
Subject: Council Motion Re 2020 Water and Wastewater Budget Increase
Deferral

Report to: Public Works Committee

Report date: Tuesday, May 12, 2020

Recommendations

1. That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to respond to a Council motion "*That the Region **DEFER** the 2020 water and wastewater rate increases to October 1, 2020*" which was made at the April 23, 2020 Regional Council meeting during review of CSD 31-2020 – Concessions to Local Area Municipalities regarding Taxes and Water Wastewater Billings.
- The 2020 Water and Wastewater Budget was approved on December 12, 2019 therefore the reduction in revenue/requisition associated with the above motion is a reconsideration of the previously approved budget.
- The months of January to March have already been billed to and collected from the local area municipalities using the approved 2020 requisition amounts, therefore a \$3.1 million amendment to the budget is required in order to revert back to the 2019 Budget for April 1 to October 1, 2020.
- At year-end 2019, the water and wastewater stabilization reserves had uncommitted balances of \$3.0M and \$1.3M, respectively therefore insufficient wastewater reserves are available to fund a budget amendment and manage other risks of operation for the remainder of the year.
- At the time of this report, ten of the eleven municipalities have approved 2020 water and wastewater budgets and six have already billed on this basis (which is inclusive of the Region's 2020 requisition amounts). Approval of this motion would require municipal decisions regarding the amounts already billed and collected, whether municipalities will have to amend their budget, adjust their rates or if they will retain the incremental amount collected.
- Staff is not recommending this deferral for the reasons described in the report and would suggest that a more appropriate way to provide relief to the public as a result of Covid-19 would be to consider relief in the 2021 budget preparation.

Financial Considerations

As identified with the 2020 Water and Wastewater Budget as approved on December 12, 2019, Council approved an increase of 5.15% (\$6 million) to the budget which was estimated to have an impact on the average residential user ranging from approximately \$23 to \$35 annually.

At the April 23, 2020 Council meeting, Council passed a motion requesting a report back to the Public Works Committee outlining the impacts of deferring the 2020 water and wastewater requisition increases until October 1, 2020. The motion is included below for reference:

*“That the Region **DEFER** the 2020 water and wastewater rate increases to October 1, 2020.” – Mayor Campion*

Items to be considered regarding this motion are as follows:

- A deferral of the 2020 budget increase for any portion of the year will result in a budget shortfall which would require a budget amendment and amendments to by-laws 2019-94 and 2019-95 as the requisition amounts would change from what was previously approved.
- The 2020 budget was effective for billings to the local area municipalities beginning January 1, 2020. Therefore monthly water and wastewater amounts have been billed to and collected from the area municipalities for January through March.
- Ten of the eleven municipalities that have water and wastewater services have approved their 2020 water and wastewater operating budgets and six have started to bill based on 2020 approved rates (representing approximately 50% of the total water and wastewater budget for the Region).
- From a practical matter it would be more appropriate to consider this motion as applicable to only adjusting the budget from April 1 to October 1 (six months) however impacts have also been provided for a nine month deferral with a note of the additional considerations related to a retroactive adjustment back to January 1, 2020
- Any decrease in the Regional requisition amounts would not automatically result in savings to property owners. For any savings to flow through to property owners, the area municipality would also need to amend their budgets and reduce rates for 2020
- Any one time budget reductions necessary to accommodate a 2020 amendment to the budget would create additional pressure on the 2021 budget to reinstate the programs and re-establish current service levels.

- Water and wastewater stabilization reserves are currently significantly underfunded relative to Policy and risk mitigation needs therefore the use of these reserves to fund the budget amendment may not leave sufficient balances to mitigate unanticipated expenditures or year-end deficits.

In order to apply the amendment to October 1, 2020 on a prospective basis only (six months), it would create a revenue shortfall of \$0.9 million for water and \$2.2 million for wastewater for a total of \$3.1 million. This would decrease the average residential household impact for 2020 by half to approximately \$12 to \$18 annually over 2019.

Table 1 – Revenue Shortfall for 6 Month Amendment

	Water	Wastewater	Total
2020 Net Requisition (as per Approved Budget)	45,920,957	77,020,694	122,941,651
Amended Revenue	45,041,444	74,850,226	119,891,670
Revenue Shortfall	879,513	2,170,468	3,049,981

Applying the amendment retroactively for the months of January through September 2020 would create a revenue shortfall of \$1.3 million for water and \$3.3 million for wastewater for a total of \$4.5 million and consideration of the following:

- Refunds to the local area municipalities will be required for January to March
- Six municipalities will need to consider budget amendments
- These six municipalities will need to address overbilling to the residents for any period already billed to the residents and businesses

A nine month amendment would decrease the average residential household impact for 2020 to approximately \$6 to \$9 annually over 2019.

Table 2 – Revenue Shortfall for 9 Month Amendment

	Water	Wastewater	Total
2020 Net Requisition (as per Approved Budget)	45,920,957	77,020,694	122,941,651
Amended Revenue	44,655,019	73,764,992	118,420,011
Revenue Shortfall	1,265,938	3,255,702	4,521,640

Options to Address Budget Amendment

As previously noted, the anticipated shortfalls would be approximately \$0.9 million and \$2.2 million for water and wastewater, respectively, under the six month prospective approach. A summary of mitigation options can be found in Table 3 with further explanation below.

Table 3 – Revenue Shortfall Mitigation (\$)

	Water	Wastewater	Total
2020 Net Requisition (as per Approved Budget)	45,920,957	77,020,694	122,941,651
Amended Revenue	45,041,444	74,850,226	119,891,670
Revenue Shortfall	879,513	2,170,468	3,049,981
Mitigation Options:			
(1) CSO Grant Program 1/2 Cancellation	0	1,000,000	1,000,000
(2) Operational Savings	414,803	170,468	585,271
(3) Stabilization Reserve Funding	464,710	1,000,000	1,479,513
Total Mitigation	879,513	2,170,468	3,049,981

(1) CSO Grant Program Cancellation for 2020 – Each year the Region partners with area municipalities to fund combined sewer overflow separation initiatives. The 2020 annual budget for this program is \$4 million with \$2 million funded from the rate requisition and \$2 million from Development Charges. Cancelling half of this for the year would provide \$1 million to offset anticipated revenue shortfalls for the wastewater requisition but will create additional pressures in 2021 to reinstate the program.

The Region currently has \$16 million in commitments to 10 municipalities for approved but unspent CSO projects as per Appendix 1. Deferring a portion of the 2020 CSO funding may allow municipalities to focus on the historical projects.

St. Catharines staff have identified one project that would be impacted if the Regional CSO funds were not approved in 2020 as the project has been tendered. The City would need to find funds to replace the CSO Regional funds as this project needs to continue in 2020.

(2) Operational Savings – Staff have also identified approximately \$0.6 million in operational savings as a result of covid-19 that could be utilized to offset revenue

shortfalls. Removing these savings will cause budget pressures in 2021 as these costs will be proposed to be reinstated into the 2021 budget. These savings include:

- a. **Water** – \$0.4 million – One-time cancellation of public outreach events including the annual Children's Water Festival (\$77K), the Water Wagon program (\$75K), student positions (\$221), conferences (\$15K) and salary gapping (\$27K). These would only be one-time reductions as public outreach events have a significant positive impact on the community in terms of education of the general public and the youth in the Niagara Region. Any salary gapping savings are temporary to 2020 as it is anticipated all positions will be filled post pandemic.
- b. **Wastewater** – \$0.2 million – One-time cancellation of student positions. Hiring students provides the labour to complete general tasks in the division in order to free up Water and Wastewater staff to concentrate on more complex tasks. As well, the student positions provide job opportunities for youth and develop the future workforce.

(3) Stabilization Reserve Funding – The purpose of the stabilization reserves is to provide a funding source for one-time non-reoccurring costs, operating deficits, mitigation/phase-in of significant impacts (water sales, etc.) or contingency. Utilizing the stabilization reserves for this purpose would be in compliance with this policy. However, based on the Reserve and Reserve Fund Policy, the stabilization reserves for water and wastewater should have a balance equal to 10%-15% of the gross operating expense budget. As per Table 4 the projected balance is below the target balance.

A review of year to date flows for water has identified a significant decline in actual/forecasted flows against the budget as a result of local infrastructure improvements and impacts of Covid-19. This variance is an additional pressure of \$1.4 million for 2020. The only way to mitigate this decrease in revenue would be to utilize the stabilization reserve at year-end.

Table 4 – Stabilization Reserve Continuity Schedules (\$)

	Water	Wastewater
Available Balance after Commitments	2,985,000	1,348,000
Used as Mitigation as per the Above	464,710	1,000,000
2020 Anticipated Water Variable Revenue Variance	1,366,114	0
Projected 2020 year-end Balance	1,154,176	348,000
% of Gross Operating Budget	5.3%	0.7%
Target Reserve Balance	2.2M to 3.3M	4.8M to 7.3M

(4) Capital Reserve – A decrease to capital reserve contributions for 2020 or use of existing water and wastewater capital reserves as a means of offsetting the anticipated revenue shortfalls is not presented. A ten year capital funding gap of \$1.2 billion exists of which \$420 million relates to water and wastewater therefore would impact sustainability of funding for capital and create increasing funding pressure in future years.

(5) Retroactive 9 Month Amendment – In addition to the \$3 million in option identified above, an additional \$1.5 million in budget reductions would need to be identified.

- a. **Water** – Use of stabilization reserve of \$0.4 million which would reduce the projected reserve balance to \$0.8 million, or 3.5% of gross operating expense.
- b. **Wastewater** – Cancellation of full CSO grant program for 2020 (\$1 million) plus the use of stabilization reserve of \$0.1 million which would reduce the projected reserve balance to \$0.2 million, or 0.5% of gross operating expense.

Analysis

The budget increase is requisitioned to local area municipalities based on the approved methodology based on flows. Variations in the flows will cause the budget increase to impact municipalities differently. The six month prospective budget amendment option described previously will impact the municipalities in accordance with Tables 5 and 6. The 2018 wastewater reconciliation amount remains unchanged and therefore excluded from the analysis.

As seen in Table 5 and 6, the six month prospective budget amendment still results in an increase in the 2020 requisitions over 2019 which would have to be considered in the municipalities' 2020 budget. The previously approved water budget increase of 3.80% would therefore be reduced to 1.9% and impact the local area municipalities in accordance with Table 5. The previously approved wastewater budget increase of 5.97% would therefore be reduced to 2.99% and impact the local area municipalities in accordance with Table 6.

Table 5 – Water Fixed Requisition (\$) – 2019 By-law vs. 2020 Six month Amended Budget

Municipality	2019 By-Law	2020 Deferral Period	Difference	% Increase
Fort Erie	891,561	883,168	(8,393)	-0.94%
Grimsby	619,814	596,945	(22,869)	-3.69%
Lincoln	440,441	444,478	4,037	0.92%
Niagara Falls	2,934,620	2,956,014	21,394	0.73%
Niagara-on-the-Lake	598,784	612,288	13,504	2.26%
Pelham	240,909	232,226	(8,683)	-3.60%
Port Colborne	588,466	598,844	10,378	1.76%
St. Catharines	2,920,423	2,987,201	66,778	2.29%
Thorold	395,051	419,391	24,340	6.16%
Welland	1,265,722	1,367,032	101,310	8.00%
West Lincoln	163,933	172,393	8,460	5.16%
Total	11,059,724	11,269,982	210,258	1.90%

Table 6 – Wastewater Fixed Requisition (\$) – 2019 By-law vs. 2020 Six month Amended Budget

Municipality	2019 By-Law	2020 Deferral Period	Difference	% Increase
Fort Erie	7,596,338	7,817,231	220,893	2.91%
Grimsby	3,324,124	3,634,887	310,763	9.35%
Lincoln	2,837,406	2,865,590	28,184	0.99%
Niagara Falls	14,727,578	14,687,622	(39,956)	-0.27%
Niagara-on-the-Lake	2,960,936	3,095,635	134,699	4.55%
Pelham	1,353,523	1,340,186	(13,337)	-0.99%
Port Colborne	4,076,742	4,416,062	339,320	8.32%
St. Catharines	20,740,949	21,298,401	557,452	2.69%
Thorold	3,535,506	3,789,910	254,404	7.20%
Welland	10,363,446	10,702,005	338,559	3.27%
West Lincoln	1,163,210	1,202,697	39,487	3.39%
Total	72,679,758	74,850,226	2,170,468	2.99%

The retroactive nine month amendment calculations relative to the 2019 budget are in Appendix 2. Also, provided in Appendix 3 is a summary of the amended budget relative to the 2020 previously approved requisition amounts.

Alternatives Reviewed

Amending the 2020 water and wastewater budgets is not recommended due to the unsustainable impacts that this will have on the already approved budget and the budgets of local area municipalities. Impacts of COVID-19 will be considered in the preparation of the 2021 budget.

The two options of prospective or retroactive budget amendment to implement the motion being considered are provided in the Analysis section of the report however they are not being recommended. Concessions provided by the local area municipalities and supported by the Region with extended payment terms will provide some relief to the property owners in addition to future sustainable considerations in the 2021 budget.

Relationship to Council Strategic Priorities

- **Objective 3.3: Maintain Existing Infrastructure** – The 2020 Water and Wastewater operating budgets as approved contained enhanced capital financing representing a 3.15% increase over 2019 which is a key component to maintaining existing Regional infrastructure.
- **Objective 4.3: Fiscally Sustainable** – The 2020 Water and Wastewater operating budgets was developed to foster financial stability in delivering critical infrastructure and services.

Other Pertinent Reports

[CSD 71-2019](#) – 2020 Budget – Water and Wastewater Operating Budget, Rate Setting and Requisition

[CSD 31-2020](#) – Concessions to Local Area Municipalities regarding Taxes and Water Wastewater Billings

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Appendices

Appendix 1	CSO Project Budget Remaining by Year
Appendix 2	Fixed Requisitions - 2019 By-law compared to the 2020 Nine Month Budget Amendment
Appendix 3	2020 Budget Requisition compared to 2020 Budget Amendment

Summary of CSO Project Remaining Budget Encumbrance by Municipality by Year of 2019 Year-End (\$)

Municipality	Year	2013	2014	2015	2016	2017	2018	2019	Grand Total
Fort Erie				8,729	242,342	9,844	414,581	786,000	1,461,497
Grimsby	1,503,293				136,308				1,639,601
Lincoln					379	2,100	312,182	391,165	705,826
Niagara Falls		4,566	229,644	547,174	320,759	538,935	401,663	615,879	2,658,620
Niagara-on-the-Lake							150,000	150,000	300,000
Pelham				5,173			50,000	15,000	70,173
Port Colborne					186,460	98,684			285,144
St. Catharines		371,751	464,097	479,376	1,375,676	528,374	1,102,654	1,243,200	5,565,128
Thorold				213,663	248,255	10,569	299,465	10,590	782,543
Welland				385,000	265,898	264,067	970,901	719,200	2,605,066
Grand Total	1,503,293	376,317	693,741	1,639,116	2,776,077	1,452,574	3,701,446	3,931,034	16,073,598

Appendix 2 - 2019 By-law Fixed Charges Compared to 2020 Amended Fixed Charges

Table 1 – Water Fixed Requisition (\$) – 2019 By-law vs. 2020 Nine month Amended Budget

Municipality	2019 By-Law	2020 Amended Budget	Difference	% Increase
Fort Erie	891,561	874,930	(16,631)	-1.87%
Grimsby	619,814	591,377	(28,437)	-4.59%
Lincoln	440,441	440,332	(109)	-0.02%
Niagara Falls	2,934,620	2,928,440	(6,180)	-0.21%
Niagara-on-the-Lake	598,784	606,577	7,793	1.30%
Pelham	240,909	230,059	(10,850)	-4.50%
Port Colborne	588,466	593,258	4,792	0.81%
St. Catharines	2,920,423	2,959,336	38,913	1.33%
Thorold	395,051	415,479	20,428	5.17%
Welland	1,265,722	1,354,280	88,558	7.00%
West Lincoln	163,933	170,785	6,852	4.18%
Total	11,059,724	11,164,853	105,129	0.95%

Table 2 – Wastewater Fixed Requisition (\$) – 2019 By-law vs. 2020 Nine month Amended Budget

Municipality	2019 By-Law	2020 Amended Budget	Difference	% Increase
Fort Erie	7,596,338	7,703,891	107,553	1.42%
Grimsby	3,324,124	3,582,186	258,062	7.76%
Lincoln	2,837,406	2,824,043	(13,363)	-0.47%
Niagara Falls	14,727,578	14,474,670	(252,908)	-1.72%
Niagara-on-the-Lake	2,960,936	3,050,753	89,817	3.03%
Pelham	1,353,523	1,320,755	(32,768)	-2.42%
Port Colborne	4,076,742	4,352,035	275,293	6.75%
St. Catharines	20,740,949	20,989,601	248,652	1.20%
Thorold	3,535,506	3,734,961	199,455	5.64%
Welland	10,363,446	10,546,839	183,393	1.77%
West Lincoln	1,163,210	1,185,259	22,049	1.90%
Total	72,679,758	73,764,992	1,085,234	1.49%

Appendix 3 – 2020 Council Approved Requisitions Compared to Amended Budget

Table 1 – Total Water Requisition Impact 6 Month Prospective Budget Amendment (Variable & Fixed)

Municipality	2020 Net Budget Allocation	6 Month Budget Amendment	Total Reduction (\$)	Total Reduction (%)
Fort Erie	3,598,580	3,510,000	(88,579)	-2.5%
Grimsby	2,432,329	2,397,982	(34,347)	-1.4%
Lincoln	1,811,083	1,781,956	(29,128)	-1.6%
Niagara Falls	12,044,653	11,777,809	(266,843)	-2.2%
NOTL	2,494,845	2,463,425	(31,420)	-1.3%
Pelham	946,232	926,537	(19,695)	-2.1%
Port Colborne	2,440,066	2,393,457	(46,609)	-1.9%
St. Catharines	12,171,726	11,936,888	(234,838)	-1.9%
Thorold	1,708,861	1,691,152	(17,709)	-1.0%
Welland	5,570,145	5,461,697	(108,449)	-1.9%
West Lincoln	702,438	700,541	(1,896)	-0.3%
Total	45,920,957	45,041,444	(879,513)	-1.9%

The 6 month prospective budget amendment would impact each municipality differently depending on their share of relative flows. The 2020 Water operating budget as approved contained an increase of 3.80% over 2019. The 6 month prospective budget amendment would reduce the impact to 1.9% and would range from approximately a reduction of \$1,896 to \$266,843.

Table 2 – Total Wastewater Requisition Impact 6 Month Prospective Budget Amendment (Fixed)

Municipality	2020 Net Budget Allocation	6 Month Budget Amendment	Total Reduction (\$)	Total Reduction (%)
Fort Erie	8,043,911	7,817,231	(226,680)	-2.82%
Grimsby	3,740,290	3,634,887	(105,403)	-2.82%
Lincoln	2,948,685	2,865,590	(83,095)	-2.82%
Niagara Falls	15,113,526	14,687,622	(425,904)	-2.82%
NOTL	3,185,401	3,095,635	(89,766)	-2.82%
Pelham	1,379,048	1,340,186	(38,862)	-2.82%
Port Colborne	4,544,117	4,416,062	(128,055)	-2.82%
St. Catharines	21,916,001	21,298,401	(617,600)	-2.82%
Thorold	3,899,808	3,789,910	(109,898)	-2.82%
Welland	11,012,336	10,702,005	(310,331)	-2.82%
West Lincoln	1,237,572	1,202,697	(34,875)	-2.82%
Total	77,020,694	74,850,226	(2,170,468)	-2.82%

The 6 month prospective budget amendment would impact each municipality uniformly since both are utilizing 2020 budgeted flows. The 2020 Wastewater operating budget as approved contained an increase of 5.97% over 2019. The 6 month prospective budget amendment would reduce the impact to 2.99%. The amendment would create differentials ranging from approximately reduction of \$34,875 to \$617,600.

**Table 3 – Total Water Requisition Impact 9 Month Retroactive Budget Amendment
(Variable & Fixed)**

Municipality	2020 Net Budget Allocation	9 Month Budget Amendment	Total Reduction (\$)	Total Reduction (%)
Fort Erie	3,598,580	3,479,392	(119,187)	-3.31%
Grimsby	2,432,329	2,378,268	(54,061)	-2.22%
Lincoln	1,811,083	1,767,517	(43,566)	-2.41%
Niagara Falls	12,044,653	11,676,733	(367,920)	-3.05%
NOTL	2,494,845	2,444,875	(49,970)	-2.00%
Pelham	946,232	918,892	(27,340)	-2.89%
Port Colborne	2,440,066	2,370,390	(69,676)	-2.86%
St. Catharines	12,171,726	11,835,568	(336,158)	-2.76%
Thorold	1,708,861	1,676,223	(32,638)	-1.91%
Welland	5,570,145	5,412,850	(157,295)	-2.82%
West Lincoln	702,438	694,342	(8,095)	-1.15%
Total	45,920,957	44,655,049	(1,265,908)	-2.76%

The 9 month retroactive budget amendment would impact each municipality differently depending on their share of relative flows. The 2020 Water operating budget as approved contained an increase of 3.80% over 2019. The 9 month retroactive budget amendment would reduce the impact to 0.94% and would range from approximately a reduction of \$8,095 to \$367,920.

Table 4 – Total Wastewater Requisition Impact 9 Month Prospective Budget Amendment (Fixed)

Municipality	2020 Net Budget Allocation	9 Month Budget Amendment	Total Reduction (\$)	Total Reduction (%)
Fort Erie	8,043,911	7,703,891	(340,020)	-4.23%
Grimsby	3,740,290	3,582,186	(158,104)	-4.23%
Lincoln	2,948,685	2,824,043	(124,642)	-4.23%
Niagara Falls	15,113,526	14,474,670	(638,856)	-4.23%
NOTL	3,185,401	3,050,753	(134,648)	-4.23%
Pelham	1,379,048	1,320,755	(58,293)	-4.23%
Port Colborne	4,544,117	4,352,035	(192,082)	-4.23%
St. Catharines	21,916,001	20,989,601	(926,400)	-4.23%
Thorold	3,899,808	3,734,961	(164,847)	-4.23%
Welland	11,012,336	10,546,839	(465,497)	-4.23%
West Lincoln	1,237,572	1,185,259	(52,313)	-4.23%
Total	77,020,694	73,764,992	(3,255,702)	-4.23%

The 9 month retroactive budget amendment would impact each municipality uniformly since both are utilizing 2020 budgeted flows. The 2020 Wastewater operating budget as approved contained an increase of 5.97% over 2019. If the 9 month retroactive budget amendment were to be approved, the increase would be reduced to 1.49%. The amendment would create differentials ranging from approximately reduction of \$52,313 to \$926,400.