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**File #:** CB-16-019, **Version:** 1

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**TAMRMS#:** B06

**Standing Committee of the Whole Recommendation: Stormwater Rates Model & Implementation Plan**

**RECOMMENDATION(S)**

That the unused portion (approximately \$8,000) of the previously approved project budget (of \$15,000) for the Storm Water Rate Model Implementation Plan be allocated to the investigation of alternatives to the currently proposed stormwater rate model, with the objective of incorporating an impermeable surfaces factor into the solution, and that an additional \$40,000 be allocated from the stormwater reserve to fund the hiring of a term Senior Analyst position.

**PURPOSE OF REPORT**

On September 12, 2016 the Standing Committee of the Whole (SCW) reviewed the Stormwater Rates Model & Implementation Plan and passed the following motion:

AR-16-114

That Standing Committee of the Whole recommend to Council that the unused portion (approximately \$8,000) of the previously approved project budget (of \$15,000) for the Storm Water Rate Model Implementation Plan be allocated to the investigation of alternatives to the currently proposed stormwater rate model, with the objective of incorporating an impermeable surfaces factor into the solution, and that an additional \$40,000 be allocated from the stormwater reserve to fund the hiring of a term Senior Analyst position.

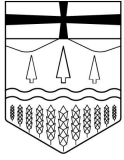
Report Date: October 3, 2016

Author(s): S. Wywal

Committee/Department: Legislative Services

General Manager: M. Pungur-Buick

Interim City Manager: Chris Jardine



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AMRIMS#: B09

## Stormwater Rate Model and Implementation Plan

Presented by: Stephen Graham, Senior Business Analyst

## RECOMMENDATION(S)

1. That the September 12, 2016 Standing Committee of the Whole agenda report titled "Stormwater Rate Model and Implementation Plan", be received as information.
2. That Standing Committee of the Whole recommend to Council that the unused portion (approximately \$8,000) of the previously approved project budget (of \$15,000) for the Storm Water Rate Model Implementation Plan be allocated to the investigation of alternatives to the currently proposed stormwater rate model, with the objective of incorporating an impermeable surfaces factor into the solution, and that an additional \$40,000 be allocated from the stormwater reserve to fund the hiring of a term Senior Analyst position.
3. That Administration report back to Council in Q3 of 2017 with a revised rate model that includes all properties that are currently exempt from stormwater charges.

## PURPOSE OF REPORT

On October 26, 2015, Administration made a proposal to Council to investigate and develop a new method of charging stormwater utility rates to residents and businesses in the City. The new method would be based on property size with the intent of implementing a fairer system for allocating stormwater utility costs to customers.

Council agreed with the proposal and unanimously passed a motion authorizing Administration to proceed with a project and report back to Council in 2016.

This report discusses the events leading up to this initiative, a review of the project including the processing of property data and ensuing analysis of the data. In addition, various issues related to the introduction and ongoing maintenance of the proposed new system will be reviewed.

## COUNCIL (OR COMMITTEE) DIRECTION

On October 26, 2015, Council passed the following motion:

(C528-2015)

1. That Administration design a new rate setting methodology for the stormwater utility that calculates rates based on property lot size.
2. That \$15,000 be allocated to the project from the Stormwater utility reserve on a one-time

basis.

3. That Administration report back to Standing Committee of the Whole in Q2 2016 with the proposed model, rates and an implementation plan for a decision to proceed to implementation.

On June 20, 2016, Council passed the following motion:

(C399-2016)

That the deadline of Q2, 2016 for motion (C528-2015) be extended to September 12, 2016 Standing Committee of the Whole meeting.

## **BACKGROUND AND DISCUSSION**

The genesis of this initiative goes back to 2014 and early 2015 when some comments received from residents and an information request from the Mayor questioned the stormwater utility rate system. Particular emphasis was placed on the issue of fairness in how costs were allocated to residents and businesses. Based on this feedback Administration began an investigation into the issue.

The original presentation to Council suggested that a rate system based on property size would likely result in the following:

- A general shift of cost from residential customers to commercial customers
- Some larger residential properties could see increases but average and smaller residential properties should experience decreases
- Multi-unit residential customers would likely see significant decreases
- Some larger commercial properties could see significant increases while small commercial customers would likely see rates decrease

Administration spent a significant amount of time carrying out a detailed assessment of properties. Initially, the biggest challenge was the development of a series of methods used to allocate billable property which would be the basis for charging customers. Fortunately, the majority of properties in the City are single family detached homes and required little to no review. However, while the remaining properties represent the minority in numbers, the time investment required to review them was substantial.

These remaining properties included all of the multi-unit residential plus all of the commercial and industrial properties. The review was completed using various geographic information tools. While this sounds relatively straight-forward, in practice it was complicated and time consuming.

Some of the more challenging property types included the following:

- Construction sites
  - Greenfield developments

- Redevelopment
- In-fill development
- Multi-unit commercial sites and covered shopping malls
- Parcels without a stormwater account or parts of properties not assigned to an account
- Large properties with significant amounts of green space and small buildings
- Residential and commercial developments that encompassed more than one parcel of land

Once the processing of City properties was completed, an in-depth analysis of the resulting data was undertaken to learn what the impact of this new rate system would be on customers. When Administration presented this proposal to Council last October a number of preliminary conclusions were made based on analysis of high level data that was available at the time. However, we were careful to communicate that any decision to proceed further with this initiative was contingent on the analysis of detailed data, confirmation that our initial conclusions were correct, and an assurance that no other issues were raised that would necessitate a change in direction.

Detailed findings

As Council is aware, the City currently has four flat rates assigned to four different property classifications

<u>Rate Category</u>	<u>Annual</u>	<u>Monthly</u>
Storm Rate 1 (Residential - detached and side-by-side)	\$254.04	\$21.17
Storm Rate 2 (Residential - stacked)	\$194.88	\$16.24
Storm Rate 3 (Commercial)	\$571.44	\$47.62
Storm Rate 4 (Industrial)	\$571.44	\$47.62

Note: These rates include a monthly fee of \$5.38 as a Supplementary Capital Contribution

After summarizing the results of the analysis, Administration discovered that most of what we expected to occur has in fact occurred. The distribution of costs to customers has changed. In the new system 82.2% of costs will be allocated to residential and 17.8% to commercial. This represents a shift of almost 11% from residential to commercial compared to the current system. However there were some challenges within individual property classifications. These are summarized below in the following table which shows comparisons of current rates with ranges of rates under the new system organized by current rate class.

<u>Rate Category</u>	<u>Current Annual Costs</u>	<u>New Annual Cost Range</u>		
Storm Rate 1	\$254	\$107	-	\$2,463
Storm Rate 2	\$195	\$31	-	\$124
Storm Rate 3	\$571	\$32	-	\$43,714
Storm Rate 4	\$571	\$21	-	\$18,645

The attachments listed below provide examples of a more complete breakdown of analysis results for

residential and commercial properties, primarily those customers currently paying Stormwater Rates 1 and 3.

- Summary Statistics - STORM FLAT RATE 1
- Changes in Amounts Paid - STORM FLAT RATE 1
- Summary Statistics - STORM FLAT RATE 3
- Changes in Amounts Paid - STORM FLAT RATE 3

Some other key metrics:

Under the new rate system:

- 74.6% of all residential units will pay less, however 25.4% will pay more and some significantly more
- 100% of stacked residential units will pay less
- 62.4% of commercial and industrial units will pay less, however 37.6% will pay more and some significantly more

**Note:** Reported amounts are relative to the current system.

As mentioned previously, what Administration has seen so far seems to support the reasons we entered into this investigation in the first place. Costs have shifted from residential to commercial customers to better reflect the impact these two groups of customers have on the stormwater system. Most residential customers will see lower rates, particularly stacked residential customers, and even the majority of commercial/industrial customers will see lower rates. However, as we can see in the chart above some issues are raised that complicate the situation.

The issues are primarily with detached residential homes. One of the predicted outcomes with this proposed system that Council identified as a welcome benefit is the general shift of costs from residential to commercial customers. While in general this has turned out to be the case, there are also a number of residential homes on large lots in the City that will experience significant increases due to the larger lot sizes.

Anticipating that this might be a problem Administration began looking at modifications that might help to alleviate the problem while still maintaining the underlying principles driving this project. These alternatives are outlined below.

Flat Rate + Variable Rate

The first method considered was a combination of a mandatory flat rate in addition to a variable rate based on property size. The underlying rationale for this type of system is that there are some basic costs that will be incurred by the stormwater system irrespective of any actual water runoff. The philosophy is that these costs should be incurred by all customers. This method was modelled using a flat rate of \$5.00 per month (\$60 annually) with remaining costs allocated using the same method as originally proposed, a single rate per m<sup>2</sup> of property.

What it basically comes down to is smaller properties and larger properties are moved closer to the middle and in essence, that's the problem with this alternative. It rewards larger properties and

penalizes smaller properties. This tends to defeat the principles of fairness and equity.

The other issue with a system that incorporates a flat rate is the assertion that there is a certain amount of cost that should be borne by all customers. Under a variable rate system based on property size, every customer with property is guaranteed to pay something, so the coverage of common costs is basically assured under a variable rate system. The flat rate just distorts the distribution of those costs.

#### Capped Rate

The next alternative we considered was a capped rate system. In this rate system a cap would be placed on property size. Any property exceeding the cap would be charged the maximum rate generated by the cap size, and no more.

Administration modeled this scenario but the cap (1,000 m<sup>2</sup>) was applied only to residential properties. This is because the problems identified in the proposed system were mostly limited to large residential properties. Residential properties are subject to a run-off coefficient in Edmonton that would significantly reduce their rates relative to St. Albert's proposed system.

While many commercial properties would also be assessed large increases, this was deemed to be less important because charges to commercial properties would generally still be competitive with Edmonton.

This system is still flawed because it redistributes income on a somewhat arbitrary basis. We've chosen a property size of 1,000 square meters but this is based more on the desire to make this rate system more palatable. It still rewards larger residential properties at the expense of all other properties. This again defeats the principles of fairness and equity. What makes this more acceptable than the flat plus variable rate alternative is the fact that only a relatively small amount of cost is redistributed. Nevertheless, it is still a modification that weakens the principles of fairness and equity.

#### Additional Issues

There are some associated issues that might be considered weaknesses in the current rate system which could be carried forward to the proposed system if they are not addressed.

First, there are a number of properties that are not charged stormwater rates. These include hospitals, nursing homes, schools, churches and a community centre. There is no available documentation to support why these properties have been exempted and the bylaw does not mention this issue.

This issue has been reviewed with the City's solicitor. The MGA does allow for different classifications of customers. The current Storm Sewer bylaw does not identify any classes of customers.

An exemption class should have been set up by class exemption under the bylaw. Because there is no mention of a class exemption, the exemption is invalid. Going forward, Council should either ratify the current exemption in the bylaw or eliminate it.

It should also be noted that through contacting a range of municipalities throughout Alberta we have yet to come across any that exempt properties from utility charges.

Another class of properties that is not charged is vacant lots. From an account management perspective, the current utility system is built around the existence of a water meter. This can be a problem with stormwater charges because a water meter has no relationship with stormwater runoff

but administratively our system depends on a water meter to trigger utility accounts and billings. This is a common issue with most municipal utility billing systems and one that should be reviewed going forward. This is primarily why vacant lots are not charged; they do not have a water meter.

#### Competitiveness with other jurisdictions in the Capital Region

One factor in the development of a rate system that can't be overlooked is competitiveness with other municipalities, particularly those that are located nearby. In the Capital Region we tend to have cities and towns that are a little bit smaller. Obviously the largest and most important of the Capital Region municipalities to consider is the City of Edmonton. While our initial objectives are to recover necessary funds in a manner that stresses equity and fairness, we can't ignore the fact that if our rates are dramatically different than those of our neighbour, we may be put in a position where attracting businesses and even residents to our City would become more complicated.

Edmonton's rate system takes into account development intensity and impermeable surfaces so it can reasonably be argued that they have a higher level of accuracy in allocating costs to customers. Implementation and maintenance costs aside, from the standpoint of fairness and equity this would have to be considered a superior system to what we have initially proposed for the City of St. Albert.

#### Conclusion

When this project was originally proposed to Council we planned for an implementation date of January 1, 2017. Now that we have reached this point, the more important question is whether we should implement the system as originally conceived.

After careful consideration Administration is recommending that we don't implement the solution as it is currently designed. Having had the opportunity to work with actual property level data and analyzing the impact on customers, Administration has reached the conclusion that a rate system based on property size alone is not sufficient to serve the needs of the City.

This decision is partly a result of projected cost increases for some residential customers and the administrative challenges this would generate. But the bigger issue might be that Edmonton's system is a more comprehensive version of what we had initially proposed. Their inclusion of development intensity and impermeable surfaces into their rate calculations results in a system that provides greater accuracy.

The run-off coefficient in particular exposes a weakness in our City's proposed system making us less competitive, particularly in residential rates, which represent the overwhelming majority of the City's properties. While Administration maintains that the initial proposal is a strong step forward from our current flat rate system, the presence of a more accurate and therefore fairer system in our next door neighbour makes it difficult to proceed as originally planned.

Administration is recommending that we take more time to investigate the rate system with the intention of building in an impermeable surfaces factor. This would enable us to build in a greater level of accuracy which would help to solve some of the problems in our initial design. Administration's initial resistance to an impervious surfaces system was primarily a question of cost and implementation difficulties. These questions remain but it has become clear that this is the direction we need to head in.

While it's disappointing to delay this initiative we believe that developing the right system for the City

is a much more important consideration.

## STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

The Environmental Advisory Committee has received periodic briefings on the progress of this project. They have generally been supportive of our objectives and have provided feedback and suggestions for our current work and possible future amendments. A formal response has also been provided for this report with the full text available in the attachment titled EAC Stormwater Rate Advice - Final.

## IMPLICATIONS OF RECOMMENDATION(S)

- a) Financial:
- Administration is requesting an additional \$40,000 from the stormwater reserve to support the hiring of a term Senior Analyst position. The current Senior Business Analyst will continue to lead the project however due to other required municipal work, will be unable to commit adequate time to the remainder of this project.
  - The new rate system is designed to collect the same amount of money as the current system
- b) Legal / Risk:
- As noted above, with respect to property/ratepayer class exemptions.
- c) Program or Service:
- The new rate system will change rates for most customers
  - While the majority of customers will see lower rates some will see higher rates
  - Some commercial and a few residential customers will see significantly higher rates
- d) Organizational:
- The new rate system will impact the Utility Services group who will be primarily responsible for maintaining and billing customer records, including any of the information required by the new rate system
  - Additional support for property data will come from Planning/Engineering personnel

## ALTERNATIVES AND IMPLICATIONS CONSIDERED

If Committee does not wish to support the recommendation, the following alternatives could be considered:

- a) Proceed with implementation of one of the rate models identified in this report. The implication of this alternative are that there will be significant challenges dealing with those residential customers that will face large rate increases.
- b) Direct administration to look at other rate options. Administration would require direction from



Council in terms of what specific models should be investigated.

- b) Abandon the project. This would mean that the current flat rate model would remain in effect and continue to have what is deemed unfair allocation of costs to customers.

Report Date: September 12, 2016

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