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**TO:** GENERAL COMMITTEE


**SUBJECT:** REBATE OF 2012 WATER SURPLUS

**WARD:** ALL

**PREPARED BY AND KEY CONTACT:** K. SHORT, CMA, MANAGER OF REVENUE (EXT 4428) 

**SUBMITTED BY:** D. MCKINNON, CGA, DIRECTOR OF FINANCE 

**GENERAL MANAGER APPROVAL:** E. ARCHER, CMA, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES 

**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** CARLA LADD, CHIEF ADMINISTRATIVE OFFICER 

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**RECOMMENDED MOTION**

1. That the rebate plan described in FIN010-13 be used to reduce the 2013 actual water rate revenues by \$2.0M as directed by motion 13-G-099.
2. That the \$2.0M to be rebated to water customers be reduced by \$8,500 (including the non-recoverable HST) to fund the programming charges associated with the rebate plan.

**PURPOSE & BACKGROUND**

3. On April 15 2013, the 2012 Business Plan – Year End Report was presented to General Committee which described a \$2.8M surplus in the water program due to lower than anticipated operating costs of the Surface Water Treatment Plant. In accordance with the City's Financial Policy Framework, it was recommended that 70% be allocated to the Water Capital Reserve and 30% to the Water Rate Stabilization Reserve.
4. As described in the 2012 Business Plan – Year End Report, the \$2.8M surplus was primarily related to lower than anticipated operating costs for the surface water treatment plant, particularly hydro, gas and chemical requirements. Staff's improved knowledge of the operating costs of the facility have been incorporated into the 2013 Business Plan.
5. Following some discussion, City Council adopted motion 13-G-099 as follows:  
  
"That in consideration of the 2012 surpluses in water and wastewater programs, staff prepare a plan that addresses the technical, fiscal and long-term implications associated with reducing 2013 water rates such that 2013 actual revenues are \$2.0M lower than budgeted levels and report back to General Committee, no later than the end of May 2013."
6. The purpose of this staff report is to provide General Committee with a plan on how to return \$2.0M to water customers in light of the 2012 water and wastewater program surpluses and to identify the related technical, fiscal and long term implications.

### **ANALYSIS**

7. Staff, in consultation with the City's water billing system software vendor, have developed a plan that could provide a rebate to all water customers which reduces the 2013 water rate revenue by \$2M as follows:
  - a) Within the existing software, a customized script can be created to calculate a rebate for all customers that currently have an active water account. Based on their total 2012 volumetric water consumption, staff will be able to test the rebate calculation before it is applied to the customers' account, to ensure that the total rebate does not exceed the \$2.0M limit.
  - b) The rebate would be applied to the customers' account with their next water bill subsequent to the calculations being performed is issued. Therefore, all water customers will receive their rebates within two months of the calculation in accordance with the billing schedule. The rebate will clearly be identified on the bill and will be applied against the current month's charges or balance forwards on the customers' account.
  - c) If a customer has no water consumption in 2012, they will not receive the rebate.
  - d) The estimated cost of the customized script is \$8,500 (including the non-recoverable HST). It is recommended that this amount be funded by reducing the total rebated amount by the cost of the customized script.
8. The option of reducing the actual 2013 water rates to return the \$2M to our water customers was analyzed but not recommended because it would be difficult to limit the revenue reduction to \$2.0M, it would take the rest of the year to return the funds and it would be based on 2013 consumption rather than 2012 consumption for which the surpluses were generated.
9. Staff also looked at the option of reducing the 2014 rates in an amount equivalent to \$2.0M, however, this was not pursued as preliminary financial analysis of the growth management plans indicate that high capital investments would be required in water infrastructure in the next 3 or 4 years, therefore, it will be important for the City to continue to build their water reserves to minimize the requirement to use debt to pay the City's share of the water infrastructure.

### **ENVIRONMENTAL MATTERS**

10. There are no environmental matters related to the recommendation.

### **ALTERNATIVES**

11. The following alternative is available for consideration by General Committee:

**Alternative #1**

General Committee could decide to not return the \$2.0M to the water customers in light of the significant capital investment that will be required in the next few years and allow those funds to remain in the water reserves in accordance with the City's Financial Policy Framework.

While this alternative helps address long-term financial planning requirements, it does not align with Council's Direction on April 15, 2013.

**FINANCIAL**

12. The costs associated with providing a onetime rebate is \$8,500 (including the non-recoverable HST) for the customized software programming plus additional staff time to test and prepare the rebate for posting the customers' account. It is recommended that the amount to be rebated to customers be reduced to \$1,991,500 to provide the necessary funding for the customization.
13. The long range financial plan required by O.Reg 453/07 was filed with the Province in 2010. The province's objective in requiring a long range financial plan is to ensure municipalities have financially viable drinking water systems and that customers are able to access those intentions. This means rates should produce revenues sufficient for funding direct operating costs, indirect operating costs, financing costs and amortization charges. The plan must cover at least six (6) years.
14. The approved water financial plan called for annual rate increases of 13% for water. These relatively sharp increases reflected Barrie's historically very low costs for water services and information available at the time regarding planned operating costs, anticipated capital expenditures, forecast debt levels and consumption projections.
15. Council had been following this plan until 2012. In 2013 a 7% rate increase was approved, made possible by reducing planned contributions to reserves for future growth and renewal capital needs.
16. Over the past three years there have been significant changes to the water, the most significant being the requirement to complying with Safe Drinking Water legislation and opening the Surface Water Treatment Plant. Through these transitions it has been challenging to estimate the financial requirements to provide this essential services which has lead to some higher than anticipated surpluses. However, these surpluses have contributed to the strategic goal of strengthening the City's financial condition and will help to minimize the amount of debt that will need to be issued as we begin executing the City's growth management plan.
17. Now that the Surface Water Treatment Plan has been operational for a full cycle, the operating costs are well understood so staff do not anticipate unexpected surpluses to the same extent in the future.

**LINKAGE TO 2010-2014 COUNCIL STRATEGIC PLAN**

18. The recommendation included in this Staff Report does not support the goals identified in the 2010-2014 City Council Strategic Plan.