
Subject: 2025 Budget – Water and Wastewater Operating Budget, Rate Setting and Requisition

Report to: Budget Review Committee of the Whole

Report date: Thursday, November 7, 2024

Recommendations

1. That the 2025 Water & Wastewater net operating base budget increase of \$5,751,426 (or 3.72%) plus \$11,160,869 (or 7.22%) for capital financing over the 2024 operating budget **BE APPROVED**;
2. That an increase of \$2,053,502 (or 1.33%) over the 2024 operating budget **BE APPROVED** to support additional staffing resources for service delivery;
3. That the 2025 Water Operations gross operating budget of \$57,615,260 and net budget in the amount of \$57,071,267 for the Water Budget, Rates and Requisition **BE APPROVED**;
4. That the proposed fixed water requisition shown in Appendix 3 of Report CSD 48-2024, based on 25% of the Region's water net operating budget for the year and divided by 12 to determine the monthly charge, to be billed to each of the serviced Local Area Municipalities starting January 1, 2025, apportioned based on their previous three year's average water supply volumes, **BE APPROVED**;
5. That the Region's proposed 2025 variable water rate of \$0.751 shown in Table 2 of Report CSD 48-2024, to be effective January 1, 2025 and calculated by taking 75% of the Region's water net operating budget and dividing by the estimated supply volume, to be billed on a monthly basis to each serviced Local Area Municipality based on the previous month's metered flows, **BE APPROVED**;
6. That the 2025 Wastewater Operations gross operating budget of \$121,023,619 and net budget in the amount of \$116,477,200 for the Wastewater Budget, Rates and Requisition **BE APPROVED**;
7. That the proposed 2025 fixed wastewater requisition as shown in Appendix 5 of Report CSD 48-2024, based on 100% of the Region's net operating budget for the year and divided by 12 to determine the monthly charge, to be billed to each of the

Local Area Municipalities starting January 1, 2025, apportioned based on their previous three year's average wastewater supply volumes, **BE APPROVED**;

8. That the 2025 wastewater monthly bills **INCLUDE** the reconciliation for the 2023 net requisition allocation based on actual wastewater flows versus the estimated flows, as shown in Appendix 6 of Report CSD 48-2024;
9. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration; and
10. That a copy of Report CSD 48-2024 **BE CIRCULATED** to the Local Area Municipalities.

Key Facts

- The proposed Water net budget represents a \$3.8 million increase, or 7.06% over 2024; the proposed Wastewater net budget represents a \$15.2 million increase, or 15.01% over 2024, for a combined Water & Wastewater budget increase of 12.27% as shown in Table 1.
- Key drivers to the 2025 budget include: reinstatement of the historical CSO program budget, inflation, contract pressures, people strategy support, required repairs and maintenance on equipment and facilities, building condition assessments and the inclusion of additional hauled sewage revenues.
- The 2025 Budget Strategy proposed a total Water and Wastewater budget increase of 12.59% (4.11% for base budget expenditures, 7.22% for capital financing and 1.26% for program changes), however the revised budget estimates, primarily related to incremental hauled sewage revenue included in base services, has decreased the proposed combined increase to 12.27% (3.72% for base budget expenditures, 7.22% for capital financing and 1.33% for program changes)
- The approved 2021 Asset Management Plan (AMP) recommends a yearly increase of 7.22% on the combined water and wastewater rate and requisition for enhanced capital financing over a 10 year period to work towards achieving asset sustainability in the future which has been included in the proposed 2025 Water and Wastewater operating budget.

- The 2025 Budget includes a number of incremental staff to assist in service delivery and risk mitigation which are identified in recommendation 2 (See Appendix 7 to Report CSD 48-2024 for a list of the proposed staffing positions).
- The requisition methodology conforms to Council's approved cost recovery methodology from 2011, which was reaffirmed through Report CSD 61-2015, on July 2, 2015. The methodology apportions to the LAMs water at 75% variable rate and 25% as a fixed component and wastewater 100% fixed. The current methodology will be subject to review in 2025 based on feedback received from LAM partners.
- The proposed variable water rate is increased to \$0.751 (2024 = \$0.701) attributed to the budget increase with no projected change in water flows for 2025.

Financial Considerations

The Water and Wastewater Division's proposed 2025 net budget amount of \$173.5 million represents a \$19.0 million net increase or 12.27% (3.72% for base operating, 7.22% for enhanced capital financing, and 1.33% for staffing program changes) from the 2024 budget, as shown in Table 1. The total net cost related to the Water program is \$57.1 million, representing a net increase of \$3.8 million, or 7.06% from 2024. The remaining \$116.5 million relates to the Wastewater program, which has increased by \$15.2 million, or 15.01% from 2024. The proposed gross budget and comparison to the 2024 net budget are outlined in Table 1.

Table 1 – Summary of Proposed Water and Wastewater Budget (in millions)

Water & Wastewater 2025 Budget Summary	Water (\$)	Wastewater (\$)	Total (\$)
2024 Net Requisition	53.3	101.3	154.6
2025 Budget:			
Total Operating Expenses	26.3	62.5	88.8
Business Support	2.6	4.2	6.8
Reserve Transfer & Debt Charges	26.2	43.6	69.8
2025 Base Gross Budget Total	55.1	110.3	165.4
Less: Revenues	(0.5)	(4.5)	(5.0)
2025 Net Base Budget	54.5	105.8	160.3
% Change	2.28%	4.48%	3.72%
Enhanced Capital Financing (7.22%)	2.3	8.9	11.2
Program Changes – Staffing (1.33%)	0.3	1.8	2.1
2025 Net Requisition	57.1	116.5	173.6
Percentage Change	7.06%	15.01%	12.27%

Analysis

The 2025 Water and Wastewater budgets were developed giving consideration to current inflation, historical results (2023 actuals, 2024 forecast), operational concerns, legislative compliance, standard operating procedures and cross-divisional and corporate business support costs. The 2025 recommended budget is lower than the Budget Strategy estimated budget increase of 12.59% primarily due to the inclusion in the base budget of additional hauled sewage revenue in the amount of \$0.9 million. The inclusion of this incremental revenue was not factored into the Water and Wastewater 2025 Budget Strategy anticipated budget increase. This is discussed further below in the “Budget for Base Services” section of Report CSD 48-2024.

Budget for Base Services

The 2025 Budget Strategy estimated a base services increase of \$6.4 million (4.11%) on the 2024 Water and Wastewater combined rate and requisition. The 2025 Budget Strategy considered the impact of base services including chemical costs, repairs and maintenance, biosolids haulage, utilities and labour related costs. The actual proposed increase for base services is \$5.8 million (3.72%) or a difference of \$0.6 million (0.39%) from the 2025 Budget Strategy.

The 2025 Budget Strategy did not contemplate a new multi-rate cost recovery structure for hauled sewage revenues introduced at the September Public Works Committee meeting via Report PW 26-2024. Staff have included \$0.9 million of incremental hauled sewage revenues in the proposed 2025 operating budget in alignment with the new multi-rate cost recovery structure outlined in Report PW 26-2024. If this incremental revenue was not included in the 2025 Water and Wastewater operating budget, an additional 0.58% would be added to the base services pressures for a total increase of 4.30% to those pressures and overall increase to the proposed 2025 rate and requisition of 12.85%. The difference between the 2025 Base Budget Strategy (4.11%) and the actual proposed 2025 base budget increase excluding the incremental hauled sewage revenue (4.30%) is approximately \$0.3 million. This is primarily a result of additional budget for necessary repairs and maintenance activities on aging equipment and facilities in excess of the original 2025 Budget Strategy estimates.

Given the largely fixed cost nature of the operations (i.e., chemicals, utilities, biosolids haulage and disposal, property tax, previously approved debt charges), inflationary impacts on program delivery have been significant with limited opportunity for budget mitigation without risking core service delivery. Of the total gross budget amount of \$178.6 million for 2025, approximately 94% of the total amount is fixed as it relates to treatment of Water and Wastewater and capital financing. The remaining 6% can be classified as discretionary expenditures that does not specifically relate to Water/Wastewater treatment (i.e., CSO grants, certain building maintenance such as snow removal and grass cutting).

The base pressures to the budget of \$5.8 million (3.72%) are largely due to the following:

- \$1.0 million net increase in the CSO Program. This would increase the gross program budget from \$2 million to \$4 million with 50% of the gross costs funded by Development Charges
- \$1.4 million or 4.8% increase to labour related costs as per current labour contracts and policies
- \$0.8 million or 8.48% increase in chemical costs as a result of contractual price increases and an increase in consumption
- \$0.4 million or 9.29% increase in grounds/building repairs and maintenance due to contractual increases
- \$0.7 million or 11.56% increase in equipment repairs and maintenance due to rising costs and an increase demand in repairing aging infrastructure
- \$0.7 million or 5.39% inflationary increases in utilities and property taxes

- \$0.7 million or 7.95% increase for Regional sludge disposal primarily due to anticipated increases in the annual contract rate and haulage volumes
- \$0.4 million or 44.0% increase in external consulting to support building condition assessments critical for optimal asset management of Water and Wastewater infrastructure

The base pressures noted above were partially offset by identified savings noted below:

- \$0.9 million increase in hauled sewage revenue charged under a proposed multi-rate cost recovery fee structure for commercial and residential customers as per report PW 26-2024

Budget for Capital Financing

In October 2023, Council endorsed a 5.15% annual contribution to capital increase in alignment with the Safe Drinking Water Act (SDWA) Financial Plan for the 2024 budget. The SDWA Financial Plan proposed yearly budget increases of 5.15% for capital and a 2% increase for other operating expenses over a 10 year period. Per the 2021 AMP, achieving capital sustainability requires an annual capital contribution increase of 7.22% to the combined Water and Wastewater rate and requisition over a ten year period. When developing the updated SDWA Financial Plan, staff proposed a contribution to capital increase less than the 2021 AMP recommendation in recognition of ratepayer affordability, staffing and supply chain issues.

While the capital program has been progressing toward sustainability, an increase in backlog, replacement values, and revised capital project estimates require budget increases in excess of those proposed in the SDWA Financial Plan. The 2023 SDWA Financial Plan identified that with a yearly budget increase of 5.15% contributions to capital, approximately \$648 million of Water and Wastewater capital proposed in the AMP would still need to be deferred.

Staff have begun working on the 2025 AMP and early indications show a continued decline in the state of assets along with increased renewal costs since the previous 2021 AMP and the SDWA Financial Plan. The requirement to continue to increase investment to adequately sustain the water and wastewater system are real and present. The 2025 AMP will propose levels of service and financing strategies, including contributions to capital, to be reflected in future budgets.

In anticipation of the 2025 AMP recommendations, staff are proposing an incremental contribution to capital of 7.22% in alignment with the 2021 AMP for the 2025 operating budget. This contribution to capital rate from 2025-2032 would provide approximately \$168 million more in capital funding compared to the SDWA Financial Plan contribution to capital recommendation of 5.15% as shown in Appendix 2 to CSD 48-2024.

Program Changes – Staffing

The recommended 2025 Water and Wastewater operating budget includes the request for 20.4 incremental permanent full-time equivalent (FTE) staff on a path towards minimum staff levels to support program delivery, focus on preventative maintenance activities, compliance with regulators, an increasing capital portfolio, and best industry health and safety practices. These resources result in an incremental budget impact of \$2.1 million (1.33% of the 2024 Water and Wastewater budget). Appendix 7 details the position titles, rationale for positions, and budget related impacts per position.

Reserves and Debt

Operating reserves - The Water and Wastewater Divisions utilize stabilization reserves to mitigate operating deficits and fund one-time expenditures. The Wastewater Stabilization Reserve is forecasted to have a balance at the end of 2024 in the amount of \$0.1 million and the Water Stabilization Reserve is forecasted to have a balance of \$4.0 million. Based on the reserve targets of 10% to 15% of operating expenses, the minimum 2025 target for these reserves is \$7.9 million and \$3.0 million respectively for Wastewater and Water. The Wastewater Stabilization Reserve is considered underfunded and could impact the ability to mitigate risks.

Capital reserves - The projected annual capital reserve contributions until 2032 based on the 2021 AMP recommendations have been included in Appendix 2 to Report CSD 48-2024. This Appendix also includes the projected annual capital reserve contributions until 2032 based on 2023 SDWA Financial Plan recommendation for comparison.

Debt - Council previously approved debt of \$253 million for South Niagara Falls WWTP with \$75.56 million to be funded from the Wastewater rates and the balance from Development Charges. In accordance with Budget Policy, the 2025 budget includes the debt charge placeholder of \$4.6 million which will be used on an annual basis to substitute the rate supported debt approved for the project until project is complete, and debentures issued in approximately 2029. This strategy was supported by Council with the approval of the 2024 Water and Wastewater operating budget recommendations. This will reduce rate supported debt from \$75 million to approximately \$45 million by 2029 and will allow

previously initiated funding for the project of \$38 million to be largely funded with reserve as a risk mitigation measure to the reliance on outstanding Federal and Provincial contribution required to move construction forward. The strategy continues to allow for future debt charges to be reduced, may mitigate increased project capital costs/inflation, manage overall Regional debt capacity and provide greater operating budget flexibility.

Water Requisition

Fixed Water - As per Council’s approved methodology, \$14,267,817 (25%) of the net Water budget will be recovered from fixed monthly requisitions to the local municipalities based on historical flows. Appendix 3 to Report CSD 48-2024 summarizes the fixed amounts to be billed to each LAM based on this methodology.

The historical water flows and percentages utilized are included in Appendices 3 and 4 to Report CSD 48-2024. This annual amount based on the historical flows is then divided by 12 to determine the monthly charge to be billed to each of the services LAMs starting January 1, 2025. Also included as part of Appendix 3 to Report CSD-48-2024 is the annual impact on the fixed water requisition between 2024 and 2025 for each LAM.

Variable Water - The remaining \$42,803,450 (75%) will be charged through the variable rate. The recommended variable rate of \$0.751 per cubic metre as outlined in Table 3 is based on a water forecast using the past three year average flows. Despite growth for the Region in recent years the flow estimates are still volatile and are dependent on weather conditions. The resulting estimate for 2025 is an overall volume consistent with the amount used for the 2024 budget. An overview of the water trends and related risk is outlined in more detail in Appendix 4 to Report CSD 48-2024. The proposed variable water rate increase is \$0.0499 (7.12%) (2024 = \$0.701) which is attributed only to the budget increase.

Table 3 – Variable Water Rate for 2025 Net Budget

2025 Variable Water Rate	\$/Volume
Variable Allocation (75% x \$57,071,267)	\$42,803,450
2025 Water Flow Forecast (m ³)	57,000,000
Variable Rate (\$/m ³)	\$0.751

Wastewater Requisition

The wastewater net requisition is recovered 100% from fixed monthly requisitions to the local municipalities, apportioned based on the historical three year average flows. The annual amount is divided by twelve to determine the monthly charge to each of the serviced LAMs starting January 1, 2025. Appendix 5 to Report CSD 48-2024 provides the fixed amounts to be billed to each LAM based on this methodology as well as the historical wastewater flows and apportionments and the comparison of the fixed wastewater requisition amount between 2024 and 2025 for each LAM.

As per Council's approved cost recovery methodology, the 2025 monthly Wastewater charges will include reconciliation of the 2023 Wastewater requisition payments. Municipal 2023 rebates or charges will be based on their respective share of actual flows versus the estimated share used to initially allocate the 2023 charges. This reconciliation results in a total of \$347,514 in payments to, and \$347,514 in rebates from, the local municipalities included as Appendix 6 to Report CSD 48-2024. Tables outlining the calculation of the reconciliation and the total charge including the 2025 requisition and 2023 reconciliation by local municipality have been included in Appendix 6 to Report CSD 48-2024 as well.

Multi-Year Forecast

Staff have prepared the multi-year forecast using the 7.22% annual contribution to capital increase recommended in the 2021 AMP as well as inflationary impacts of other operating expenditures. The forecast reflects annual increases of 9.24% in 2026 and 8.86% in 2027. The key assumptions impacting the multi-year forecast are the continued investments in the People Strategy, inflation on contracted services and supplies, and annual increases of contributions to capital of 7.22% as noted above. The recommended contributions to capital will change with the 2025 AMP and will be considered as part of future budget processes. There are many assumptions and unknowns included in these forecasts, and staff will re-evaluate the long-term budget and capital strategies with the budget cycle each year.

It is important to note that the Water and Wastewater division is currently undergoing a number of studies on process and procedure optimization in its various sections. These studies will provide further recommendations on incremental resources to be considered as part of future budget processes. Staff will bring forth these recommendations from these studies once known. As these recommendations are unknown at this time, estimates have not been quantified or included as part of the multi-year operating budget.

Risks & Opportunities

- Unanticipated equipment and underground infrastructure failure may impact repairs and maintenance expenditures which are becoming more frequent given the age and condition of the infrastructure. The Wastewater Stabilization Reserve is underfunded which limits the ability to mitigate these impacts.
- Inflation and/or global supply chain challenges may have a budget impact on expenditures required to support program delivery.
- The implementation of a multi-rate cost recovery fee structure for commercial and residential hauled sewage customers is contingent on Council approval of the fees and charges by-law in December 2024. Should these fees not be approved, the budgeted incremental revenues from these amounts will need to be mitigated throughout 2025.
- Water/wastewater flows are weather dependent creating volatility in treatment costs and directly impact the variable portion of the water rate billed to LAM's

Alternatives Reviewed

The 2025 budget is in alignment with the budget strategy received by Council to sustain core services and maintain base service delivery.

At the discretion of the Council, programs can be identified for elimination from or addition to the budget. If this action is taken, staff request the opportunity to provide impacts/ risks with these decisions.

Relationship to Council Strategic Priorities

The 2025 Water and Wastewater proposed budgets support Council's strategic priorities of Effective Region by delivering fiscally responsible and sustainable services.

Other Pertinent Reports

[PW 45-2023 Safe Drinking Water Act Financial Plan](https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=6018a681-cfa7-46df-a06b-7c56447bcf99&Agenda=Agenda&lang=English&Item=15&Tab=attachments)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=6018a681-cfa7-46df-a06b-7c56447bcf99&Agenda=Agenda&lang=English&Item=15&Tab=attachments>)

[PW 39-2020 South Niagara Falls WWTP Update](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=f8747f43-9163-45b8-b0aa-6bd3e7d59a34&Agenda=Agenda&lang=English&Item=11>)

[PW 39-2021 South Niagara Falls Wastewater Treatment Plant- Budget and Property](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=456972bd-bf1e-4aa0-afac-55d158224dd3&Agenda=Merged&lang=English&Item=11>)

[CSD 29-2024 2025 Budget Strategy](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=5ea2c44e-e03a-4ef1-91b8-f5f6a188db45&Agenda=Agenda&lang=English&Item=13&Tab=attachmentst>)

[PW 26-2024 Hauled Sewage Rate Setting](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=5976cbfd-e4c5-49ed-9647-7b39d5dd7d97&Agenda=Merged&lang=English&Item=14&Tab=attachments>)

[CSD 7-2022 2021 Corporate Asset Management Plan](#)

(<https://www.microsoft.com/en-us/edge/welcome?mb05=true&form=MT004S&slide=ie-mode&esf=1>)

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Appendices

- Appendix 1 2025 Water and Wastewater Schedule of Revenues and Expenditures by Object of Expenditure

- Appendix 2 Forecasted Water and Wastewater Transfers to Capital Reserves

- Appendix 3 Fixed Water Requisition by Municipality
- Appendix 4 Water Volume Analysis

- Appendix 5 Fixed Wastewater Requisition by Municipality

- Appendix 6 Wastewater Flows by LAM, and 2023 Fixed Wastewater Requisition Including Reconciliation by Municipality

- Appendix 7 Water and Wastewater 2025 Program Changes - Staffing