



Town of Newmarket
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2021 Six-Year Water and Wastewater Financial Plan Staff Report to Council

Report Number: 2021-21

Department(s): Financial Services

Author(s): Andrea Tang, Manager, Finance & Accounting/Deputy Treasurer

Meeting Date: March 22, 2021

Recommendations

1. That the report entitled 2021 Six-Year Water & Wastewater Financial Plan dated March 22, 2021 be received; and,
2. That Council adopt the proposed Six-Year Water & Wastewater Financial Plan; and,
3. That the Six-Year Water & Wastewater Financial Plan will be updated to incorporate significant changes prior to the expiry date; and,
4. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Purpose

The purpose of this report is to obtain Council approval of the 2021 Six-Year Water & Wastewater Financial Plan.

Background

The Safe Drinking Water Act, 2002 requires municipalities to develop financially self-sustaining water systems. The Six-Year Water Financial Plan has been prepared to demonstrate the financial sustainability of the Town's water systems. Upon Council approval of the plan, it will be submitted to the Ministry of the Environment, Conservation and Parks for renewal of the Town's Municipal Drinking Water License which will expire on May 18, 2021.

The Wastewater Financial Plan has also been updated. The Financial Plans outline the financial sustainability of the Town's water and wastewater systems. The previous Water & Wastewater Financial Plan was updated in 2017.

Discussion

The goal of the Water & Wastewater Financial Plan is to achieve financial sustainability to support the following requirements that aligns with the Fiscal Strategy:

- Build up adequate reserves to support the ongoing asset management requirements
- Maintain existing assets
- Support day-to-day operations
- Achieve eventual full cost recovery

The 2021 Six-Year Water and Wastewater Financial Plan includes annual increase of 3.8% for the years 2022 and 2023 (consistent with the 2017 Financial Plan), followed by annual increase of 3.5% from 2024 to 2026. This translates to an average annual residential bill ranging from \$1,313 to \$1,512.

Table 1: Comparison of rate increases and rates between 2017 and 2021 Six-Year Water and Wastewater Financial Plans

2017 Financial Plan	2018	2019	2020	2021	2022	2023
Rate Increase (%)	5.9%	5.1%	4.9%	4.0%	3.8%	3.8%
Volumetric Rate / m ³	\$3.93	\$4.13	\$4.33	\$4.50	\$4.67	\$4.85
Fixed Rate / month	\$33	\$34	\$36	\$38	\$39	\$40

2021 Financial Plan	2021	2022	2023	2024	2025	2026
Rate Increase (%)	4.0%	3.8%	3.8%	3.5%	3.5%	3.5%
Volumetric Rate / m ³	\$4.22	\$4.38	\$4.54	\$4.70	\$4.87	\$5.04
Fixed Rate / month	\$35	\$36	\$38	\$39	\$41	\$42

Rate Impact

Table 2: Average annual residential bill

	2021	2022	2023	2024	2025	2026
Average annual residential bill	\$1,265	\$1,313	\$1,363	\$1,411	\$1,461	\$1,512

Highlights of the 2021 financial plan include:

- Population growth of 1% which is consistent with the Town's growth projection identified in the 2019 DC Background Study;

- Historic trends show decline in water consumption over the years due to water conservation, with the exception of 2020 as more residents were working from home due to the COVID-19 pandemic resulted in higher water consumption;
- Region's rate increase for future years is unknown at this time. The Region is currently conducting a rate study which will outline future year increases. Due to the COVID-19 pandemic, the Region waived its scheduled 2020 and 2021 rate increases (9% and 2.9% respectively) and maintained their rates at the 2019 levels. Outcome from the rate study will have direct impact on the Town's future rates. The 2021 Financial Plan includes an assumption of 4% increase for the Region's rate;
- The plan includes assumption for non-revenue water;
- The Asset Management Office is currently in the process of updating the Asset Management Plan for core assets (includes water and wastewater assets) anticipated to be completed by Q2 2021. The Asset Management Plan will be updated to reflect the current asset replacements and the current long-term estimate of funding needs. The next Financial Plan update will integrate with the updated Asset Management Plan:
- The Financial Plan includes the estimated capital costs for the Town's implementation in Advanced Metering Infrastructure (AMI) by replacing the existing water meters with smart meters;
- As part of the 2021 Financial Relief Program, Council approved a temporary increase of \$66 to the water and wastewater rebate from \$354 to \$420, equivalent to \$35 per month. Eligible residents who qualify for this program will receive a rebate equal to that of their basic monthly meter charge (basic monthly meter charge in 2021 is \$35). Council also approved a \$1,000 water rebate directed to eligible small businesses in 2021. At this time, these rebates are offered for the 2021 fiscal year only; therefore potential future extension to these rebates are not included in the Financial Plan.

Reserve and Reserve Funds

The water and wastewater utilities have reserves to fund unexpected circumstances and asset replacements. These are the Rate Stabilization Reserve and the Asset Replacement Fund.

A comprehensive review of the reserve and reserve funds will be conducted in 2021 as recommended in the Fiscal Strategy. Outcomes from the review may affect these reserves. The review includes exploring strategies to increase contributions to reserves to build them to more appropriate levels.

Rate Stabilization Reserve

Rate stabilization reserve is established to allow the Town to draw funds from in year of a deficit and vice versa contribute to in year of a surplus. The Town has an established guideline to target the reserve to be between 5% and 10% of rate revenues.

Table 3: Rate Stabilization Reserve as % of rate revenues

	Preliminary	Forecast					
	2020	2021	2022	2023	2024	2025	2026
Rate Stabilization reserve as a % of rate revenues	9.8%	13.1%	14.0%	15.2%	13.2%	11.5%	10.7%

Asset Replacement Funds

Asset Replacement Fund is established to fund asset replacements and to ensure that water and wastewater assets can be replaced once they reach the end of their useful lives and the Town can maintain current service levels.

The Town tracks the capital reserve as a percent of accumulated amortization. This measure can determine whether there's sufficient funds set aside to ensure the Town can replace its aging assets and preserve the existing service levels. The target capital reserve as a percentage of accumulated amortization is 100%.

Table 4: Capital Reserves as % of accumulated amortization

	Preliminary	Forecast					
	2020	2021	2022	2023	2024	2025	2026
Capital Reserves as a % of accumulated amortization	63.6%	63.9%	63.9%	65.1%	70.6%	76.7%	83.3%

Conclusion

The financial impact of the proposed 2021 Water and Wastewater Financial Plan is an increase of 3.8% per year for the average residential customer for the years 2022 and 2023, followed by an increase of 3.5% from 2024 to 2026.

Business Plan and Strategic Plan Linkages

The 2021 Six-Year Water & Wastewater Financial Plan aligns with the recommendation from the Fiscal Strategy to monitor and guide the long term financial sustainability of the Town's water and wastewater systems.

It also aligns with the Council priority under the strategic pillar of Long Term Financial Sustainability with the goal of maintaining long-term financial sustainability while ensuring a thriving community. This is achieved by developing a multi-year operating and capital budgets incorporated in the 2021 Six-Year Financial Plan.

Consultation

Public Works and Strategic Initiatives departments were consulted.

Human Resource Considerations

Not applicable.

Budget Impact

Adoption of the 2021 Six-Year Water & Wastewater Financial Plan will guide future operating and capital budget requests.

Attachments

Attachment 1 - 2021 Six-Year Water and Wastewater Financial Plan

Approval

Mike Mayes, CPA, CGA, DPA
Director of Financial Services

Esther Armchuk, LL.B
Commissioner, Corporate Services

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