

Water & Wastewater Rate Recommendations

Finance & Administration
Committee

December 4, 2008

Agenda

1. Forward recommendations from T&W Committee on 2009 water and wastewater operating and rate budgets
2. Provide additional information requested by T&W Committee:
 - International rate comparisons
 - Additional rate increase scenarios

Current Rate Methodology

- ❑ Study conducted by consultants in 2005 to develop long-term model
- ❑ Study identified asset replacement needs and identified a funding plan.
- ❑ Forecast rate increases of 2.5% per year for water and 10% per year for wastewater over the five year period 2006-2010 (6.4% combined increase)

Current Rate Methodology

- ❑ Study recognized that the system required significant up-front capital resulting in large increases in the rate.
- ❑ Recommended a smoothing of the rate to buffer the increases over a longer period of time.
- ❑ Smoothing of the increases results in deficit financing in early years

Current Rate Methodology

- ❑ Deficit in water would have been eliminated by 2011.
- ❑ Deficit in wastewater would not be fully self financing within the rate until 2028.
- ❑ Systems would borrow from within their reserves or from other Regional reserves to offset deficit requirements.

Current Rate Methodology

- ❑ Assumed inflationary adjustments of 2% annually in operating and capital costs.
- ❑ Study included a forecasting model which is now used by staff.

Rates Approved 2006 to 2008

- ❑ Forecast rates were used for 2006, 2007 and 2008.
- ❑ During 2008 budget review, staff indicated that the rates were falling short of funding forecast and would be reviewed in 2008.

Actual Results versus 2005 Model

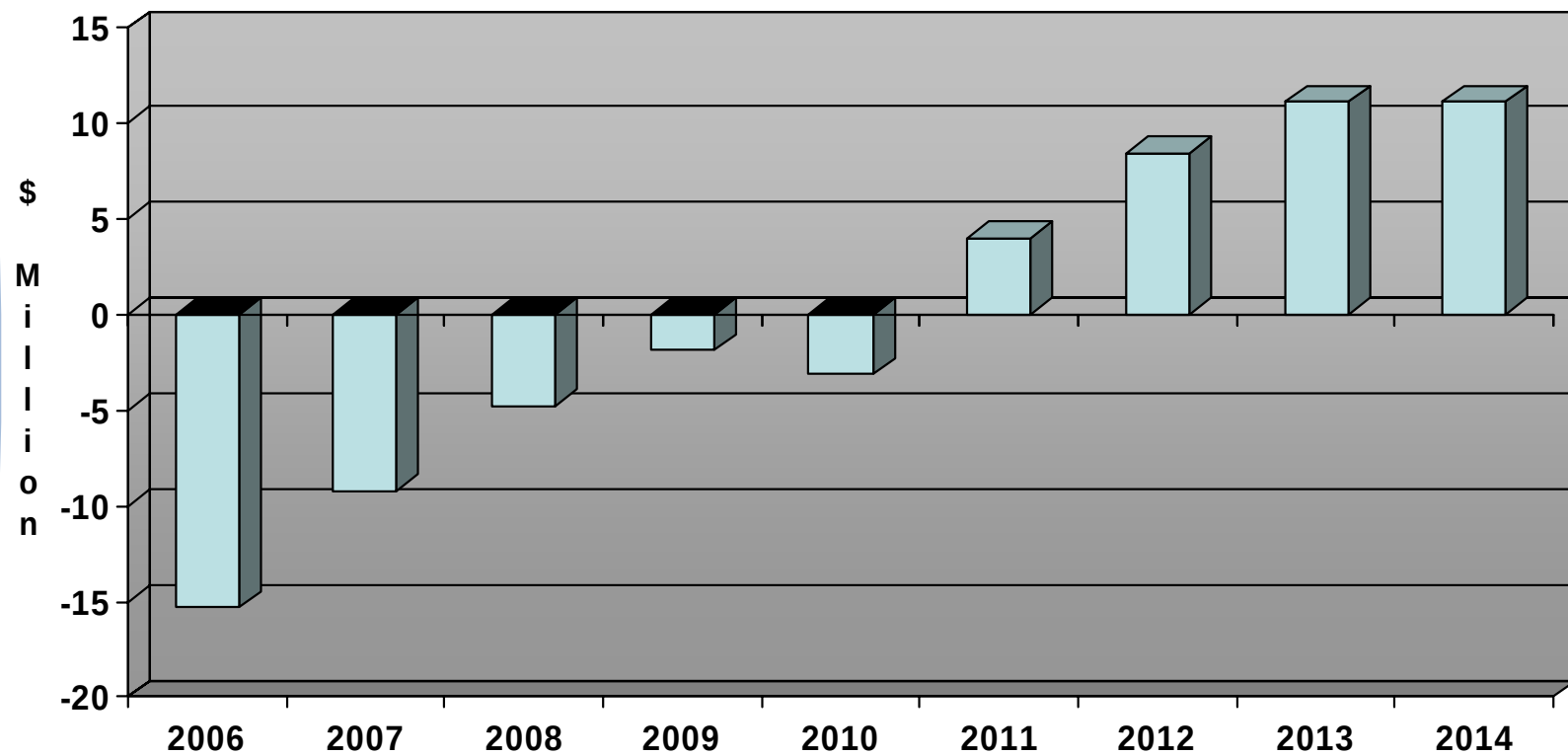
- ❑ Actual consumption volumes have not reached the forecast volumes resulting in \$11 million revenue shortfalls in each system for 2006 - 2008 period.
- ❑ Water rates from suppliers have increased by an average of 9.3% since 2005 while regional water rate increased by 2.5% annually.
- ❑ Positive impacts related to phase out of Development Charge discount.

Actual Results versus 2005 Model

- ❑ Capital forecasts in model assumed inflation of 8.25% from 2006-2009
- ❑ Construction price index has increased by 25% and many of our projects have experienced increases beyond that level.
- ❑ Rehabilitation/renewal costs in 2009 capital budget exceed 2006 forecast by \$21 million in water and \$107 million in wastewater over 10 year period.

Annual Funding Shortfall -Water

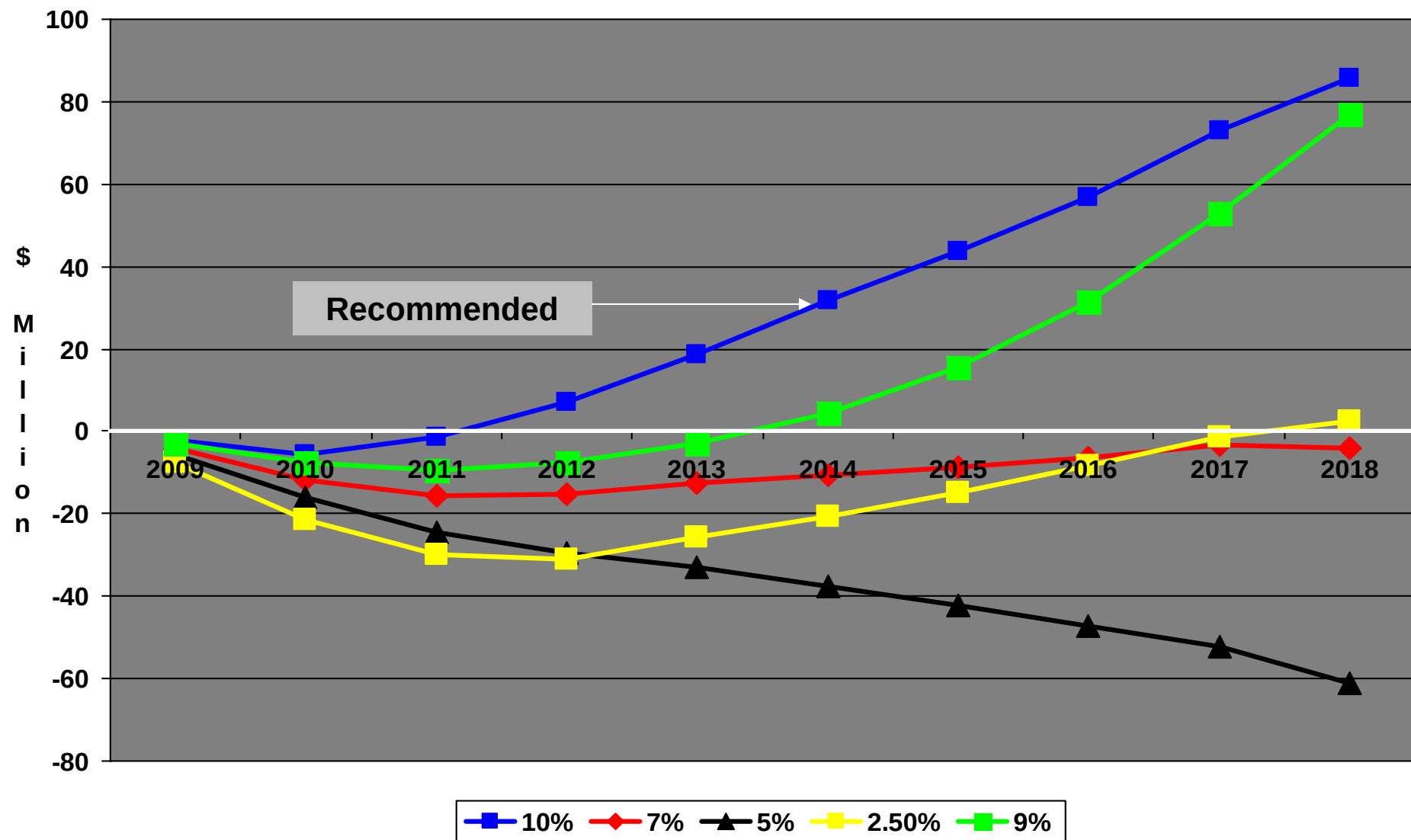
Based on recommended 10% increases



Water Funding Options

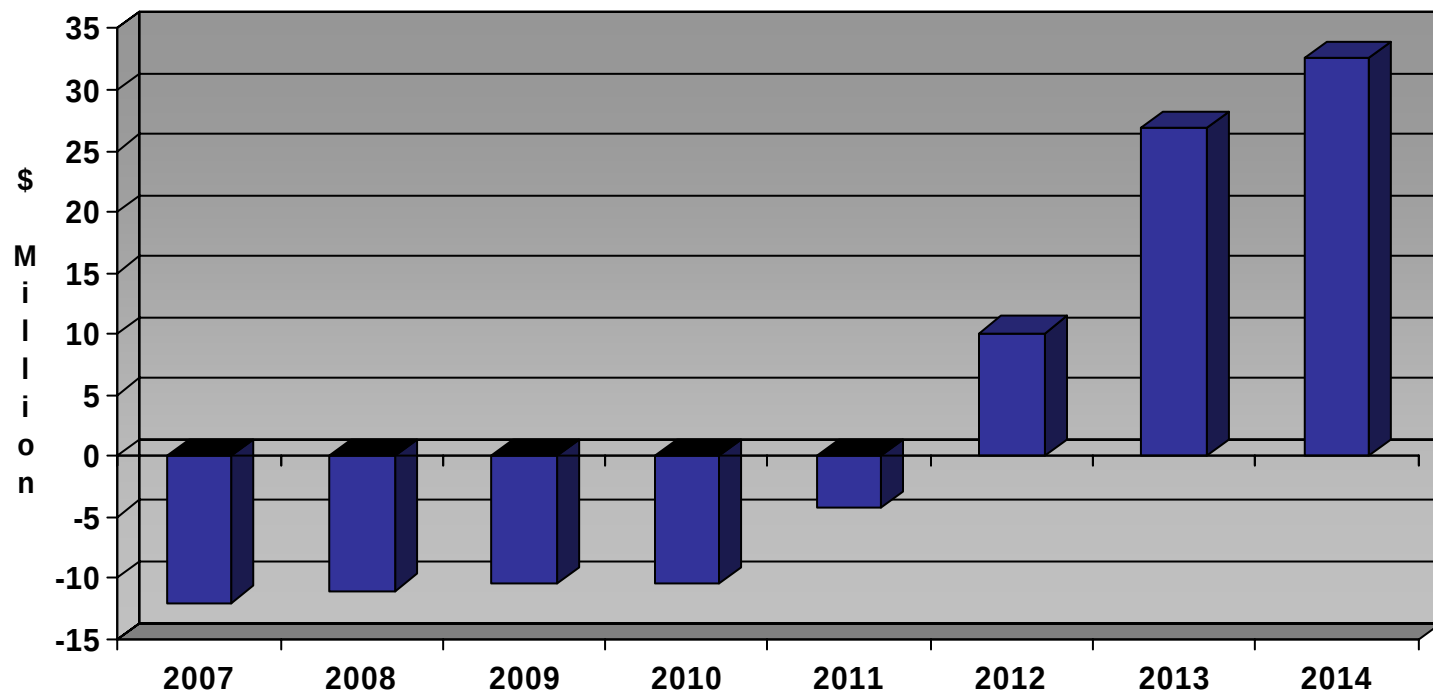
	2009 -2011	2012-13	2014-2018
10% Option	10%	5%	2%
7% Option	7%	5%	2%
5% Option	5%	5%	2%
Additional scenarios requested by T&W Committee:			
Hybrid 1	2.5% in 2009, 2010; 10% thereafter		
Hybrid 2	9% in 2009-10, 5% thereafter		

Cumulative Funding Shortfall/Surplus - Water



Annual Funding Shortfall - Wastewater

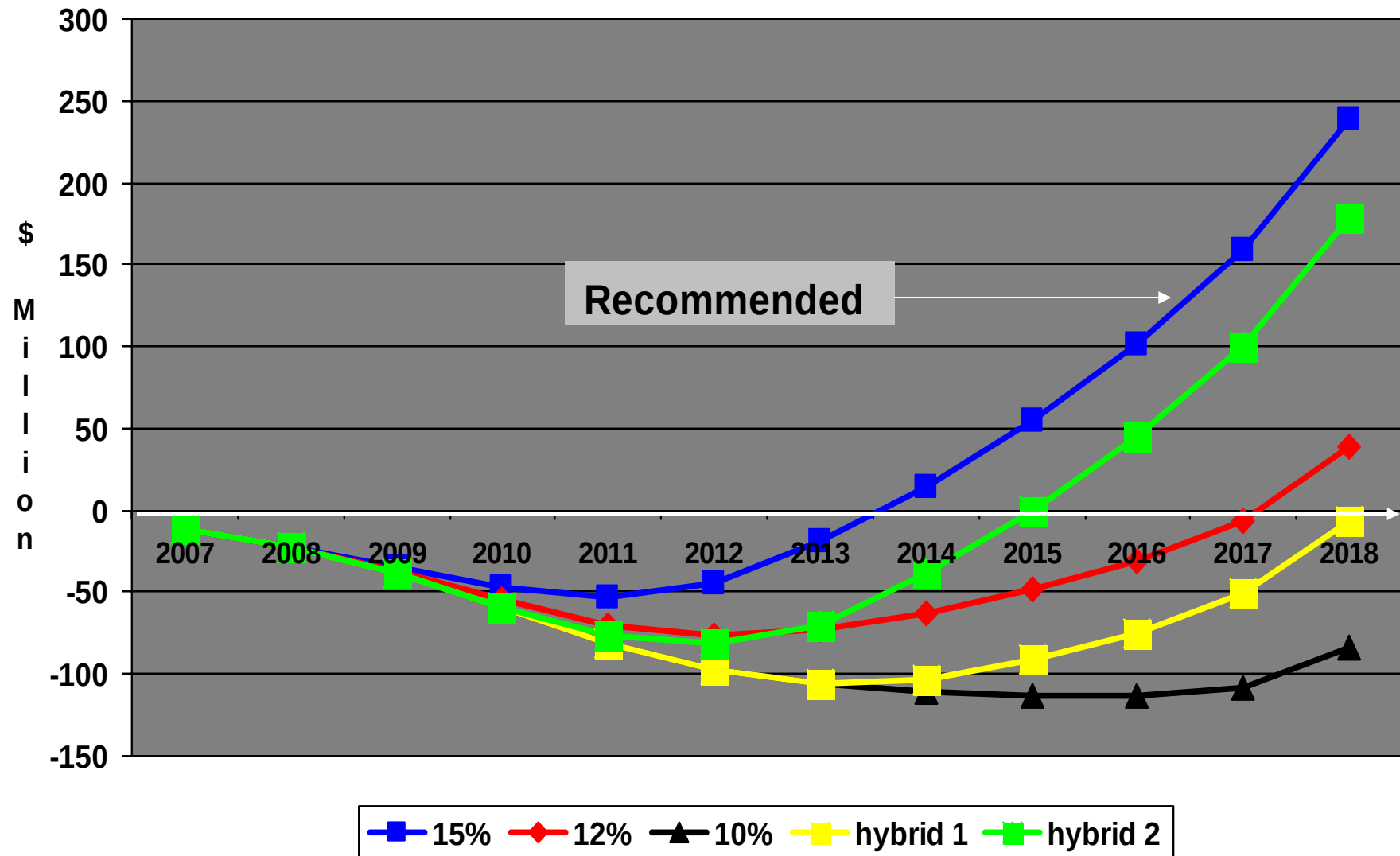
Based on recommended 15% increases



Wastewater Funding Options

	2009 -2013	2013-18
15% Option	15%	5%
12% Option	12%	5%
10% Option	10%	5%
Additional scenarios requested by T&W Committee:		
Hybrid 1	10% in 2009-15, 5% 2016-2018, 2% thereafter	
Hybrid 2	10% in 2009-10, 15% 2011-14, 5% thereafter	

Cumulative Funding Shortfall/Surplus - Wastewater



Impact of Rate Increase Options - Wastewater

Scenario	Annual Rate Increase	Eliminate Reserve Deficit by	Operating Surplus by
15% Option*	15% in 2009-13, 5% thereafter	2015	2012
12% Option	12% in 2009-13, 5% thereafter	2020	2014
10% Option	10% in 2009-13, 5% thereafter	2023	2018
Hybrid 1	10% in 2009-15, 5% 2016-2018, 2% thereafter	2019	2014
Hybrid 2	10% in 2009-10, 15% 2011-14, 5% thereafter	2015	2013

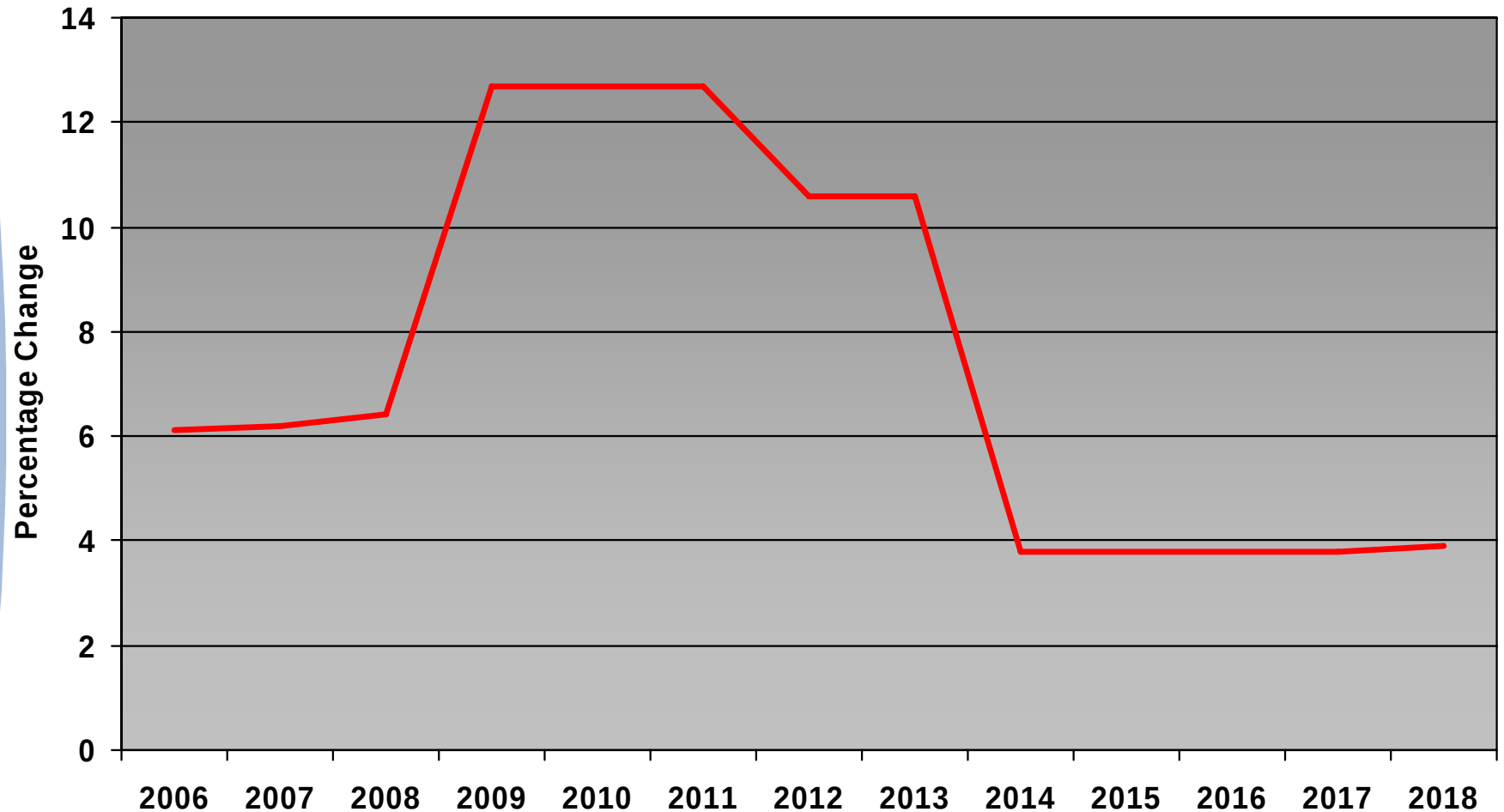
* Recommended

Impact of Rate Increase Options - Water

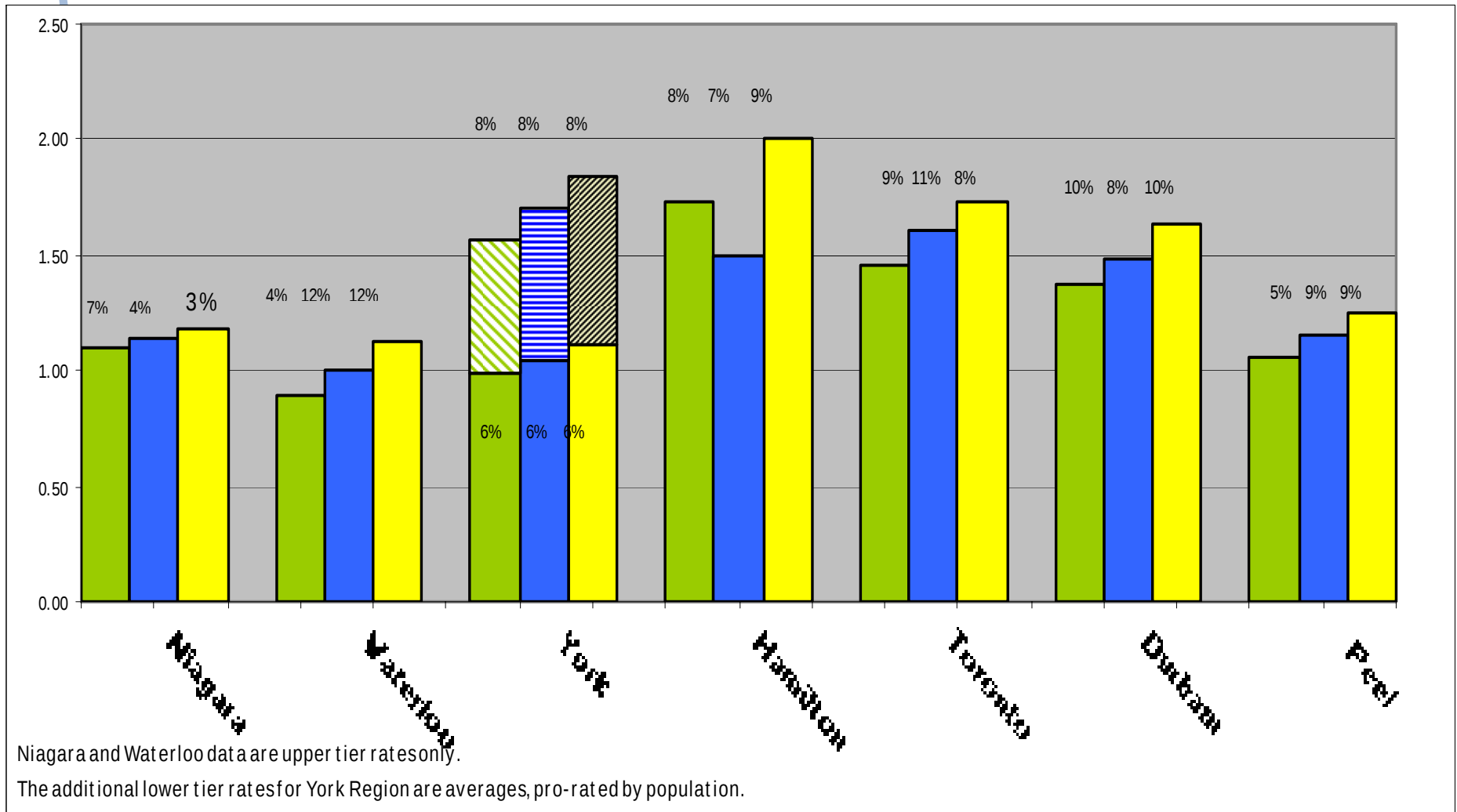
Scenario	Annual Rate Increase	Eliminate Reserve Deficit by	Operating Surplus by
10% Option*	10% in 2009-11; 5% 2012-13; 2% thereafter	2009	2011
7% Option	7% in 2009-11; 5% 2012-13; 2% thereafter	2016	2012
5% Option	5% in 2009-13; 2% thereafter	after 2032	after 2032
Hybrid 1	2.5% in 2009, 2010; 10% thereafter	2015	2012
Hybrid 2	9% in 2009-10, 5% thereafter	2014	2012

* Recommended

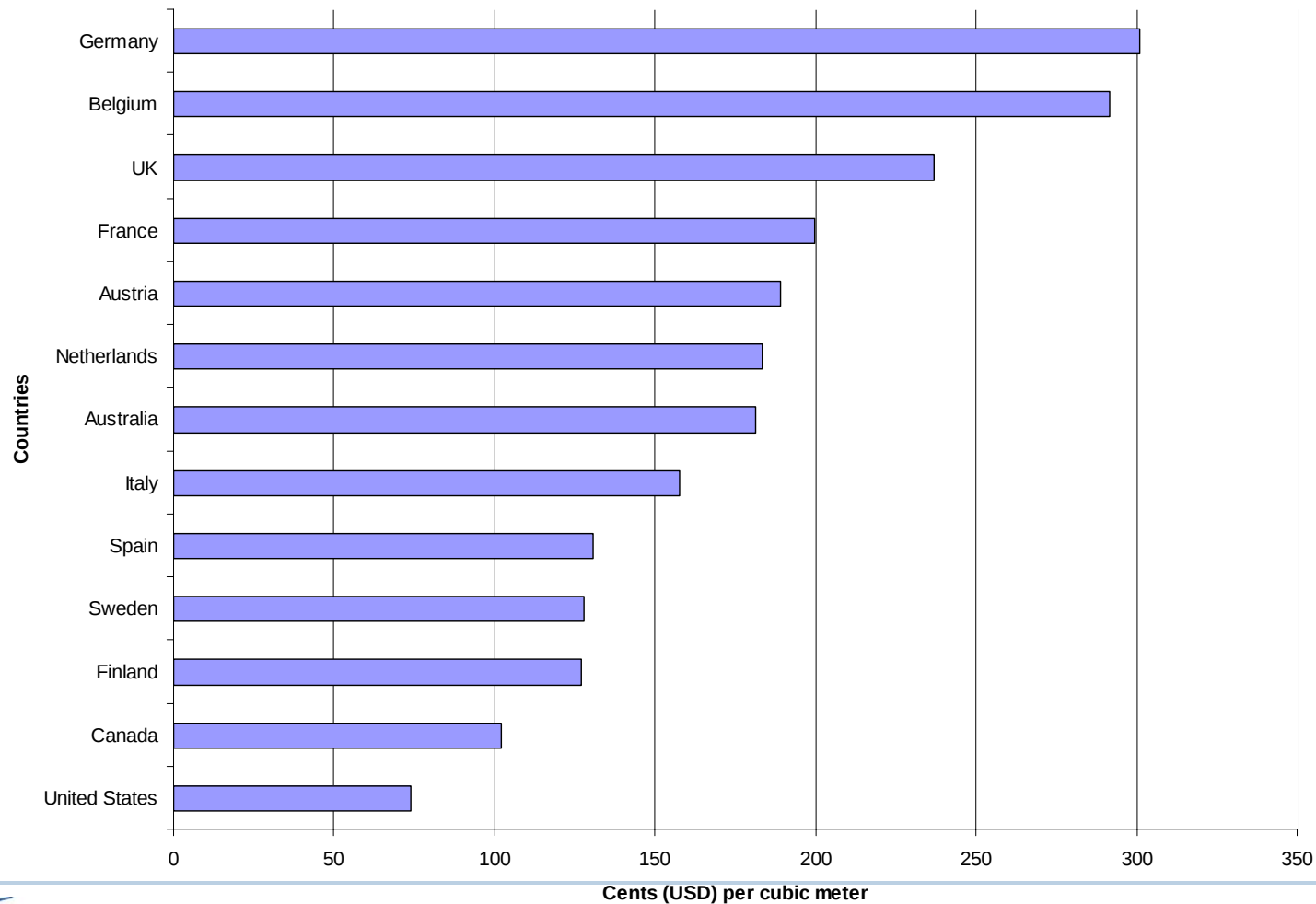
Annual Percentage Change in Combined Rate as Recommended



Water & Wastewater Municipal Rate Comparison



International Water Rate Comparisons



Water and Wastewater Rates

- Proposed Regional 2009 rate (per m³)
 - \$1.2589 → 12.7% increase

	2008	2009	Annual Increase
Average Cost per household	\$357.60	\$402.86	\$45.26

*** Excludes local municipal average rate of \$0.72 per m³**

Recommendations

1. Draft 2009 Water and Wastewater Rate Business Plan and Budget as tabled with Regional Council on Oct 23/08 be recommended for approval
2. 2009 water and waste water rates of 57.63 and 68.26 ¢/m³ respectively effective April 1, 2009 be recommended for approval
 - ❑ combined rate increase of 12.7% from 2008 rates
3. Regional Solicitor prepare necessary by-law to enact rate increase

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