



## The Corporation of the Town of Tecumseh

Financial Services

**To:** Mayor and Members of Council

**From:** Tom Kitsos, Director Financial Services & Chief Financial Officer

**Date to Council:** May 23, 2023

**Report Number:** FS-2023-04

**Subject:** 2023 Water and Wastewater Rate Study

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### Recommendations

It is recommended:

**That** Report FS-2023-04 2023 Water and Wastewater Rate Study **be received**;

**And that** the Tecumseh 2023 Water and Wastewater Rate Study **be approved**;

**And further that** the final Tecumseh 2023 Water and Wastewater Rate Study **be posted** to the Town's website;

**And furthermore that** Water and Wastewater user rates **be updated** annually based on the 2023 Water and Wastewater Rate Study and as part of the Town's annual budget process.

### Background

Municipal water and wastewater services are provided to Tecumseh residents based on a user-pay structure, whereby water and wastewater rates established through the Town's annual budget process are intended to generate revenues sufficient for the self-sustenance of each service.

Water is purchased in bulk from Windsor Utilities Commission (WUC) based on a 50-year Water Servicing Agreement effective March 31, 2006 that includes annual rate increases equivalent to annual Consumer Price Index (CPI) and an opportunity for rate adjustments at 10-year anniversary intervals. The Town owns and operates the distribution system within the Town, including metering facilities at the Town boundary.

Wastewater treatment services are provided by the City of Windsor based on a perpetual Wastewater Service Agreement established March 3, 1970 and since amended on several occasions to either account for Tecumseh wastewater service expansion and/or adjust the proportionate payment for treatment plant costs borne by both Tecumseh and the City. The Town owns and operates the wastewater collection system within the Town's boundaries, which provide conveyance of the Town's wastewater to the outlets and into the City of Windsor.

The Town undertakes a periodic review of the water and wastewater services, by way of a Water and Wastewater Rate Study, to:

- Determine the funds required to sustain the Town's water and wastewater infrastructure over the next 10 years using existing capital and operating plans, and
- Determine how to best recover those costs, including re-evaluating the fairness of the current rate structure and charge to the end user as well as identifying other potential revenue sources.

Reviews are generally undertaken every five years or on an as-needed basis to ensure the existing rate structure continues to be the most appropriate. Over time, regulations, legislation, budgets, capital requirements, consumption trends and projections, and the goals and objectives of the municipality may change, which may trigger a rate structure review in advance of a general review.

Administration presented the 2023 Water and Wastewater Rate Study (Study) to Council at the Regular Council Meeting of April 25, 2023, and posted the Study to the Town's web site on April 26, providing a review period prior to recommending approval of the Study.

The review period has concluded with no matters or concerns raised by Council or Town ratepayers, and as such, Administration recommends the approval of the Study as presented on April 25.

## **Comments**

The Town's Water and Wastewater Rates are generally guided by the Town's Water and Wastewater Rate Study. The Town last conducted a Study review and update in 2015.

The Town's existing rate structure is a combination of a fixed charge rate and a volumetric charge rate for both water and wastewater. This is the rate structure used by the vast majority of municipalities.

The fixed charge rate is a set charge per customer for each billing period based on meter size.

The Town currently uses two types of volumetric rate charge structures.

The Uniform Rate, a single volumetric rate for all customers, is used for Wastewater services, except for a discount provided to Bonduelle (large food processing facility). This discount recognizes that a portion of their water consumption is retained in their processing and therefore not discharged through municipal wastewater infrastructure.

The Decreasing Block Rate, a volumetric rate that decreases in steps as consumption increases, is used for Water services. This structure is often employed by municipalities having heavy commercial or industrial users. The Town's structure includes two block rates; one for water consumption volumes of 10,200 cubic metres or less per month, and another for consumption volumes greater than 10,200 cubic metres per month.

The Town typically reviews and updates the Study every five years, or sooner in instances where a specific matter triggers an earlier review. The Study was due for a general review and update in 2020, however due the COVID-19 pandemic, was postponed until 2023.

Recent changes to the Town's rate charge structure include:

- 2011 - Introduction of Decreasing Block Rate for Water users. One decreasing rate step introduced for consumption greater than 10,200 cubic meters per month.
- 2013 – One-time adjustment to both water and wastewater volumetric charge rates to address funding shortfall in wastewater. Wastewater volumetric charge rate increased by \$0.20 with reduction to Water volumetric charge rate of \$0.165 for net zero change to combined reserve funds.
- 2015 – Greater increase to fixed charge rate over volumetric charge rate to gradually increase the fixed portion of user fees from 33% of total user fees collected to 40%.

The 2023 Study review and update is a general update and was undertaken with consideration towards the following guiding principles:

Financial sustainability – fees generated are sufficient for full cost recovery of quality water and wastewater services over the 10-year study timeframe. The 2023 Study projections indicate that annual increases of 3% to both fixed and volumetric rates for both water and wastewater will maintain quality services.

Stabilization of revenue – fees generated will be reliable and predictable, while also being mindful of Fairness and Conservation. Fixed user fees reached 40% of total user fees collected in 2023, achieving the objective of the 2015 Study.

Fairness – users should be contributing equitably to the cost of the systems. Volumetric user charge rates are essentially uniform, with the exception of reduced rates for large users.

Affordability – the cost of the services should not be prohibitive. Combined water and wastewater user fees for the average residential consumer will amount to \$1,067 in 2023, based on monthly consumption of 20 cubic metres as compared to the Essex County Municipal Peer average of \$1,245.

Economic development/retention – provision of incentives that recognize economies of scale that may exist for large users. The Decreasing Block Rate established in 2011 continues to benefit large users and is competitive with peer municipalities.

Conservation – efficient use of water may reduce operating costs and capital investment over time. Fresh, clean water is a limited and costly resource. Volumetric user fees account for 60% of total user fees collected, thereby providing financial incentive for users to conserve water usage.

With total user fees now at a 40/60 split between fixed and volumetric fees, a competitive decreasing block rate for large water users in effect and overall user rates competitive both within Essex County and the Province, no structural changes to user charge rates are recommended.

Commencing with the 2024 Budget process, the 2023 Study will be used to guide annual rate adjustments for budget years 2024-2028, assuming there are no events that would trigger an earlier review and update to the Study.

Factors most likely to impact the rate of annual increase will be:

- Inflation - primarily affecting capital expenditures where recent public tenders have returned submissions exceeding budgeted expenditures.
- Customer growth – the Study includes household growth projections over the 10-year timeframe. Greater or lesser growth will impact fees collected and ultimately funds available for operating and capital expenditures.
- WUC bulk water rate adjustment – the next 10-year anniversary occurs in 2026 providing an opportunity for WUC to request a rate adjustment to bulk water purchase rates. The one-time rate adjustment effective 2017 resulted in an increase of \$0.03 to the bulk purchase rate, or 9.1%.
- Wastewater treatment costs – the wastewater treatment agreement with the City provides for cost sharing of plant treatment costs. Plant treatment rates have

experienced annual increases in excess of 20% the past two years primarily due to a combination of extraordinary inflationary increases to both operating and capital expenditures and reduced volumes of wastewater treated.

## Consultations

Chief Administrative Officer  
Public Works & Engineering Services

## Financial Implications

There are no financial implications directly related to the 2023 Water and Wastewater Rate Study.

The Study recommends annual rate increases of 3% for both fixed and volumetric rates commencing in 2024 through to the end of the Study timeframe. Actual rate increases will be considered during the Town's annual Budget process.

## Link to Strategic Priorities

Applicable	2019-22 Strategic Priorities
<input type="checkbox"/>	Make the Town of Tecumseh an even better place to live, work and invest through a shared vision for our residents and newcomers.
<input checked="" type="checkbox"/>	Ensure that Tecumseh's current and future growth is built upon the principles of sustainability and strategic decision-making.
<input type="checkbox"/>	Integrate the principles of health and wellness into all of Tecumseh's plans and priorities.
<input type="checkbox"/>	Steward the Town's "continuous improvement" approach to municipal service delivery to residents and businesses.
<input type="checkbox"/>	Demonstrate the Town's leadership role in the community by promoting good governance and community engagement, by bringing together organizations serving the Town and the region to pursue common goals.

## Communications

Not applicable ☒

Website ☐

Social Media ☐

News Release ☐

Local Newspaper ☐

This report has been reviewed by Senior Administration as indicated below and recommended for submission by the Chief Administrative Officer.

Prepared by:

Tom Kitsos, CPA, CMA, BComm  
Director Financial Services & Chief Financial Officer

Recommended by:

Margaret Misek-Evans, MCIP, RPP  
Chief Administrative Officer

Attachment Number	Attachment Name
None	None