater and Stormwater programs and related rate increases required to meet sustainable financing, as identified in the 2011-2020 Water, Wastewater and Stormwater Management Rate Supported Operating Budget forecast (Appendix “C”) to FCS11009/PW11004 be approved in principle;

(h) That the 2011 Water, Wastewater and Stormwater Management Rate Supported Capital Budget and Financing Plan in the amount of $210,075,000 be approved as per Appendix “F” to FCS11009/PW11004;

(i) That the 2011-2020 Water, Wastewater and Stormwater Management Rate Supported Capital Budget forecast and financing plan (Appendix “G”) to FCS11009/PW11004 be approved in principle;

(j) That the City Solicitor and Corporate Counsel be authorized and directed to prepare all necessary by-laws, for Council approval, respecting the 2011 water and wastewater user fees and charges set out in the recommendations (a) through (e) of Report FCS11009/PW11004.

EXECUTIVE SUMMARY

The 2011 Rate Budget is submitted for Council’s consideration. The 2011 Rate Budget balances the need to invest in infrastructure with changing trends in demand for water and a lower pace of development relative to “Places to Grow”. Over the period 2011 to 2020, water, wastewater and stormwater capital investment is forecast at over $1.7 billion. This represents a decrease of $0.4 billion from last year’s 10-year forecast. The current 10-year capital plan requires higher than average levels of investments in the next two years though less sizeable than forecast in last year’s financing strategy.

Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.

Values: Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork
At the conclusion of the 2010 City of Hamilton Rate Budget, Council directed staff as follows:

“that staff be directed to have an independent review conducted of the financial implications of the phased-in approach to the Sewage Treatment Plant”.

Subsequently, Council approved the appointment (May 10, 2010, Committee of the Whole, report FCS10035 “City of Hamilton 2010 Residential Development Charges”) of consultants, Watson & Associates Economists Limited, to provide a peer review of staff’s 10-year Operating and Capital Forecast. The main purpose of the review is to provide an analysis of staff’s revenue and expense assumptions.

At the conclusion of the 2010 Rate Budget, staff reviewed all the revenue and expense assumptions associated with the 10-year Financial Plan. The following changes were made to minimize the financial risk:

1. Rate Revenue Forecasts were revised downwards by 4% to reflect the emerging trends of conservation.
2. Major infrastructure (wastewater plant expansion) was deferred for 5 years for further wastewater capacity and needs analysis.
3. Staff reduced growth infrastructure by $160 million over the 10-year period while still ensuring that the required capital for the forecast development was in place.
4. Staff looked at several unit development scenarios ranging from 100% of the Province’s Places To Grow development forecast to a more conservative 75%. The 75% scenario is more reflective of historical development patterns for the City of Hamilton.

This budget continues to focus on a number of Council’s Strategic Objectives, including, growing our economy, environmental stewardship, financial sustainability and effective inter-governmental relationships. In addition to the recommended rate increase, inflationary increases for most other water and wastewater user fees are requested.

Exclusive of the 2011 recommended 4.25% rate increase, support for total operating expenditures are forecast to decline by approximately $6.7 million, bringing the total operating budget request to approximately $159.3 million, compared with $166.0 million for 2010.

It should be noted, while the recommended rate increase is 4.25%, metered revenues are forecast to decrease by 3.6% or $5.9 million, impart due to a forecast decline in both residential and ICI consumption. To accommodate the forecast decline in revenues, program expenditures are forecast to increase by 1% and capital financing is forecast to decline by 7.6%. The following table summarizes the budget changes for the 2011 Requested budget:
### Summary of the 2011 Operating Budget

<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Program Expenditures</td>
<td>$68.8</td>
<td>$69.5</td>
<td>$0.7</td>
</tr>
<tr>
<td>Capital/Debt Financing</td>
<td>$97.2</td>
<td>$89.8</td>
<td>($7.4)</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$166.0</td>
<td>$159.3</td>
<td>($6.7)</td>
</tr>
<tr>
<td>Revenues</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Rate Revenue</td>
<td>$162.6</td>
<td>$156.7</td>
<td>($5.9)</td>
</tr>
<tr>
<td>Non-Rate Revenue</td>
<td>$3.4</td>
<td>$2.6</td>
<td>($0.8)</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$166.0</td>
<td>$159.3</td>
<td>($6.7)</td>
</tr>
</tbody>
</table>

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In 2011, infrastructure investments are forecast at over $210 million. Over the period 2011 to 2020, water, wastewater and stormwater infrastructure investment is forecast at over $1.6 billion, a decrease of nearly $400 million over last year’s 10-year forecast. The current 10-year capital plan requires higher than average levels of investments in the next two years though less sizeable than forecast in last year’s financing strategy.

The 2011 Water and Wastewater Budget incorporates a significant reliance on both rate supported debt and growth related debt supported from development charges over the 10 year period. However the 2011 Budget debt forecast for the 2011 – 2020 period is significantly reduced from the 2010 Budget debt forecast, especially in the first 7 years (2011 - 2017) of the 10 year period, primarily due to the phasing of the Wastewater Treatment Plant Expansion project over a longer period than what was reflected in the 2010 Rate Capital Budget.

The rate supported debt is projected to peak at $276 million in 2013, consistent with the 2010 budget forecasted debt peak at $278 million in 2013. The debt funded from DC’s is projected to peak at $558 million in 2019, whereas, the 2010 forecast was $668 million in 2017.

The following table provides a 3 year comparison of the projected outstanding debt from the 2010 Rate Budget to the 2011 Rate Budget:
Projected Rate & DC Supported Outstanding Debt

<table>
<thead>
<tr>
<th>( Millions)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010 Rate Budget</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funded from Rates (15 Yr)</td>
<td>177</td>
<td>265</td>
<td>278</td>
</tr>
<tr>
<td>Funded from DC's (20 Yr)</td>
<td>230</td>
<td>427</td>
<td>512</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>407</td>
<td>692</td>
<td>790</td>
</tr>
<tr>
<td><strong>2011 Rate Budget</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funded from Rates (15 Yr)</td>
<td>89</td>
<td>180</td>
<td>276</td>
</tr>
<tr>
<td>Funded from DC's (20 Yr)</td>
<td>65</td>
<td>152</td>
<td>229</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>154</td>
<td>332</td>
<td>505</td>
</tr>
<tr>
<td><strong>Increase (Decrease)</strong></td>
<td>(253)</td>
<td>(360)</td>
<td>(285)</td>
</tr>
</tbody>
</table>

The following graph provides the projected reserve balances for the Water, Wastewater and Storm programs. The reserve forecast reflects utilizing $40 million in reserve funds to fund previously approved capital in 2011, to reduce reliance on debt. As well, the reserve forecast reflects a total of $18.6 million in contributions to the reserve from projected revenue surpluses over the 10 year period, of which $18 million is attributed to surpluses in 2019 and 2020. However, the $18.6 million in contributions to the reserve is offset by $13 million in reserve funding to the operating budget in 2011 – 2013 to offset the 3 year phase-in of budgeted revenue reductions in the ICI sector. The reserve forecast also reflects utilizing $5.6 million in total from the reserve in years 2011 to 2013 to provide future compassionate flood relief to residential property owners in addition to contributions to support previous flooding commitments.
Reserves are essential to assist the City in mitigating unanticipated events such as consumption fluctuations, unforeseen increase in capital costs and potentially to decrease future debt issuance. The current reserve forecast indicates the reserve balance will decrease from $56 million in 2010 to $15 million in 2011 (primarily due to funding $40 million in capital). It will remain fairly constant until 2018 and then increases in 2019 and 2020 to $41 million due to the projected operating surpluses in those years.

Over the years, there has been an acceptance of water and corresponding wastewater rate increases to enable the City to address the existing related infrastructure shortfall. More recently, a number of property owners have been negatively impacted by flooding associated with significant rainfall events. A Stormwater Rate Study, for Council’s consideration, will be brought forward in 2011 which may provide financial resources to mitigate, to some degree, the associated effects. While the 2011 Rate Supported Budget provides infrastructure provisions to mitigate some level of flooding impacts, it does not incorporate any assumed commitment from Council regarding the aforementioned report.

The 2011 recommended water and wastewater rate increase is 4.25% or approximately $22 per typical household. Other water and wastewater user fees have generally been increased by an inflationary factor, with limited new fees.

| Impact of Recommended 4.25% Rate Increase on Water and Wastewater Rates |
|-------------------------------------------------|-----------------|-----------------|
| 2010 Rates | 2011 Requested Rates |
| Basic Monthly Charge | $7.75 | $8.08 |
| Consumption Rate* (per cubic metre) | $1.080 | $1.126 |

*Note: the consumption rate applies to water consumed beyond the first 5m$^3$ per month, as the first 5m$^3$ of consumption per month is included in the monthly basic charge at no additional charge.
The following table identifies the impact of the proposed rate increase on a residential customer:

| IMPACT OF RECOMMENDED 2011 WATER AND WASTEWATER RATE INCREASE ON A TYPICAL RESIDENTIAL BILL |  |
| (based on annual water consumption of 220m³) |  |
| 2010 Residential Bill | $532 |
| 2011 Residential Bill | $554 |
| Recommended Change ($) | $22 |
| Recommended Change (%) | 4.25% |

Last year’s 10-year forecast identified significant risks related to a variety of conditions which may impact ratepayers and more significantly, in combination, may place significant financial pressures on ratepayers. Last year’s report (refer to report #__________) illustrated the potential impact the risks listed below may have on users:

- Declining consumption
- Pace of development
- Future development charges and the level of debt to be recovered from growth
- Reserve capacity

The 2011 Rate Budget reflects a variety of measures that staff have pursued in an effort to control the impact of the above risks in order to maintain a safe and reliable service at a reasonable cost.

The recommended 2011 Rate Supported strategy endeavours to achieve a balance between capital investment and rate stability. The 2011 Rate Supported Strategy links the change in demand for water with a staged approach to necessary capital investments at the Woodward Wastewater Treatment Plant. The current financing strategy includes $200 million in Provincial and Federal subsidies to support the wastewater treatment plant rehab and upgrades. As reported earlier, staff have attempted to identify mitigating measures including the deferral of capital investments in an effort to alleviate the reliance on both debt and reserves.

While it is true that the Rate Supported Strategy has changed, from time to time, the overall goal of achieving a sustainable level of funding to support the necessary infrastructure investments has not. The Strategy has been in place since 1997 which, at
that time, called for water rates to increase by three to seven percent after adjusting for inflation over a 15-year period.

In 2001, staff recommended an amended Strategy based on achieving a target funding level of $140 million (2000$) by 2006 (refer to report TOE01017/FCS01017). The amended Strategy called for a 15% rate increase in each year up to and including 2006.

Since 2001, staff have recommended further amendments, for reasons including changing economic conditions, which, in effect, resulted in lower rate increases in the short-term and extended the period for rate increases in excess of inflation. When comparing the 2002 strategy versus the 2011 strategy, annual water and wastewater billings, based on the 2011 strategy, continue to be lower than had staff and Council continued based on the 2002 strategy (is this wording correct?).

In general, the goal of the Strategy has been to support the water, wastewater and storm programs through a sustainable level of funding. While revenue forecasts have been adjusted from time to time, for a variety of reasons, so too have expenditure forecasts and the need for additional financial resources. It should be noted that the intention of the 2001 Strategy was to provide approximately $92.5 million (2000$) in

The 2011 Strategy includes financing from the Federal and Provincial Governments with respect to the wastewater treatment plant rehab and upgrades, specifically in support of the Hamilton Harbour Remedial Action Plan.

Alternatives for Consideration – Not Applicable

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation(s) only)

**Financial:** As per Recommendation (f) of Report FCS11009/PW11004, approval of the 2011 Water, Wastewater and Stormwater Management Rate Supported Operating Budget will support operating and capital expenditures of $159,267,671 for 2011.

**Staffing:** No impact.

**Legal:** Recommendation (j) of Report FCS11009/PW11004 relates to By-laws requiring Council approval, respecting the implantation of 2011 water and wastewater user fees and charges set out in the recommendations (a) through (e) of Report FCS11009/PW11004.

**HISTORICAL BACKGROUND** (Chronology of events)

The 2011 Rate Budget continues to support the priority of investing in infrastructure as evidenced by the 2011 to 2020 forecast investment of approximately $1.6 billion in water, wastewater and stormwater capital infrastructure.

The Water, Wastewater and Storm Budget book outlines the various aspects and components that the recommended 2011 Rate Supported strategy incorporates:

- Sustainable Rate Strategy
- Proposed 2011 Water and Wastewater Rates
- Operating Budget Highlights
- Capital Budget Highlights
- Water Consumption Review and Forecast
POLICY IMPLICATIONS

The recommended options support the principle of a user-pay water and wastewater system.

RELEVANT CONSULTATION

N/A

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Appendix A-1 of the Water, Wastewater and Storm Budget Book summarizes the 2011 operating expenditures (program and capital) and revenues relative to the 2010 forecast and 2010 restated budget.

ALTERNATIVES FOR CONSIDERATION:

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Beyond the recommended rate increase, staff can direct changes to this budget submission though changes, in all likelihood, would have to consider the 2011 Capital Budget submissions.

CORPORATE STRATEGIC PLAN  (Linkage to Desired End Results)


Financial Sustainability

- Financially Sustainable City by 2020
- Effective and Sustainable Growth Management
• Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner
• Full life-cycle costing for capital
• Sustainable Tri-parti Government Agreement

**Intergovernmental Relationships**
• Acquire greater share of Provincial and Federal grants (including those that meet specific needs)
• Maintain effective relationships with other public agencies

**Environmental Stewardship**
• Natural resources are protected and enhanced
• Reduced impact of City activities on the environment
• Remove Hamilton Harbour from Great Lakes area of concern list by 2015
• Aspiring to the highest environmental standards

**Healthy Community**
• Plan and manage the built environment
• Adequate access to food, water, shelter and income, safety, work, recreation and support for all (Human Services).

**APPENDICES / SCHEDULES**

N/A