

Append 3 - Saskatoon Water and Wastewater Utility Rates and Return on Investment.docx

Topic and Purpose

This Appendix provides an overview, of the City's Water and Wastewater rates and potential impacts of an increased Return on Investment (ROI) transfer from the Water and Wastewater Utilities.

Highlights

1. The Water and Wastewater Utility rate structure consists of approximately 35% fixed and 65% consumption charges. The Infrastructure Levy is based on consumption volumes.
2. Residential volumetric utility rates are based on an inclining block rate structure to encourage water conservation.
3. The City continues to have low Water and Wastewater Utility rates compared to other Western Canada major cities.
4. In 2021 the ROI was set at 10% of Metered Budgeted Water and Wastewater Revenues.
5. The report outlines the impacts to the Utility with a 1% increase to ROI in order to offset the 2021 deficit.

Background

In 2016 the Administration provided an accompanying report to City Council's 2016 Operating Budget deliberations regarding the City's water rate system. This report included the water rate system structure; the relationship between fixed charges and consumption charges; a comparison between the City's water rates and other jurisdictions; and a historical overview of the City's rates and how they have changed. The report further outlined the relationship with SaskWater and how the City is working with regional partners. Finally, a report was received on conservation measures related to water rates and inclusion of how much water is taken out of the river on a percentage basis and how much is returned.

In 2017 the Administration provided a report on water rates comparison to other western Canadian cities and outlined the ROI from Saskatoon Water compared to the industry standard and/or municipal standards in Western Canada.

The Preliminary Year-end Results Report includes a recommendation to offset the 2021 deficit through an increased ROI from Water and Wastewater Utilities. This attachment outlines the possible impacts of that option.

Further Details

Rate Structure

Saskatoon's Water and Wastewater Utility rates have a fixed charge (approximately 35% of the total Metered Revenue Budget) and a consumption charge or variable

component (approximately 65% of the total Metered Revenue Budget). In addition, there is an Infrastructure Levy, which is volumetrically charged out.

The fixed charge is based on the meter size. The variable portion, including the Infrastructure Levy, is calculated based on the volume of water used monthly. The combined fixed and variable charge billing provides consumers with the ability to reduce their cost by lowering consumption while providing the Utility with a stable revenue base for regular operating and capital costs.

While a portion of the operating costs of the Water Utility are variable depending on water demand, there is also a fixed operating cost. The split in charges in the Water and Wastewater rates as described above supports this cost relationship.

Conservation Oriented Rate Structure

The residential Water and Wastewater rate structure is based on an inclining block rate structure to encourage conservation, while providing the flexibility to minimize cost increases for water used for basic human needs.

The Water Conservation Program supports initiatives included in the Water Conservation Strategy. The goals of the program are to help reduce peak summer demand and overall water use, reduce emissions related to treating and pumping water, increase equity and provide an improved rate structure.

Although the population has grown since 2009, water demand has stayed relatively constant. While this can be attributed to increased water conservation awareness, other factors contributing to lower consumption per capita include low-flow faucets and showerheads, low-volume toilets, more efficient clothes washing and dishwashing machines.

Rate Comparison

As previously reported in the 2022/2023 budget deliberations, Saskatoon's average Water and Wastewater Utility bills are among the lowest of other prairie cities for both residential and commercial customers.

2021 Planned ROI

The planned 2021 ROI transfer of 10% (\$11.2 M) of metered budgeted revenues has been built into the approved budget along with accompanying rate projections. While utility rates are determined based on the long-term operating and capital needs, cost estimates and timing of capital projects, including borrowing amounts, are updated each year along with the ROI impact to determine overall budget planning.

Impacts of a 1% increase to ROI for 2021

The recommendation to offset the 2021 deficit includes a 1% increase to the Water and Wastewater ROI, to a total of 11% of metered budgeted revenues.

The Water and Wastewater year end variance in 2021 includes a \$6.37M surplus. If Council chooses to include a one-time increase in the ROI to 11% from the typical 10%, this surplus would be reduced by \$1.72 million, resulting in a remaining surplus of \$4.65M to transfer to the capital reserves.

Reserves are used to support new and replacement projects for the City's water and sewer infrastructure. While the capital reserves are sufficient to support the needs of the Water and Wastewater utilities in the short term, increasing the ROI has possible long-term impacts including:

- Increased borrowing required to support capital projects in the absence of reserve availability.
 - In years when Capital requirements exceed Utility Reserve balances, external borrowing is used to leverage the ability to build or replace an asset against future revenues.
 - Long Term Capital Development Planning work is underway to reconfirm future capital investment needs of the Water and Wastewater Treatment Plants.
- Potential rate impacts in order to maintain borrowing limits.
 - Debt payment amounts are planned to be 20% or less of gross revenue.
 - Reserve balances and borrowing requirements are considered when determining utility rates to maintain the solvency of the Utility Reserves while ensuring the affordability of the debt load.

Although there are potential implications to the decision to increase the ROI for 2021 as outlined above, it is important that the City take a comprehensive approach during the uncertainty that the pandemic has brought to the City's overall financial picture.