

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE MEETING ON OCTOBER 21, 2013
FROM:	JOHN BRAAM, P. ENG. MANAGING DIRECTOR, ENVIRONMENTAL AND ENGINEERING SERVICES AND CITY ENGINEER
SUBJECT:	2014 WATER AND WASTEWATER BUDGETS

RECOMMENDATION

That, on the recommendation of the Managing Director, Environmental and Engineering Services and City Engineer, the draft 2014 Operating Budgets, 2014 Capital Budgets and associated forecasts for Water Services and Wastewater and Treatment Services **BE RECEIVED AND BE REFERRED** to the Strategic Priorities and Policy Committee meeting being held on November 18, 2013, in order to receive public input and consider the draft Budgets.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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- Water and Wastewater 2013 Budgets, November 19, 2012, Strategic Priorities and Policy and Committee, Public Participation Meeting (budget documents tabled October 29, 2012, Strategic Priorities and Policy Committee, Agenda Item #3)
- New “Value Based” Funding Model for Water and Wastewater Services, October 22, 2012, Civic Works Committee, Agenda Item #7
- Water Service Area Financial Plans, May 17, 2010, City Council
- Wastewater & Treatment – 20 Year Sewer System Plan Background Report, September 26, 2005, Environment and Transportation Committee, Agenda Item #14

BACKGROUND

The Water and Wastewater utilities play a critical role in supporting the City of London Strategic Plan by contributing to “A strong economy,” “A green and growing city,” and “A sustainable infrastructure.” Delivery of clean, safe water for drinking, fire protection and commercial purposes, as well as conveyance and treatment of sewage and stormwater, are all provided at a current cost of approximately \$2.12 per day to the average residential customer.

The utilities are regulated by various legislation, including the *Safe Drinking Water Act* and the *Clean Water Act*. In 2013, the Standard of Care provision of the *Safe Drinking Water Act* came into effect, further expanding the regulatory requirements of operating the City’s water distribution network. Various compliance needs, including those accommodated within the 2014 Water operating budget, continue to present budgetary challenges. An optimized, integrated approach has been taken to address these compliance needs in order to limit the impact on the operating budget. The increase in Water operating expenditures has been limited to 0.7% for 2014, while a 0.6% decrease in Wastewater operating expenditures is forecasted for 2014.

The implementation of the new “Value Based” funding model effective March 1, 2013 was a significant accomplishment in the history of the utilities. The new rate structure strikes a balance between conservation and economic development efforts, while also achieving future rate increases at an inflationary level by 2016, two years earlier than previously anticipated.

Despite shifting a greater proportion of revenues to fixed charges, the utilities remain susceptible to the ongoing trend of reduced water consumption. The water consumption forecast for 2014 has been updated to 41.0 million m³, significantly lower than the 42.9 million m³ forecast for 2014 that was included in last year’s budget. While Administration believes the future water consumption forecast has now appropriately accounted for conservation efforts, assumptions about future declines in water consumption will be monitored to determine if revisions to the financing of the Water and Wastewater operating and capital programs are necessary.

The forecasted 2014 rate increases of 8% for Water and 7% for Wastewater are consistent with the rate plan previously endorsed by Council. In determining these rates, the following “pillars” of future planning were considered:

- Ensuring the long-term sustainability of Water and Wastewater infrastructure
- Improving the balances of the Water and Wastewater reserve funds, while limiting the use of debt financing
- Achieving rate stability as soon as possible

The 2014 budgets achieve an appropriate balance between these pillars. Increased capital spending continues the utilities on the path to infrastructure sustainability. Reserve fund balances will be healthier than previously forecasted and there is no new future rate supported debt anticipated for Water or Wastewater. All of these achievements are realized with an average residential customer cost increase of approximately \$0.15 per day for 2014.

Acknowledgements:

This report was prepared with the assistance of Kyle Murray, Financial Business Administrator and John Lucas, Director – Water and Wastewater.

SUBMITTED AND RECOMMENDED BY:	REVIEWED AND CONCURRED BY:
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