

<b>TO:</b>	<b>CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE MEETING ON MAY 5, 2014</b>
<b>FROM:</b>	<b>JOHN BRAAM P.ENG., MANAGING DIRECTOR, ENVIRONMENTAL AND ENGINEERING SERVICES &amp; CITY ENGINEER</b>
<b>SUBJECT:</b>	<b>WATER SUPPLY DEVELOPMENT CHARGE – IMPACT ON WATER RATE</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Managing Director, Environmental and Engineering Services & City Engineer, this report **BE RECEIVED** for information.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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- February 20, 2014 – Strategic Priorities and Policy Committee – Development Charges Review – Draft Rate Calculations
- April 14, 2014 – Strategic Priorities and Policy Committee – 2014 Development Charges Covering Report and Draft DC Rate By-law

<b>BACKGROUND</b>
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On February 20, 2014, the Strategic Priorities and Policy Committee received a draft 2014 Development Charges (DC) rate calculation. Civic Administration was directed to report back on a number of items before considering a new Water Supply component to the 2014 Development Charges Background Study. The part of the resolution relating to Water Supply rates is reproduced below:

*That the following actions be taken with respect to the Development Charges Review 2014 Draft Rate Calculations:*

- a) *the inclusion of the Water supply component in the 2014 Development Charges Background Study at a cost of approximately \$589 per single family home BE DEFERRED until such time as the Civic Administration has reported back on the matters contained in part b) below; it being noted that the growth costs associated with Water Supply are currently being funded by water user rates;*
  
- b) *the Civic Administration BE DIRECTED to report back on the calculation noted in a) above, after reviewing the matter with the Technical Review Team; it being noted that the report back should also include information regarding the following matters:*
  - i) *the impact of staging of the proposed Development Charge to commence in January or February 2015 rather than August 2014;*
  - ii) *the breakdown of the costs to the taxpayers should the proposed Development Charge be reduced to \$28,000 instead of the proposed charge of \$31,021;*
  - iii) *the value of the average home, in both dollars and percentage;*
  - iv) *the length of time it would be before residents would see the reduction in the Development Charge;*
  - v) *the possibility of incorporating an incremental increase;*
  - vi) *ensure that the questions and/or concerns provided in the communications relating to this matter are addressed; and,*

- vii) *if the Municipal Council proceeds with the proposed reduction, what will the process be*

An April 14, 2014 report to the Strategic Priorities and Policy Committee provided a response to the items listed in b) of the above resolution. This report provides information on a) of the above resolution.

### **Basis for Water Supply Rate Calculation**

Projects that are included in Elgin Area and Lake Huron Water Supply Systems capital budget forecasts, and that create capacity for the future are the basis for the Water Supply DC rate calculation. The calculated DC rates exclude debt for previously funded growth works because these projects were initialized by the respective water boards at a time that the City did not have a DC rate for Water Supply. In other words, though they were part of previous Development Charge calculations, the Water Supply DC rate was not approved for funding these projects. The 2014 DC Background Study provides an opportunity to reconsider its policy on funding of London's share of the future growth costs to be incurred by the water supply boards. The net London share of the future growth projects are based on London's 2012 water usage rates from each system:

- 54.69% for Elgin, and
- 84.40% for Huron.

This methodology was compared to a calculated value based on growth rates in each of the board member municipalities. The water usage levels (above) are approximately the same as the projected levels based on the anticipated growth rates in the member municipalities, and therefore are a fair representation of London's growth share.

Development Charge adjustments for Post Period Benefit and Non-growth share were also considered in the DC rate calculations.

### **Calculated Rates**

Since the February 20, 2014 report to the Strategic Priorities and Policy Committee, the calculated DC rates for the Water Supply component have been refined as follows:

Single & semi-detached unit	\$400.03
Row house dwelling unit	\$302.01
Apartments with < 2 bedroom units	\$186.77
Apartments with ≥ 2 bedroom units	\$251.68
Commercial	\$1.70/sq.m.
Institutional	\$2.48/sq.m.
Industrial	\$6.36/sq.m.

### **Implications on London Water User Rates**

Over a 20 year period, implementation of the calculated Water Supply DC component would recover an estimated \$22.7M. Expressed in terms of revenue per year, this would represent an average of \$1.1M annually. Although this is equivalent to approximately 1.8% of the total amount recovered from Water user rates each year, it can't be applied to offset water purchases from the Boards until growth-related project costs are incurred by those Boards. The most significant growth costs on the horizon will not occur for several years with only minor growth study costs proposed in the near term. Therefore, there would be a delay in experiencing a favourable impact on the London Water rates.

A favourable impact to the City's Water Budget will not be felt until at least 2019, when Water purchase costs first include significant growth related works. Until then, DC revenues for Water Supply would be collected in a Water Supply DC reserve fund. The fund would be drawn down and applied to offset water purchase costs when the growth projects included in the DC rate calculation had their first effect on those costs.

The 20 year average \$1.1M in revenues is equivalent to \$6 each year on the average annual residential customer bill based on 2014 rates. Enduring benefits would also accrue to non-residential users, depending on amount of water use. This provides an “order of magnitude” measure of the impact on financing the growth portion of water supply costs from DC’s rather than residential water user rates. However, as explained above, these benefits would not accrue to water users until water purchase costs begin to reflect the major growth projects expected to begin in 2019.

It should be noted that there would be nominal additional administrative effort required each year in order to break down the rates charged by the Boards into growth and non-growth components.

There is a benefit to starting the collections now, as advancing growth reduces the portion of the projects eligible for DC funding, and increases the portion of the growth works borne by water user rates. The sooner growth works are identified as a benefit to growth in the 20 year horizon, the sooner they qualify for recovery through DC’s, and the lower the impact of growth projects on the water user rates.

**Water Supply Rate Update**

As noted above, the calculated Water Supply DC rate is based on presently forecasted projects. Both Boards will be updating their Master Plans this year. It may be appropriate, upon completion of the Master Plans, that the DC Water Supply Rate be updated and the DC By-law amended.

<b>CONCLUSION</b>
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The proposed 2014 DC rates include a charge for Water Supply. It is based on presently forecasted growth works by the Lake Huron and Elgin Area Water Boards, and only on London's share of those works. Capital forecasts for each Board are scheduled to be updated this year.

Based on current information, it is anticipated that significant growth-related project costs will flow through the Water rates charged by the Lake Huron or Elgin Area Water Supply Systems in 2019 and beyond. As a result, it is not expected that City Water user rates will benefit from the DC funding until then.

The calculated DC rate would produce approximately \$23M in alternative funding sources over a 20 year period, based on growth projections used in the 2014 DC Background Study. The Water Supply rate would be recalculated within at least the five (5) year time frame dictated by the DC legislation.

<b>PREPARED BY:</b>
<b>JOHN LUCAS P.ENG DIRECTOR, WATER AND WASTEWATER</b>

<b>CONCURRED BY:</b>	<b>RECOMMENDED BY:</b>
<b>PETER CHRISTIAANS, C.A. DIRECTOR, DEVELOPMENT FINANCE</b>	<b>JOHN BRAAM P.ENG. MANAGING DIRECTOR, ENVIRONMENTAL &amp; ENGINEERING SERVICES AND CITY ENGINEER</b>