



Media Release: Immediately

Regional Municipality of Waterloo

Budget Committee

Agenda

Wednesday November 25, 2020

Closed Session 1:00 p.m. (Council Chambers)

Open Session 1:30 p.m.

Regional Council Chambers

150 Frederick Street, 2nd Floor, Kitchener

1. Motion to go into Closed Session

That a closed meeting of the Budget Committee be held on Wednesday, November 25, 2020 at 1:00 p.m. in the Council Chambers, in accordance with Section 239 of the “Municipal Act, 2001,” for the purposes of considering the following subject matters:

a) labour relations

2. Motion to Reconvene into Open Session

3. Declarations of Pecuniary Interest under the “Municipal Conflict of Interest Act”

4. Opening Remarks (S. Strickland)

5. Opening Remarks (B. Lauckner)

2021 User Rate Budgets

6. Introduction (C. Dyer)

7. Presentation: Samantha Lawson, Chief Administrative Officer, Grand River Conservation Authority

8. Presentation: 2021 User Rate Budgets (N. Kodousek)

9. Presentation: 2021 User Rate Budgets (C. Dyer)**10. COR-FSD-20-34** , 2021 Water Supply and Wastewater Treatment Budgets
(Information)**Page 3****11. COR-FSD-20-35** , 2021 Water Distribution and Wastewater Collection Budgets
(Information)**Page 10****12. Presentation: 2021 Preliminary Tax Supported Operating Budget and Capital Program (C. Dyer)****13. Other Business****14. Next Meeting** – December 16, 2020 (Regular Meeting and Public Input Meeting)**15. Adjourn**

Region of Waterloo**Corporate Services****Financial Services and Development Financing**

To: Budget Committee

Meeting Date: November 25, 2020

Report Title: 2021 Water Supply and Wastewater Treatment Budgets

1. Recommendation:

For Information

2. Purpose / Issue:

The purpose of this briefing note is to provide Council with an overview of the 2021 Water Supply and Wastewater Treatment Operating Budgets and 2021-2030 Capital Programs.

3. Key Considerations:

a) No increase to Wholesale Water and Wastewater Rates in 2021

Staff are proposing 2021 wholesale water and wastewater budgets for Council's consideration that will achieve Council's direction for 0% increase. Maintaining the long-term financial sustainability of the program has been accomplished through a combination of operating and capital budget adjustments and some re-profiling of the capital program.

b) Water Supply – 2021 Operating Budget

Total expenditure, including capital funding, is projected to increase by 0.7% in 2021 to \$59 million. The 2021 Water Supply Operating Budget includes funding for the Grand River Conservation Authority (GRCA) of \$2.8 million, discretionary Regional Development Charge (RDC) exemptions of \$1.5 million, a transfer to the Water Capital Reserve to finance capital projects, as well as operating expenditures. A detailed review of expenditures was completed during the 2021 budget process and resulted in budget reductions in several areas including utilities, mileage, conferences, materials, maintenance and repairs. These reductions total \$740,000.

Water demand for 2020 is projected to be slightly above 2020 budgeted flows. The 2021 water supply budget is predicated on a 0.74% increase in water demand over the 2020 budget.

c) Water Supply – 2021-2030 Capital Program

- **Expenditure:** The proposed 2021-2030 Water Capital Program outlines proposed investments totalling \$541 million, which is approximately \$38 million higher than the 2020-2029 Capital Program. New federal standards for Manganese will require additional treatment and upgrades at four treatment facilities, and the cost for these upgrades is reflected in the 2021-2030 capital program. The 2021-2030 Program also includes costs for other emerging water treatment requirements identified by the Federal Government (Strontium, (PFAS) / (PFOA), Aluminum and potentially other chemicals).
- **Capital Funding and Financing:** The Water Supply Capital Program is funded from User Rates and Regional Development Charges (RDC). Financing in both cases is from the Water User Rate and/or RDC Reserves and, when required, from debentures. A total of \$88.4 million in growth related debt will be required over the ten-year capital program representing 42% of the ten-year growth related capital costs for Water Treatment. Contributions to the water capital reserve result in almost all asset renewal works over the 10 years being funded without the need for long term borrowing, a positive indicator of long term financial sustainability.
- **Water Supply Debt Projections:** As of the end of 2021, there will be no water user rate debt outstanding (debt for Water Supply projects was last issued in 2011). As indicated above \$88 million in growth-related debt is contemplated to be issued over the next ten years, due to the timing of the capital projects in relation to the timing of collection of the development charges needed to fund project costs. Appendix A lists the growth related debt in the 2021-2030 water capital program. Staff continue to monitor debt servicing costs relative to development charge collections in any given year. Once issued, the debt servicing costs are fixed and must be paid regardless of the rate of growth and extent of collections. If collections are not sufficient to fund the associated debt servicing costs, the water user rate would serve as the backstop.

d) Wastewater Treatment – 2021 Operating Budget

Wastewater Treatment total expenditure, including capital funding, is projected to increase by 1.4% in 2021 to \$78.5 million. The 2021 Wastewater Operating Budget reflects the new Ontario Clean Water Agency (OCWA) contract and increased funding for capital projects of \$1.5 million. Funding for the Grand River Conservation Authority (GRCA) of \$3.4 million and discretionary Regional Development Charge (RDC) exemptions of \$2.6 million are also included in the proposed 2021 Wastewater Treatment Budget. A detailed review of all expenditures during the 2021 budget process resulted in budget reductions in electricity, mileage, conferences and adjustments to analytical and sampling fees. These reductions total almost \$1.4 million.

e) Wastewater Treatment – 2020-2029 Capital Program

- **Expenditure:** The preliminary 2021-2030 Wastewater Treatment capital program outlines proposed investments totalling \$480 million which is approximately \$10 million less than the 2020-2029 program. By focusing on the timing of projects and taking into account modifications to growth projections, deferral of some projects was possible thereby reducing both user rate and growth related debt requirements.
- **Program Funding and Financing:** The Wastewater Treatment capital program is funded from the Wastewater Capital Reserve and from Regional Development Charges (RDCs). Financing in both cases is either directly from the reserve or through debentures. There are significant capital costs being incurred in the early years of the Wastewater capital program (e.g. Kitchener Wastewater Treatment Plant Upgrades, Galt Process Upgrades and Infrastructure Upgrades). While these upgrades provide for long term sewage capacity, the benefitting growth will take place over an extended period of time, as will the related RDC collections. Accordingly, the proposed financing plan for the Wastewater Treatment capital program provides for certain growth-related projects to be debt financed in order to spread the cost over a longer period and better match costs to anticipated RDC collections. A total of \$77 million in growth-related debt will be required over the ten year capital program representing 44% growth-related capital costs for Wastewater Treatment. No debt is required for non-growth related projects over the next ten years. This is a positive indicator of long term financial sustainability.
- **Wastewater Debt Projections:** Appendix B lists the growth related debt in the 2021-2030 wastewater capital program. Similar to Water Supply, staff regularly review debt servicing costs relative to development charge collections. If collections are not sufficient to cover debt servicing costs in any given year, the wastewater user rate would serve as the backstop. Growth related debt servicing costs in 2021 are estimated to be approximately 45-50% of RDC collections and expected to remain in this range throughout the 10 year program. This is a significant improvement over previous years' projections, in part due to a higher DC being approved by Council and a re-profiling of the capital program by Water Services.

f) Grand River Conservation Authority (GRCA) Levy

The Region is the largest funder of the GRCA general levy, and the Region's share has been funded from water and wastewater rates since 2004. The Region's preliminary 2021 operating budget for water and wastewater includes a provision of \$6.2 million for GRCA (an increase of 1.95% over the Region's 2020 provision). Since the GRCA has not yet approved their 2021 funding requirement, the final GRCA levy may result in a minor variance in the water and wastewater budgets.

4. Background:

The Region is responsible for the production and delivery of safe and potable drinking water directly to seven area municipalities and indirectly to the Region's residents and businesses in accordance with all applicable legislation and Regional policy. The Region is the wholesaler of water to the City of Kitchener, City of Waterloo, City of Cambridge, Township of Wilmot and Township of Woolwich. The Region is also fully responsible for the public water system in the Township of North Dumfries and Township of Wellesley, including both water supply and distribution. The Region's water system annually supplies approximately 54 million cubic metres of water through 20 ground water supply systems, over 100 water supply wells and one surface water treatment plant.

The Region provides wastewater treatment services to the seven area municipalities and is responsible for protecting the environment and accommodating growth in the community, in compliance with all applicable regulation and Regional policy. There are 13 wastewater treatment plants (WWTP), one biosolids processing facility and seven pumping stations treating an average of 61 million cubic metres annually. Laboratory services is part of the wastewater treatment program which monitors and enforces the Region's Sewer Use By-law and provides analytical laboratory support services and spills response services.

On September 23, 2020 Council directed staff to prepare the preliminary 2021 User Rate Operating Budgets with a total targeted user rate impact of 0%, with options for a total user rate impact up to the rate of projected 2021 inflation (COR-FSD-20-27).

5. Area Municipality Communication and Public/Stakeholder Engagement:

Regional Staff have consulted with the area municipalities throughout the development of the preliminary budget. Public stakeholder engagement will occur throughout the budget process.

6. Strategic Plan:

The Water and Wastewater annual budget incorporates the 2019-2023 Corporate Strategic Plan objective to protect our water resources (drinking water and wastewater treatment) under Strategic Focus Area 3, Environment and Climate Action.

7. Financial Implications:

The ten-year rate models presented during the 2020 budget process projected a 2021 water rate increase of 1.9% and a 2021 wastewater rate increase of 4.9%. Staff are now presenting 2021 Water Supply and Wastewater Treatment budgets with no rate increases. Rate increases up to the rate of inflation would take the form of additional contributions to capital and/or stabilization reserves.

Projected user rate increases beyond 2021 include 1.9% for 2022, 2.9% for 2023-2026 and 3.9% for 2027-2030 for Water Supply, and 2.9% for 2022, 3.9% for 2023 to 2026 and 2.9% for 2027-2030 for Wastewater Treatment. Rate increases in the early years are lower than previously projected due to lower operating costs and capital program re-profiling. Additional capital costs in the outer years of the forecast for Water Supply suggest a slightly higher rate increase for water over wastewater in those years. Staff are of the view that these updated rate models strongly suggest long term financial sustainability and viability.

Maintaining the water supply and wastewater treatment rates at current levels provides a significant benefit to retail water and wastewater budgets which are approved locally by Councils in Kitchener, Cambridge, Waterloo, Wilmot and Woolwich and by Regional Council for Wellesley and North Dumfries.

8. Conclusion / Next Steps:

Approval of the 2021 Water Supply and Wastewater Treatment Operating Budgets and 2021-2030 Capital Programs is scheduled for December 16, 2020.

9. Attachments / Links:

Appendix A: Growth-related [Debt Water Capital Works Projects](#)

Appendix B: Growth-related [Debt Wastewater Capital Works Project](#)

Appendix C: 2021 [Water Supply and Wastewater Treatment Budgets](#)
(PowerPoint docs # 3451407)

Prepared By: Connie Bogusat, Financial Analyst, Water Services

Reviewed By: Cheryl Braan, Director, Financial Services and Development Financing

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Appendix A: Growth-related Water Capital Works Projects

Growth-related Water Capital Works	Growth Related Debt (\$ m)	Year of Debt Issuance
Cambridge Water Distribution Upgrades	\$12.5	2021-2026 2030
Laurel Tank WTP	11.4	2021-2023 2026-2027
Pumping & Storage Facilities System Expansion	10.0	2026-2030
Manganese Treatment Upgrades	9.9	2024-2028
LTWS ASR Stages 1 + 2	9.5	2022 2025-2029
Mannheim WTP Optimization	7.6	2023 2025-2026 2029-2030
Elmira & St Jacobs Water Supply Optimization	5.4	2022-2024
Production Treatment Facilities System Expansion	5.0	2026-2030
William and Strange St Upgrades	3.6	2021-2022
New Watermains	3.0	2023-2024
SCADA Communication Upgrade	2.9	2022-2024
Tri City Distribution Upgrades	2.7	2022-2023 2025
Baden New Hamburg Loops	2.4	2022-2023
Facilities Upgrades	2.0	2022
Kitchener Zone(s) 2/4 Distribution Upgrades	0.7	2023
SUB-TOTAL	\$88.4	

Note: Totals may be subject to rounding.

Appendix B: Growth-related Wastewater Capital Works Projects

Growth-related Wastewater Capital Works	Growth Related Debt (\$ m)	Year of Debt Issuance
20 Year Issues:		
Waterloo Expansion	\$27.1	2028-2030
Kitchener Process Upgrades	17.3	2021-2026 2029-2030
Elmira Expansion	12.1	2028-2030
Galt Process Upgrades & Expansion	6.7	2021-2024
St Jacobs Expansion	3.4	2028
Biosolids Management Facility	3.3	2022-2023
Wellesley Expansion	3.0	2030
Spring Valley PS Upgrades	2.8	2025 2027
Waterloo Upgrades	1.2	2030
SUB-TOTAL	\$76.9	

Note: Totals may be subject to rounding.

Region of Waterloo**Corporate Services****Financial Services and Development Financing**

To: Budget Committee

Meeting Date: November 25, 2020

Report Title: 2021 Water Distribution and Wastewater Collection Budgets

1. Recommendation:

For Information

2. Purpose / Issue:

The purpose of this briefing note is to provide Council with an overview of the 2021 Retail Water and Wastewater Operating and Capital Budgets.

3. Key Considerations:**a) No retail Water and Wastewater Rate Increase in 2021**

Staff are presenting preliminary 2021 Retail Water and Wastewater budgets for Council's consideration that will achieve Council's direction to set the 2021 rate increases at 0%. Maintaining long-term financial sustainability of the program has been accomplished through a combination of operating and capital budget reductions and some re-profiling of the capital program.

b) 2021 Water Distribution Budget

- **Operating Budget:** The proposed 2021 Operating Budget is increasing by 1.5% to \$2.8 million. Minor increases have been made to system maintenance and repair budgets to reflect the Region's commitment to identifying and repairing leaks in the system. Wholesale volumes have been adjusted to more accurately reflect actual demand within the Townships of North Dumfries and Wellesley
- **Capital Program:** The proposed 2021-2030 Water Distribution capital program is \$2.8 million, which is approximately the same as the 2020-2029 capital program. It includes provisions for leak detection and remedial work, future meter replacements and fleet purchases. The program is funded by the Water Distribution Capital Reserve and Equipment Reserve.
- **Water Distribution Volumetric and Monthly Fixed Rates:** Staff propose that the 2021 Water Distribution rate remain unchanged at \$3.14 per cubic metre.

This is 5.9% lower than proposed in the 2020-2029 model. The monthly service charge is recommended to remain at \$10.00 per month for 2021. The service charge assists with covering the large proportion of fixed operating costs.

c) Wastewater Collection Budget

- **Operating Budget:** The proposed 2021 Wastewater Collection operating budget is increasing by 3.8% to \$1.5 million. The increase covers additional maintenance to be performed on collection mains as per asset management recommendations.
- **Capital Program:** The proposed 2021-2030 Wastewater Collection capital program is \$2 million; a decrease of \$205,000 over the 2020-2029 capital program. It includes provisions for replacements and upgrades to collection mains, and is funded by the Wastewater Collections Reserve.
- **Wastewater Collection Volumetric and Monthly Fixed Rates:** Staff propose that the 2021 Wastewater Collection rate remain unchanged at \$2.32 per cubic metre. This is 3.9% lower than proposed in the 2020 budget for 2021. The monthly service charge is recommended to remain at \$8.00 per month for 2021. The service charge assists with covering the large proportion of fixed operating costs.

d) Wastewater Collection - Additional Proposed Rate Adjustment

In Wellesley Township there are a small number of customers (15) that are not connected to the water distribution system but are connected to the wastewater collection system. Wastewater user charges system-wide are based on the flow of water into a building. Because these customers do not have a water meter to measure the flow of water coming into their building, an estimated water usage was calculated a number of years ago to provide a base for an annual wastewater charge. For a number of years, the charge was not increased on an annual basis. These customers are therefore paying a lower annual charge (approximately \$24 lower) than comparable metered users. To bring these customers closer in line with current rates, a 9.9% wastewater rate has been applied annually since 2015 to these customers. In 2021, the proposed rate increase would be 5.3% and would bring these customers in line with a typical household as set out in the following table. The proposed increase in 2021 would result in an annual wastewater cost for these customers (on average) of \$473.28 in 2021, as set out in the following table.

	2020 Annual Cost	% Increase	2021 Annual Cost	\$ Increase
Typical Household Wastewater Cost	\$473.28	0.0%	\$473.28	\$0.00
Wellesley Wastewater homeowners not connected to Distribution	\$449.46	5.3%	\$473.28	\$23.82
Difference	\$23.82		(\$0.00)	

Two of the customers are commercial properties with rates based on a greater level of water consumption. For 2021, staff recommend that an increase of 5.3% in the annual wastewater rate be applied to the 15 customers. The rate increases for these customers will be reflective of the prevailing user rates after 2021. This is in keeping with the recommendation from last year.

4. Background:

The Region assumed ownership and operation of the water distribution and wastewater collection systems in the Townships of North Dumfries and Wellesley in 2005. Water Services operates and maintains the water distribution system consisting of watermains, hydrants and valves, ensuring that drinking water always meets all applicable regulations and serving the villages of Linwood, Heidelberg, St. Clements, Wellesley, Ayr, Lloyd Brown, Branchton Meadows and Roseville. The wastewater collection system consists of sewer mains and manholes and is operated and maintained in accordance with all applicable regulations and legislation.

5. Area Municipality Communication and Public/Stakeholder Engagement:

Regional Staff have consulted with the area municipalities throughout the development of the preliminary budget. Public stakeholder engagement will occur throughout the budget process.

6. Strategic Plan:

The Water Distribution and Wastewater Collection annual budget incorporates the 2019-2023 Corporate Strategic Plan objective to protect our water resources (drinking water and wastewater treatment) under Strategic Focus Area 3, Environment and Climate Action.

7. Financial Implications:

The rates for the Townships of North Dumfries and Wellesley are unchanged for 2021 based on Council's direction to set the 2021 rate increases at 0% while maintaining the long-term financial sustainability of the program. Rate increases up to the rate of inflation would take the form of additional contributions to capital and/or stabilization reserves.

8. Conclusion / Next Steps:

Approval of the 2021 Water Distribution and Wastewater Collection Operating Budgets and 2021-2030 Capital Programs is scheduled for December 16, 2020.

9. Attachments / Links:

Appendix A: [2021 Water Distribution and Wastewater Collection Budgets](#)
(PowerPoint docs #3451373)

Prepared By: Connie Bogusat, Financial Analyst, Water Services

Reviewed By: Cheryl Braan, Director, Financial Services and Development Financing

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer