



## Financial Services Staff Report

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### Recommendation:

That the Council of the Township of Woolwich, considering Report F02-2025 respecting Proposed Utility Rates - 2025:

1. Discuss and debate the proposed draft 2025 Utility Rates; and
2. Direct staff to bring the 2025 Water and Wastewater rates forward with any amendments directed by Council for final discussion by Committee of the Whole on February 4, 2025 and approval by Council on February 18, 2025.

### Background:

The Township sets its water and wastewater rates annually as part of the budget process. Regular updates of water and wastewater rates is essential to ensure that generated revenues adequately cover operations costs and capital contributions to ensure long term financial sustainability.

This report provides Council an overview of Staff's recommendation for the 2025 Township water and wastewater budgets and Utility rates. Historically these rates have been reviewed and approved after the tax supported budget discussion. However, recent utility deficits have demonstrated the need for increased understanding of these budgets.

Staff have accelerated the presentation of these budgets to provide Council more time for review and deliberation. In future years, it is planned to more fully integrate the tax supported and utility rate budgets into a single package and to discuss the utility rate budgets as part of the overall budget process.

While these budgets / rates set responsible utility rates, future work is still required to determine the root cause of recent deficits and implement corrective action. The proposed rates represent an affordable interim step in a multi year process to fully understand and right size the utility budgets and ensure long term sustainability.

## **Comments:**

The following paragraphs contain key highlights of the proposed 2025 Water and Wastewater budgets. Full details can be found in **Attachment 1 and 2 – Utility Rate Budgets**.

### **Utility Rate Budget Financial Position**

As reported to Council a number in quarterly variance updates and in F19-2024, the financial situation of the water and wastewater program is in a critical state. It was highlighted for Council during the 2024 budget that recent capital budgets have fully depleted available water and wastewater reserve funds.

Corrective action was taken during the 2024 process to inject additional revenue into these reserve funds. However, in 2024 an additional concern was presented related to deficits in the water and wastewater operating budgets. The current forecasts anticipate approximately a \$500,000 shortfall in the water program and \$1,000,000 shortfall in wastewater. With no available operating reserves these deficits place additional pressure on already depleted capital reserves.

To mitigate this, Staff have proposed a temporary pause on water and wastewater capital program in the 2025 budget allow time for capital reserves time to recover. However, future work is still required to determine the root cause of recent deficits and implement corrective action. The proposed rates represent a responsible interim step to ensure long term fiscal sustainability.

### **2024 BMA Report**

In October 2024, staff presented the water and wastewater rate study that was prepared by BMA consulting. The study looked at the 6-year capital and operating needs and recommended the following rate increases.

Page 30 of the BMA report outlines an operating budget forecast as well as the existing fixed charge. For water, the report recommends a 6.3% increase for both fixed and volumetric rates each year over the next 6 years. For wastewater, the report recommends an 10.2% increase for both fixed and volumetric rates each year over the next 4 years and an 7.3% increase in the final two years.

Staff have used these recommended increases to index the fixed reserve contribution as well as to provide an overall reality check to ensure the proposed volumetric rates are in line with report recommendations.

## 2025 Regional Rates

The Region charges the municipality a wholesale rate for water and wastewater services, and the Township adds an additional fee on top of this wholesale rate to cover local capital and operating costs.

Regional costs comprise the largest item in the budget and costs are forecast to increase over the next 10 years, with increases of 5.4% and 6.4% anticipated each year over the next few years. The table below summarizes the regional projections:

	Regional % Increase	
	Water	WW
2025	5.4%	6.4%
2026	5.4%	6.4%
2027	5.4%	5.4%
2028	5.4%	5.4%
2029	5.4%	2.4%
2030	5.4%	2.4%

## 2025 Utility Budget Key Drivers

- Increase in wholesale Regional rates as highlighted above.
- Staffing costs due to COLA adjustments and grid movements.
- Inflationary increases in to materials and equipment
- Increased overhead allocation based on improved cost allocation model
- Increase in the meter replacement budget to replace aging meters
- Additional \$100,000 in both the water and wastewater to be used towards developing an operating contingency (stabilization) reserve for utility rates. This would be used to fund any future operating deficits without impacting the capital program.

## Proposed 2025 Water and Wastewater Volumetric Rates

The proposed 2025 rates incorporate the increases above into the proposed 2025 volumetric rates. The per meter costs can be seen more clearly in the table below:

Charges	2024	2025	Change (\$)	Change (%)
Water Charges	\$2.11	\$2.27	\$0.16	7.6%
Sewer Charges	\$3.39	\$3.72	\$0.33	9.7%

- Water charges increase is \$0.16 per cubic meter which represents a 7.6% increase.

- Wastewater charges increase \$0.33 per cubic meter which represents a 9.7% increase.

This is generally in line with the BMA report recommendations which proposed 6.3% increase in water rates and a 10.2% increase in wastewater rates.

### **Proposed 2025 Water and Wastewater Fixed Rates**

In addition to the volumetric rates outlined above the proposed 2025 rates incorporate an increase to the fixed rate. This fixed rate is used to fund our utility capital program and has not increased since 2006. In line with the BMA report, this rate should also be increased each year to provide sufficient funding for the capital program.

The 2025 proposed fixed rate increases the fixed rate in line with the proposed BMA report increase 6.3% increase in water and a 10.2% increase in wastewater.

The table below outlines this by meter size in more detail:

<b>2024</b>			
Meter Size	Water	Sewer	Total
Up to 3/4"	\$ 26.00	\$ 26.00	\$ 52.00
1" to 1 1/4"	\$ 38.00	\$ 38.00	\$ 76.00
1 1/2"	\$ 64.00	\$ 64.00	\$ 128.00
2"	\$ 126.00	\$ 126.00	\$ 252.00
4"	\$ 505.00	\$ 505.00	\$ 1,010.00
6" to 8"	\$ 885.00	\$ 885.00	\$ 1,770.00
10"	\$ 1,263.00	\$ 1,263.00	\$ 2,526.00
<b>2025</b>			
Meter Size	Water	Sewer	Total
Up to 3/4"	\$ 27.64	\$ 28.65	\$ 56.29
1" to 1 1/4"	\$ 40.39	\$ 41.88	\$ 82.27
1 1/2"	\$ 68.03	\$ 70.53	\$ 138.56
2"	\$ 133.94	\$ 138.85	\$ 272.79
4"	\$ 536.82	\$ 556.51	\$ 1,093.33
6" to 8"	\$ 940.76	\$ 975.27	\$ 1,916.03
10"	\$ 1,342.57	\$ 1,391.83	\$ 2,734.40

### **Consumption Issues**

While the recommended rates above represent significant increases, they are well supported by a cost analysis and the BMA rate review. However, the primary driver of recent deficits is related to unbilled consumption, meaning that we are not collecting sufficient revenue based on the total consumption of the Township. This consumption issue cannot be resolved by simple rate increase and further investigation is required.

### **Work Performed to Date**

Staff have performed a number of activities since identifying these deficits in order to address these deficits. These include:

- An improved understanding of the utility costing model
- Validated / improved the overhead allocation methodology
- Identified large industrial users with low reads and billed them
- Identified and billed developers for autoflushers
- Added meters to several unbilled Township assets – splashpads, facilities
- Convening an internal working group to discuss discrepancies on a regular basis
- Sharply curtailed water and wastewater capital program to stabilize reserves

Despite these activities, further work is required to identify the root causes of revenue and consumption issues. Further activities are planned for 2025 to improve our understanding of the meters and systems and to take corrective action.

### **Interdepartmental Impacts:**

All departments have an integral role in developing and executing the Township's Operating and Capital Budgets. The Infrastructure Services and Operations Team are directly impacted by the setting of utility budgets as their activities are strongly funded by these budgets.

### **Financial Impacts:**

The proposed 2025 utility rate increase proposes a net increase of \$1,600,072 in water and \$662,247 in wastewater. This translates into a 7.6% volumetric rate increase for water and a 9.7% increase in wastewater. The fixed rate (reserve contributions) have been increased by 6.3% and 10.2% respectively and the financial impact will depend on the customer pipe size with the average residential user fixed rate increase of \$4.29 per month.

### **Community Strategic Plan Impacts:**

Ensuring accurate and funded utility capital and operating budgets, the Township is ensuring alignment with key values of fiscal responsibility and sustainability and will ensure economic prosperity.

### **Conclusion:**

The attached water and wastewater budgets set responsible utility rates supported by both internal and external financial analysis. However, future work is still required to determine the root cause of recent deficits and implement corrective action. The proposed rates represent a responsible interim step to ensure long term fiscal sustainability.

### **Attachments:**

1. 2024 BMA Water and Wastewater Study
2. 2025 Draft Water Budget
3. 2025 Draft Wastewater Budget