

REPORT TITLE: Long-Term Utility Financial Plan Working Group

**FROM: Kealy Dedman, Commissioner of Public Works
Gary Kent, Chief Financial Officer and Commissioner of Corporate Services**

RECOMMENDATION

That a Long-Term Utility Financial Plan Working Group (the Working Group) be established;

And further, that the Terms of Reference for the Working Group as outlined in Appendix I to the joint report of the Commissioner of Public Works and the Chief Financial Officer and Commissioner of Corporate Services, listed on the May 27, 2021 Regional Council agenda, titled “Long-Term Utility Financial Plan Working Group”, be approved.

REPORT HIGHLIGHTS

- In December 2020, the principles and workplan for the Long-Term Utility Financial Plan (Utility Plan) was approved by Regional Council under Resolution 2020-1039.
 - The objectives of the Utility Plan are to update the water and wastewater rate structure to address revenue predictability, water conservation, customer affordability and equity, and to develop a financial planning model to ensure that water and wastewater revenue will cover the projected fixed and variable operating costs over time.
 - The proposed Long-Term Utility Financial Working Group (the Working Group) will review and provide input regarding the rate structure options, pricing objectives and the recommended utility rates.
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DISCUSSION

1. Background

The principles and workplan for the Long-Term Utility Financial Plan (Utility Plan) was approved by Regional Council in December 2020 under Resolution 2020-1039. The workplan includes six phases to be completed over a three-year time frame. Based on principles of fairness and equity, the Utility Plan will ensure that the Region of Peel's water and wastewater rates are stable, and that revenue generated will cover the projected cost of service over the long-term. The Utility Plan will balance investments with revenue to ensure stable and equitable rates for current customers and future generations.

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2. Activity to Date

The project team has been working closely with an external consultant, Raftelis Financial Consultants Inc. since September 2020. The project stages and progress are outlined below:

a) Current State Review

The current state report summarizing the gaps and opportunities in the water and wastewater budgeting, capital planning, utility rate structure and current level of customer affordability has been completed. Staff are now evaluating opportunities such as consideration of the operational cost impacts of capital projects, reviewing staffing levels to ensure preventative maintenance activities are completed, and introducing a fixed charge component to improve revenue stability.

b) Environmental Scan

A comparison with 24 relevant local, national, and international utilities to reflect best practices and emerging industry trends has been completed. Staff are now evaluating findings which include rate structure options, performance metrics to track against service level targets, climate change funding, and communication approaches.

c) Stakeholder Engagement and Communications Strategy

Public engagement will include online tactics such as customer panels and focus groups, which will begin early this upcoming summer. Stakeholder groups that will be engaged include low-income customers, large residential water users, large industrial, commercial, and institutional customers, and local municipalities and economic development. Key messaging and the communications strategy are currently under development.

d) Affordability Assessment

The baseline affordability assessment was completed using census tract level information which outlined that the Region's cost of utility service is relatively affordable compared to surrounding municipalities and to US comparable cities.

e) Rate Structure Options

Staff will conduct a series of internal workshops to identify the priority pricing objectives and to review rate structure options. Information from the current state review, environmental scan, affordability assessment, and stakeholder engagement will help narrow down the list of rate structure options. This short-list of rate structures will be evaluated based on alignment with the pricing objectives such as revenue stability, financial stability, low-income affordability, water conservation, equity, and customer understanding.

f) Long-Term Utility Financial Planning Model

Staff will create a financial planning model that monitors current and projected levels of water consumption, costs associated with maintaining the infrastructure, and optimization to ensure that revenue generated will cover all current and anticipated future costs. The recommended utility rates will be based on the long-term projected revenue requirements.

3. Responsibilities of the Long-Term Utility Financial Plan Working Group

The proposed Working Group will provide input relating to the utility rate structure at key points throughout the project.

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Summer 2021: Based on best practices from the environmental scan, a short-list of rate structure options and pricing objectives will be reviewed prior to community outreach.

Spring 2022: Based on feedback from stakeholder engagement, the rate structure options will be evaluated, and a final rate structure will be recommended.

4. Long-Term Utility Financial Plan Working Group Membership

Staff recommends that the Working Group include the Chair and Vice-Chair of the Public Works section of Regional Council, one member of Regional Council that is not represented by the Chair and Vice-Chair of Public Works, plus the option of one additional Councillor; staff from the Region will include the Commissioner of Public Works, Director of Operations Support, General Manager of Water/Wastewater, Director of Business and Financial Planning, and Project Manager; and staff from Raftelis will include the Vice President and Senior Manager.

5. Reporting Requirements

Region of Peel staff will complete a report summarizing the findings and recommendations made by the Working Group and will present to Regional Council:

Fall 2021: Feedback from the stakeholder engagement

Spring 2022: Evaluation of rate structure options

Spring 2023: Recommended utility rate

CONCLUSION

The Long-Term Utility Financial Plan Working Group will provide input regarding the rate structure options, pricing objectives and recommended utility rates, which will be brought to Council for approval in 2022 and 2023, respectively.

APPENDICES

Appendix I – Proposed Terms of Reference of the Long-Term Utility Financial Plan Working Group

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Reviewed and/or approved in workflow by:

Department Commissioners and Division Directors.