

**REPORT OF THE DIRECTOR OF FINANCE & TREASURER
RE. 2022 USER PAY BUDGET
FOR THE CONSIDERATION OF COUNCIL**

OBJECTIVE

To provide information pertaining to the 2022 User Pay Budget.

RECOMMENDATION

That the report of the Director of Finance/Treasurer re: 2022 User Pay Budget be received;

And that the 2022 Ad Hoc Budget Committee approve the 2022 User Pay Budget as presented;

And that the necessary bylaw be forwarded to Council for adoption.

Respectfully Submitted



Amy Sonnenburg
Director of Finance & Treasurer

Approved



Daniel Gagnon
Chief Administrative Officer

BACKGROUND

Every year, the Public Works department prepares both an operational and capital budget for the upcoming year. The operational budget is an estimate of the income and expenditure of a department over the year which is determined by service levels and information from previous years' budgets.

The capital budget portion pertains to specific projects that will help maintain or improve a city asset or infrastructure. Related to new construction, expansion, renovation, or replacement projects for existing facilities.

The City's user pay rates are based on provincial regulations that require consumers to pay the full cost of the goods they consume like water and wastewater services. Currently the City has a fixed rate when it comes to water/wastewater rates for residential (as opposed to metered rates like many other municipalities). Commercial/industrial consumers are metered.

ANALYSIS

WATER AND WASTEWATER FINANCIAL PLAN 2020 – 2029

In accordance with O.Reg. 453/07 the last Water/Wastewater study was completed and presented to council at the January 6, 2016 adhoc budget committee meeting. Using best practices and actual costs incurred over the last five years, a revised study has been completed. The 2020 Water/Wastewater Rate Study (Appendix A) provides a strategic plan to ensure that the City has sufficient funds to cover future water/wastewater system operating costs, and water/wastewater system asset renewal and replacement costs (Capital Projects).

This rate study consists of the following tasks:

- Compile the current and projected costs for the 2021-2029 period;
- Project capital renewal and replacement costs to 2029;
- Develop water and wastewater rates for 2022 to 2031, based on the above, utilizing best rate setting practices;
- Compare the current rates in Elliot Lake with those of nearby communities

WATER AND WASTE WATER RATES

The 2022-2031 projected rates for water and wastewater are set out in section 3.4. This projection requires a steady 7% year over year increase. This is in line with council's recent practices. In fact, since 2016, Council has been applying a 7% increase to the user rates to build necessary reserves to fund the 10-year asset management plan (AMP). This was based on the capital requirement for replacing the underground infrastructure on road projects like the Valley/Hemlock project. In 2020, the majority of the work on Pine/Poplar was completed with a water/waste component at approx. \$1.4M.

RESERVES

Section 3.6 in Appendix A cites that the City will have a reserve deficit by the end of 2025. Through the budget deliberation process, based on information obtained from the Director of Public Works, the expectation of capital expenditure is significant (Appendix B) in the future.

It is not a surprise that there is significant pressure on the reserves. Through prudent budgeting, the 2022 Budget allows for a 12% increase to the contribution to reserves; while holding the user pay rate increase to 7.09%. Future years contribution is calculated at the standard 7%. The chart below details planned future contributions and provides insight on increases required to sustain the current capital expenditure plan.

If capital projects planned in 2022 are completed on budget, the reserve will open with a balance of \$2.3 Million in 2023 (Appendix C). With major projects planned year over year, the water/ wastewater reserve will be depleted before the end of 2024.

Appendix C details the actual expenditures and historical transactions within the water/wastewater reserve from 2018 to current. Please note that the expenditures cited for 2021 are unaudited year to date figures.

FINANCIAL IMPACT

Based on the 2021 Water Rate Study Report (Appendix A) and the Capital requirements for water and waste water Council has been approving a 7% increase in water rates annually. It is recommended that the 7.09% increase be continued in 2022.

Schedule “A” of the proposed bylaw details the 2022 billing to be \$863.00 for residential (flat annual rate) and commercial (metered) properties. Resultant in an annual increase of \$56.46 or a monthly increase of \$4.71. Cubic metered rates have increased 7.09% for distribution over 2021.

With respect to service fees, the addition of an afterhours service charge has been added. This would be used in the event of service requests outside regular working hours; i.e. connection issues. Another notable change, is the first time connection charge. The service fees collected in year are reported in the operational financial statements and any annual surplus is returned to water/wastewater reserves.

LINKS TO STRATEGIC PLAN

The report is consistent with the commitment identified by Mayor and Council within the Strategic Plan focusing on “Continued Investment into Infrastructure”.

SUMMARY

It is recommended that Council approve the 7.09% increase to water/waste water rates. It is the recommendation of the Director of Finance & Treasurer that the 2022 User Pay Budget be approved and that the necessary bylaw be forwarded to Council for adoption.