Agenda – Executive Policy Committee – October 20, 2021

Report – Standing Policy Committee on Water and Waste, Riverbank Management and the Environment – October 8, 2021

Item No. 2 Update to the Ten-Year Water and Sewer Financial Plan

STANDING COMMITTEE RECOMMENDATION:

On October 8, 2021, the Standing Policy Committee on Water and Waste, Riverbank Management and the Environment concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That this report be received as information.

Agenda – Executive Policy Committee – October 20, 2021

Report – Standing Policy Committee on Water and Waste, Riverbank Management and the Environment – October 8, 2021

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On October 8, 2021, the Standing Policy Committee on Water and Waste, Riverbank Management and the Environment concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

COUNCIL DECISION:

On May 27, 2021, Council concurred in the recommendation of the Standing Policy Committee on Water and Waste, Riverbank Management and the Environment, as amended, and adopted the following:

1. That Aecon Water Infrastructure Inc. and Oscar Renda Contracting of Canada, Inc., an Aecon Oscar Renda Joint Venture, doing business under the name of Red River Solutions ("Red River Solutions") being the Proponent that scored the highest points for its combined technical and financial submission and which obtained a "Pass" on each of the Pass/Fail submission components, be selected as the Preferred Proponent for the Design Build of the NEWPCC Upgrade: Headworks Facilities Project.

2. That authority be delegated to the Chief Administrative Officer, subject to Investing in Canada Infrastructure Program ("ICIP") funding approval by the Province of Manitoba and the Government of Canada, by June 12, 2021, to approve that the City enter into, execute, deliver and perform the agreement to design build the NEWPCC Upgrade: Headworks Facilities Project ("Design Build Agreement") in the amount of $271,611,000.00 including MRST, GST extra, and all such other agreements ancillary to the Design Build Agreement as deemed necessary by the Director of Legal Services and City Solicitor (the "Ancillary Agreements").

3. That a budget amendment increase of $65,000,000.00 be approved for the NEWPCC Upgrade: Power Supply and Headworks Facilities Capital Budget to be funded 50/50 through utility rates and debt financing.

4. That, given current market conditions, the Public Service be directed to review the AACE Class 3 cost estimates for Biosolids and Nutrient Removal facilities projects and refer any increases to the 2022 capital budget process.

Report – Standing Policy Committee on Water and Waste, Riverbank Management and the Environment – October 8, 2021

DECISION MAKING HISTORY (continued):

COUNCIL DECISION (continued):

5. That the Public Service be directed to update the ten-year water and sewer financial plan and report back to Council in October 2021.

6. That the Winnipeg Public Service be directed to report back to the Standing Committee at its June 29, 2021 meeting with a labour force estimate from the proponent and the public service for the design build phase.

7. That the proponent be required to provide a report on efforts to engage with local labour organizations as well as local vendors and suppliers to build relationships for a successful project and that the Winnipeg Public Service be directed to report back to the Standing Committee in September 2021 with an update on the matter.

8. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

Title: WATER AND SEWER FINANCIAL PLAN UPDATE

Critical Path: Standing Policy Committee on Water and Waste, Riverbank Management and the Environment – Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
L. Szkwarek, CPA, CGA Manager, Finance and Administration	M. L. Geer, CPA, CA Director, Water and Waste Department	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The purpose of this report is to assess if recent Council approved capital budget increases for the Sewer Utility would have any impact on the multi-year water and sewer rates approved by Council in January 2020.

The ten-year water and sewer financial plan was revised to include increases of $152 million in capital spending which includes both Council approved and budget referred items for:

- NEWPCC Headworks $65 million
- NEWPCC Interim Phosphorus Removal $10.5 million
- SEWPCC Biological Nutrient Removal $16.5 million
- Combined Sewer Overflow $60 million

The updated modeling confirmed that no changes to the approved 2022 and 2023 water and sewer rates are required. The typical residential customer bill is estimated to increase by 2.8 percent or $34 per year in 2022 and 2023 as per the January 30, 2020 Council approved water and sewer rate report.

Council approved rates can be held for 2022 and 2023 due to:

- delays in capital investment in NEWPCC upgrades and corresponding decrease in borrowing
- increases in consumption and accumulation of funds in the Environmental Projects Reserve

The Public Service will complete a full cost of service study and update all assumptions for the next multi-year rate plan.

RECOMMENDATIONS

That this report be received as information.

REASON FOR THE REPORT

On May 27, 2021, Council concurred in the recommendation of the Standing Policy Committee on Water and Waste, Riverbank Management and Environment that the Public Service be directed to update the ten-year water and sewer financial plan and report back to Council in October 2021.

IMPLICATIONS OF THE RECOMMENDATIONS

The Public Service has assessed the impact of increased capital costs, notably those associated with sewage treatment plant upgrades and combined sewer overflow projects, along with updated operating costs, and concluded that Council approved rates for years 2022 and 2023 would remain unchanged.

The Public Service continues to review the rate financial plan on an annual basis and will report back to Council if there are any significant changes.

HISTORY/DISCUSSION

On January 30, 2020 Council approved the 2020 to 2023 water and sewer rate report which included a four-year rate approval for years 2020 to 2023 and a further six-year year forecast.

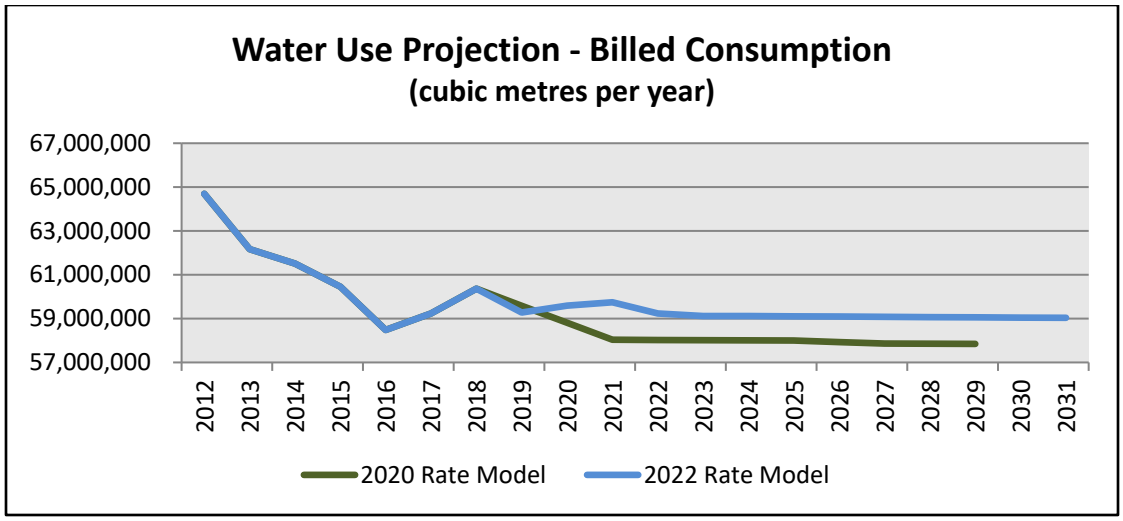
Updates to the Water and Sewer Rate Model and Financial Plan

The Water and Waste Department (WWD) employs industry best practices to establish water and sewer rates. The rates are designed to fund all costs of operations and capital projects related to water and sewer quality, city growth and regulatory requirements.

1. CONSUMPTION

The Public Service has reviewed future consumption estimates taking into consideration population growth, historical data, price elasticity, water saving devices and plumbing codes, precipitation levels, and lingering effects of COVID-19 pandemic restrictions.

The financial plan continues to assume a slight decline in consumption over the ten years but at a more gradual pace. Over a ten-year period, consumption is forecast to be 1.8 percent higher than originally modelled in 2020. The anticipated increase in consumption will support the utilities retained earnings balances to ensure sufficient funding for increasing capital spending and associated operating costs.

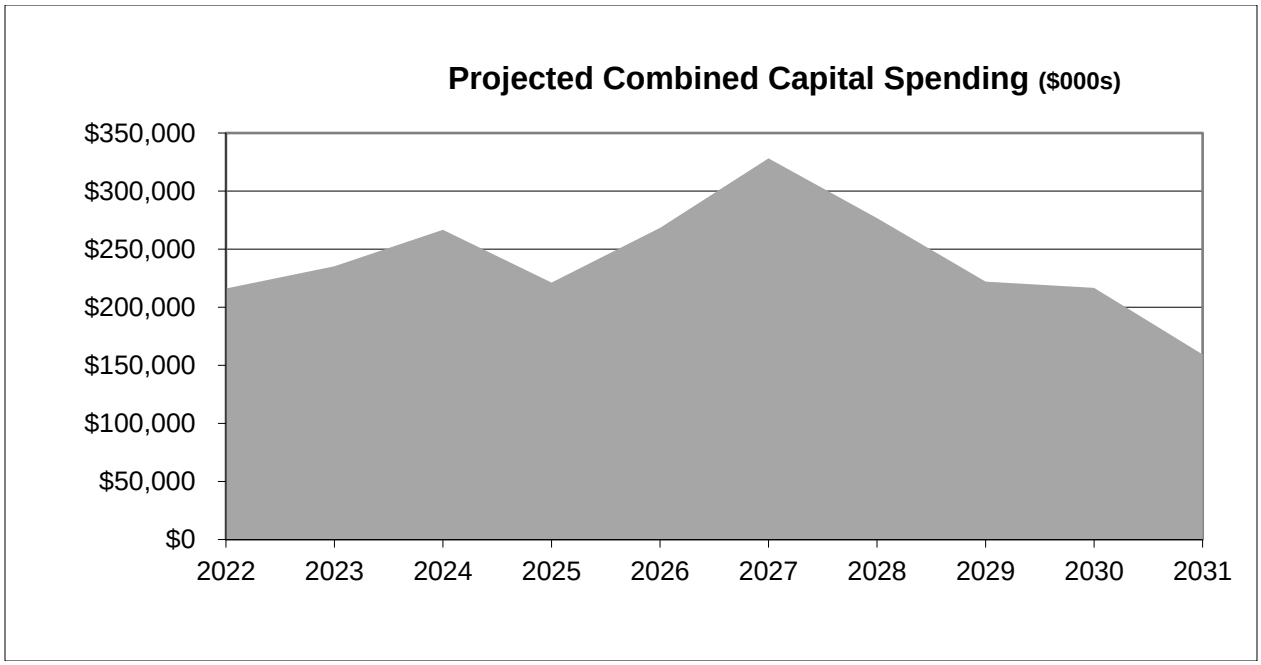


2. CAPITAL

The water and sewer financial plan incorporates cash flows associated with WWD's asset management strategy.

Capital improvement programs are funded through a combination of debt, reserves, equity and other levels of government funding. The use of multiple funding sources supports intergenerational equity and helps to mitigate rate increases in any given year.

Projected capital spending over the ten-year financial plan incorporates capital cash flows based on water main renewal, sewer system rehabilitation, environmental projects, water meter renewal, land drainage, and retained earnings funded projects. Capital spending is forecast at $2.4 billion over the 2022 to 2031 ten-year period, $150 million greater than $2.25 billion modelled in 2020, and is influenced by major projects additional capital and timing of project spending.



The updated financial plan incorporates the following notable updated capital spending assumptions based on approved and expected budgets:

NEWPCC Upgrade

- NEWPCC Upgrade: Headwork Facilities: On May 27, 2021 Council approved a budget amendment increase of $65 million for the NEWPCC Upgrade: Headworks Facilities project capital budget. Total updated project cost is $473.4 million.

    - In a letter dated April 1, 2021, the Province confirmed that funding for NEWPCC: Headworks Facilities project would be reduced to $96.8 million from $100.3 million (Province) and to $116.1 million from $120.4 million (Federal). This means that the City's share of costs will increase by $7.8 million.

    - NEWPCC Upgrade: Biosolids Facilities: This $552.7 million project is delayed pending a P3 analysis that the Province has requested prior to approval of Investing in Canada Infrastructure Program (ICIP) funding. However, forecasted timing of capital spending and anticipated government funding have been incorporated into modelling the ten-year financial plan. Of note, Council referred a class 3 budget increase for Biosolids Facilities to the 2022 budget. Costs are not included in the financial modeling but current estimates and cash flow assumptions indicate that 2022 and 2023 rates would not be impacted.

- NEWPCC Upgrade: Biological Nutrient Removal Facilities estimated capital budget of $828 million is not included in the financial plan pending funding discussions with other levels of government. This is no change from the 2020 model.

NEWPCC Interim Phosphorous Removal

- On February 25, 2021 Council approved the NEWPCC Interim Phosphorus Removal capital project with an AACE Class 4 capital cost estimate of $10.5 million, and the financial operating and Environmental Projects Reserve (EPR) implications be referred

to the 2022 budget process. While the 2022 budget has not yet been approved by Council as the date of this report, the additional capital cash flows have been included in modelling the updated financial plan in order to assess potential changes to rates. Funding assumptions in the model include 100 percent EPR.

Combined Sewer Overflow (CSO) Mitigation

- On April 29, 2021 Council approved that an increase of 50 percent to the Combined Sewer Overflow budget between 2023-2026 (additional $15 million each year for a total of $60 million additional capital spending) to expedite the Armstrong Combined Sewer Overflow district work, be referred to the 2022 budget review process. While not yet approved by Council as the date of this report, the additional capital spending has been included in modelling the updated financial plan in order to assess potential changes to rates. Funding assumptions in the model include 100 percent EPR.

SEWPCC Nutrient Removal Upgrade/Expansion

- On May 27, 2021 Council approved a budget increase of $16.5 million in order for the Department to manage the upgrades/expansion to the SEWPCC facility and meet provincial licensing requirements. Total updated cost of the project is estimated at $352.1 million.

Future provisions

While not yet approved by Council as the date of this report, additional capital budget estimated at $105.8 million for projects such as Airport Area West and South West Interceptor Phase 1a has been incorporated in modelling the updated financial plan to assess potential changes to future rates.

3. REVENUE REQUIREMENTS

The financial plan review includes updating water and sewer revenue requirements which encompass capital spending, transfers to reserves, transfer to land drainage, operations, debt servicing and the dividend. This includes actual amounts for year 2020, approved budget 2021, and forecast amounts for years 2022 to 2023 as per the Council approved multi-year operating and capital budgets. In addition, forecast spending for years 2024 to 2031 are included given known costs associated with operational requirements influenced by capital projects.

For years 2022 and 2023 the dividend remains unchanged based on the analysis there are no recommended changes to the water and sewer rates.

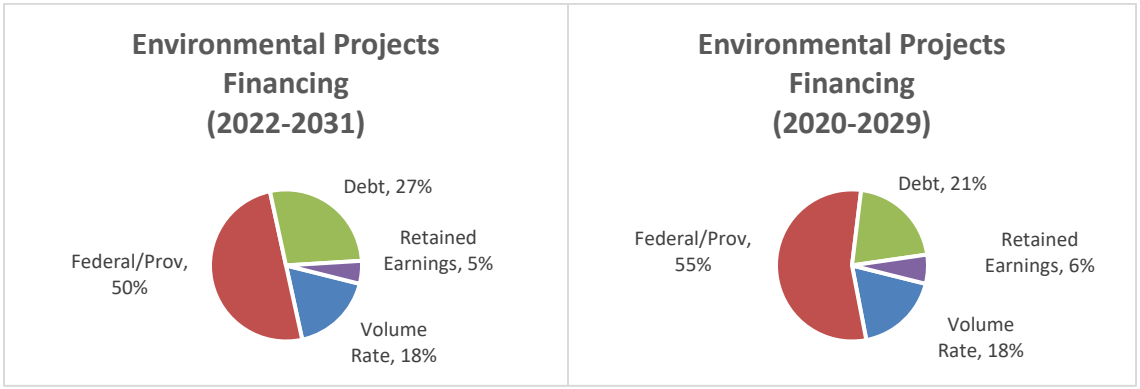
4. ENVIRONMENTAL PROJECTS RESERVE

The Environmental Projects Reserve (EPR) supports the sewage treatment improvement program as directed by the Province and set forth in the Department's asset management strategy. Capital projects consist of biological nutrient removal and upgrades at the sewage treatment plants, biosolids management, and combined sewer overflow mitigation including basement flood relief.

The financial plan incorporates multiple funding sources to meet anticipated timing of capital spending and includes an allocation from sewer volume rate, retained earnings, debt and

government funding. Of note, federal and provincial funding for the ten-year financial plan is now estimated at $581 million, $7.8 million less than previously assumed $589 million.

EPR debt funding for the updated ten-year financial plan is estimated at $81 million greater than originally modelled. Borrowing is expected to begin in 2027 as was planned in the 2020 rate model, and the Public Service will consult with the Chief Financial Officer to ensure adherence to the City's debt strategy.



5. FINANCIAL STABILITY

The water and waste utilities are anticipated to remain financially stable with no recommended changes to Council approved 2022 and 2023 rates.

Forecasts over the ten-year financial plan are dependent on scheduling of planned capital projects, continued government funding for critical sewage treatment upgrades, stable customer growth and water consumption, along with ensuring adherence to the City's debt strategy. The two most influencing factors in modelling water and sewer rates are consumption and timing of capital spending. As a result of a more gradual decline in consumption, the anticipated increase in water and sewer retained earnings is expected to offset new capital spending for the near term. Timing of capital spending influences debt and retained earnings requirements. Of note, delaying the $553 million NEWPCC Upgrade: Biosolids Facilities project pending a provincially required P3 analysis provides a window for partially funding other anticipated capital projects for the short term. In 2021, the Public Service is expected to transfer $80 million from retained earnings to the EPR to finance the required near term additional capital spending.

The next water and sewer rate proposal, expected in the fourth quarter of 2023, will seek Council approval for multi-year water and sewer rates for years 2024 to 2027 which will coincide with the City's next multi-year operating budget. The rate modeling will consider approved capital budgets and associated capital spending, and reflect any new multi-year budget direction.

Ensuring accurate and consistent water meter readings are a critical component in supporting financial stability of the utilities. A 2011 business case supported a positive return for the implementation of an advanced metering system (AMS). A project to review and update the business case, which includes assessing current water meter technology, validating the best replacement technology, and developing a plan and class 3 estimate for implementation of a multi-year water meter replacement program, commenced in the second quarter of 2021 with

the issuance of RFP 801-2020 Professional Consulting Services for an Advanced Water Metering Solution Business Case. Funding of $450 thousand was approved in the 2020 capital budget. As the date of this report, the Pubic Service has evaluated the bids and an award report is expected in Q3 2021. The Water Meter Renewal Reserve is expected to provide the necessary funding for the City-wide advanced metering solution which has an estimated multi-stage implementation beginning 2025.

6. CUSTOMER IMPACT

This report recommends no changes to the approved 2022 and 2023 water and sewer rates as detailed in Appendix A. A residential customer, family of four, with an estimated consumption of 50 cubic metres per quarter, can expect an increase of 2.8 percent in 2022 and 2023 or approximately $34 per year.

Residential Customer Quarterly Bill (50 m3 per quarter family of four)	2021	2022	2023
Water	$95	$98	$100
Sewer	$143	$145	$148
DBC	$60	$63	$67
Total Quarterly Bill	$298	$306	$315
Overall % Change		2.8%	2.8%

A litre of water would continue to cost approximately one-half of a penny.

7. BENCHMARKING

Winnipeg's combined water and sewer rate remains competitive with other cities of similar size. Using 2021 known rates, Winnipeg ranks second out of five cities for affordability for a residential and commercial customer. (Appendix B).

FINANCIAL IMPACT

Financial Impact Statement Date: September 13, 2021

Project Name:

WATER AND SEWER FINANCIAL PLAN UPDATE

COMMENTS:

There are no financial implications associated with the recommendation in this report.

The Public Service has assessed the impact of increased capital costs, notably those associated with sewage treatment plant upgrades and combined sewer overflow projects, along with updated operating costs, and concluded that Council approved rates for years 2022 and 2023 would remain unchanged.

The Public Service continues to review the financial plan on an annual basis and will report back to Council if there are any significant changes.

"Original signed by L. Szkwarek, CPA, CGA"
Lucy Szkwarek, CPA, CGA
Manager Finance and Administration

CONSULTATION

This Report has been prepared in consultation with:

N/A

OURWINNIPEG POLICY ALIGNMENT

OurWinnipeg Reference: 02-2 Environment

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

SUBMITTED BY

Department: Water and Waste Department
Division: Finance and Administration
Prepared by: Ashleigh Campbell CPA, CA
Date: September 13, 2021
File No.: 010-07-20-01-00
010-07-20-02-00

Attachments:

APPENDIX A - 2022-2023 Council Approved Water and Sewer Rates
APPENDIX B - Competitiveness to Other Canadian Cities

2022-2023 COUNCIL APPROVED WATER AND SEWER RATES **APPENDIX A**

Category	Approved January 1, 2022	Approved January 1, 2023
Water Rate (per m3)	$1.95	$2.00
Sewer Rate (per m3)	$2.91	$2.96
Allocated to EPR (per m3)	$0.35	$0.35

Category	Approved January 1, 2022	Approved January 1, 2023
Daily Basic Charge (per day per meter size)		
5/8" meter	$0.70	$0.73
3/4" meter	$0.73	$0.77
1" meter	$0.82	$0.88
1.5" meter	$0.95	$1.02
2" meter	$1.31	$1.41
3" meter	$3.91	$4.30
4" meter	$4.88	$5.37
6" meter	$7.13	$7.87
8" meter	$9.71	$10.72
10" meter	$12.28	$13.58
Private meter	$0.65	$0.68

COMPETITIVENESS TO OTHER CANADIAN CITIES **APPENDIX B**

Presented below are known fees and charges applied in other cities that are included in Winnipeg's water and sewer rates. The following tables reflect estimated annual customer impacts in cities of similar size using 2021 rates and select consumption per year -- residential (200 m^3), and commercial (1,600 m^3).

