

**REPORT TITLE: Long-Term Utility Financial Plan**

**FROM:** Andrea Warren, Interim Commissioner of Public Works  
Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

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## **RECOMMENDATION**

**That the principles and workplan for the Long-Term Utility Financial Plan for the years 2020-2023, as described in the joint report of the Interim Commissioner of Public Works and Commissioner of Finance and Chief Financial Officer, titled “Long-Term Utility Financial Plan” be approved.**

### **REPORT HIGHLIGHTS**

- The Region’s Water and Wastewater 10-year Plan (2019-2028) has a strategic goal to assure the long-term financial sustainability of the system. This includes maintaining competitive user rates that provide adequate revenue and developing sound financial planning and management practices.
  - The Long-Term Utility Financial Plan (Utility Plan) is based on the principles of fairness and equity to ensure stable utility rates and to achieve intergenerational equity over time. This includes the full lifecycle management of assets, the state of good repair program and the impacts of Climate Change.
  - Currently, all water and wastewater revenue are based 100 per cent on direct consumption which fluctuates depending on weather conditions. The annual variability in water consumption impacts the water and wastewater revenue and, when combined with growing fixed costs, has led to financial deficits or surpluses each year.
  - The costs associated with providing a safe and dependable drinking water supply, as well as efficiently collecting and properly treating wastewater, are increasing each year. This is due to population growth, intensification of the urban environment, the impacts of climate change, replacement of aging infrastructure, and changes in the regulatory environment.
  - The objectives of the Utility Plan are to develop a water and wastewater rate structure based on 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.
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## **Long-Term Utility Financial Plan**

### **DISCUSSION**

#### **1. Background**

Reliable water and wastewater treatment are a key support of the Region of Peel's vision of a Community for Life. The Region treats and distributes 216 billion litres of water, and collects and treats 254 billion litres of wastewater, to 335,000 customers annually. In 2020, the value of all water and wastewater related assets is over \$24 billion. The annual cost for providing water and wastewater services in 2020 is \$406 million including operations, maintenance and state of good repair.

Currently, residential customers are charged based on 100 per cent water consumption and 85 per cent proxy for wastewater. Industrial, Commercial and Institutional (ICI) customers are charged based on 100 per cent water consumption and 100 per cent proxy for wastewater.

Since revenue is tied to consumption and water consumption varies based on weather conditions, the water and wastewater revenue generated each year is variable. As the total cost of providing a safe and dependable drinking water supply and ensuring the efficient collecting and proper treatment of wastewater are largely fixed and increasing each year, this can often create a financial deficit.

The capital requirements for state of good repair are evolving due to population growth, intensification of the urban environment, the impacts of climate change, replacement of aging infrastructure, and changes in the regulatory environment.

The increasing operating and capital costs, combined with the variability in annual revenue, highlights an opportunity to update the current rate structure and to develop a comprehensive utility financial planning model. Long-term financial stability requires the revenue generated is adequate to cover the long-term fixed and variable costs associated with the maintenance and operation of water and wastewater services.

Staff will undertake a Long-term Utility Financial Plan (Utility Plan) process with two main objectives. The first is to identify the recommended water and wastewater rate structure and the second is to develop a financial planning model. A key outcome will be to reduce the variance between the revenue and costs from year-to-year. The Utility Plan will provide a predictable and stable revenue stream to cover the projected fixed and variable costs associated with providing water and wastewater services to residents and businesses in Peel.

#### **2. Process**

Staff will work with an external consultant, Raftelis Financial Consultants Inc., on the development of the Utility Plan.

Creating and implementing the Utility Plan will complete one of the strategic goals in the Region's Water and Wastewater 10-year Plan (2019-2028), summarized in Appendix I, to assure the long-term financial management of the system.

The development of the Utility Plan includes two sequential streams of work, in support of the two objectives.

## Long-Term Utility Financial Plan

### Stream 1: Utility Rate Structure

The first stream is based on the objective to maintain competitive user fees and rates that will generate adequate revenue. The current rate structure will be evaluated, compared with industry standards, and assessed for affordability among low-income families in Peel. The recommended rate structure will be aligned with pricing objectives such as revenue stability, financial stability, low-income affordability, water conservation and equity among residents and businesses.

### Stream 2: Financial Planning Model

The second stream is based on the objective to develop an updated financial planning model. Components of the financial planning model include operating costs, capital project costs, reserve projections and revenues from residential and ICI customers, and development charges. The financial planning model will provide the flexibility to adjust the utility rates to ensure a predictable and stable revenue stream to cover the long-term funding requirements.

## 3. Project Stages

### a) Current State Review

A review of current processes will be documented along with gaps and opportunities in the following areas:

- capital financial planning process
- current annual budget process
- infrastructure levy
- rate stabilization reserves
- emerging regulatory and legislative demands
- relevant by-laws and master plans (i.e., Water Efficiency Strategy, Climate Change Master Plan, Enterprise Asset Management Project, Water and Wastewater Systems Master Plans, Long-term State of Good Repair Plan and Decision Support for Linear Water and Wastewater Infrastructure)
- the current rate structure.

### b) Environmental Scan

Comparison with 20 to 30 relevant local, national, and international utilities will be measured against a list of selection criteria to determine the short-list of recommended rate structures. The analysis will be supplemented with a literature review of relevant utility rate structures to reflect best practices and emerging industry trends.

### c) Stakeholder Engagement Strategy

The Utility Plan process includes the development of a comprehensive stakeholder engagement plan and affordability analysis, with public outreach for Peel residents and businesses from all demographics. Due to COVID-19, the stakeholder engagement process will focus primarily on online strategies such as focus groups, customer panels and social media outreach.

## **Long-Term Utility Financial Plan**

A stakeholder mapping exercise is currently underway to identify the key stakeholders who will be impacted by any changes in the utility rate structure. The impacts of a rate change may have significant financial implications to residential and ICI customers. The economic challenges that residents and business are facing will be a factor in the recommended rate structure.

### **d) Affordability Assessment and Dashboard**

The project scope includes an affordability assessment of the utility rates among Peel's residents and businesses. A baseline of affordability for the residents and businesses will be determined. Additional measures will track the affordability over time and might include delinquency rate, low-income measure after tax, and annual residential bill as a percentage of the poverty level. An affordability dashboard will be created to visualize the affordability of the utility rate structure across different income levels and customer types.

### **e) Identify Rate Structure Options**

Based on the current state review, environmental scan, affordability assessment, and stakeholder engagement, a short-list of up to five rate structure options will be identified for further evaluation.

The rate structure calculations and economic impact will be assessed based on pricing objectives such as revenue stability, financial stability, low-income affordability, water conservation, equity and customer understanding.

### **f) Long-term 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 financial planning model will include the costs associated with the state of good repair program, coordination of work with municipal partners, external pressures (i.e., relocation of assets due to pressures from external agencies including projects such as highway widenings), system improvements, climate change impacts, and risk mitigation. An interactive dashboard for reporting will be included to ensure that long-term investments are identified and funded appropriately.

## **4. Principles and Workplan for Long-Term Utility Financial Plan**

Staff recommend that Council endorse the principles and workplan of the Utility Plan. The workplan includes milestones for the six phases of the project to be completed over a three-year time frame. Based on principles of fairness and equity, the Utility Plan will balance growth-related investments with revenue. This will ensure that the Region'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. This includes the full lifecycle management of assets, the state of good repair program and the impacts of Climate Change.

## Long-Term Utility Financial Plan

Key findings will be presented to Council at the milestone dates outlined below. Staff will engage Council to provide input on the stakeholder engagement process and the rate structure options in 2021 and 2022, respectively.

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|---|-------------|
| ▪ Current state review and environmental scan | Winter 2020 |
| ▪ Affordability assessment                    | Winter 2021 |
| ▪ Stakeholder engagement                      | Fall 2021   |
| ▪ Rate structure options                      | Winter 2022 |
| ▪ Financial planning model                    | Winter 2023 |

The Utility Plan will identify the recommended rate structure, however the decision to set the water and wastewater rates will continue to be determined as part of the annual budget process. According to the workplan, Staff will seek Council endorsement of the recommended rate structure and the financial planning model in 2023 which will inform the development of the 2024 budget.

### 5. Reporting Requirements

Staff will complete a final report summarizing the findings and recommendations to submit to Council after the project is completed in 2023. The Utility Plan process is expected to be three-years in duration with periodic engagement with Council to stay apprised of progress and help frame the direction of the project deliverables and outcomes.

## RISK CONSIDERATIONS

The key risk of the Utility Plan is receptiveness, by residents and ICI customers, to changes in water and wastewater rate structure. Low-income families are particularly vulnerable to an increased utility bill as it may cause increased financial burdens.

As a result of COVID-19, most of the stakeholder engagement tactics will be conducted online. The effectiveness of online engagement strategies itself does not pose a risk, however, ensuring that low-income families who may not have access to a computer or internet are included in the focus groups and customer panels will be a challenge. Staff are engaging with the Peel Poverty Reduction Committee to ensure that residents with lived experiences are included in the Utility Plan stakeholder engagement process.

ICI customers with very high annual water consumption might also be concerned about water and wastewater bill increases as it may be cost prohibitive to remain in Peel. The Utility Plan process will conduct a feasibility study to outline the financial impacts on local businesses.

## FINANCIAL IMPLICATIONS

The total estimated cost for the Utility Plan process is \$3.9 million, over the project timeline of three years. Of this, \$1.5 million has been approved in prior budget submissions, \$1.4 million will be included in the 2021, and the balance will be included in future budget submissions.

## Long-Term Utility Financial Plan

### CONCLUSION

Staff will engage Regional Council to provide input on the stakeholder engagement process and the rate structure options in 2021 and 2022, respectively. The final report will be presented to Council in 2023. Staff will seek Council endorsement of the recommended rate structure and the financial planning model in 2023 which will inform the development of the 2024 budget.

The Long-Term Utility Financial Plan is based on the principles of fairness and equity to ensure stable utility rates and to achieve intergenerational equity over time. This will achieve one of the strategic goals in the Region of Peel's Water and Wastewater 10-year Plan to assure the long-term financial management of the system.

### APPENDICES

Appendix I - Region of Peel's Water and Wastewater 10-Year Plan (2019-2028) Summary

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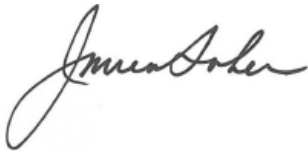
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***Reviewed and/or approved in workflow by:***

Department Commissioners, Division Directors and Financial Support Unit.

Final approval is by the Chief Administrative Officer.



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J. Baker, Chief Administrative Officer