



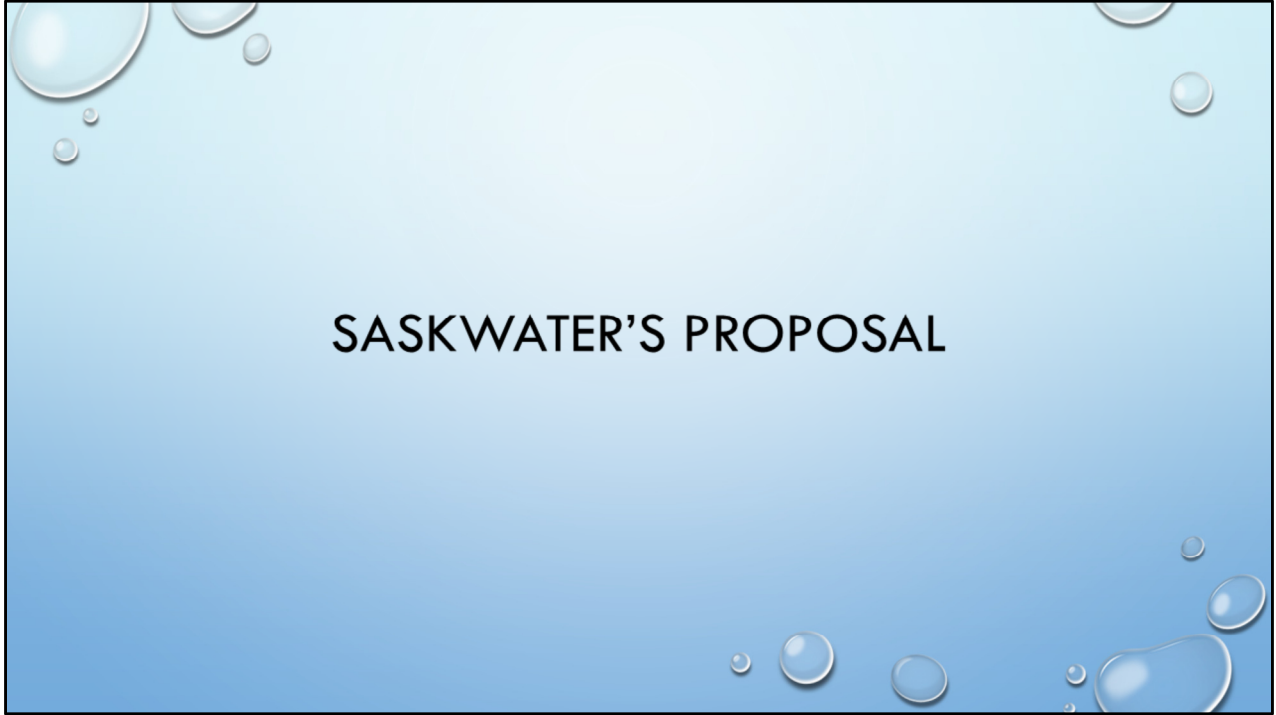
**TOWN HALL MEETING
MEADOW LAKE WATER SERVICES**

MAY 21, 2019

MEADOW LAKE CIVIC CENTRE, 7:00 P.M.

MEETING OVERVIEW

- WHAT IS THE PROPOSAL COUNCIL IS CONSIDERING?
- WHAT IS THE CURRENT STATE OF WATER RATES AND SERVICES IN MEADOW LAKE?
- COMMUNITY BENEFITS OF SASKWATER'S PROPOSAL
- COMMUNITY RISKS OF SASKWATER'S PROPOSAL
- FORECAST OF FUTURE RATES
- CLOSING COMMENTS
- FLOOR OPENED FOR QUESTIONS
- OTHER METHODS OF PROVIDING FEEDBACK



City Council has been in discussions with SaskWater about possible solutions to the operating risks currently facing Meadow Lake's water treatment plant.

WHO IS SASKWATER?

- SASKWATER IS A CROWN CORPORATION THAT PROVIDES MUNICIPAL, FIRST NATION, AND INDUSTRIAL CUSTOMERS WITH SAFE, RELIABLE AND SUSTAINABLE WATER AND WASTEWATER SERVICES
- SASKWATER IS NOT INVOLVED IN SETTING WATER QUALITY AND USE REGULATIONS – THAT ROLE BELONGS TO THE WATER SECURITY AGENCY WHICH IS A DIFFERENT PROVINCIAL AGENCY
- SASKWATER PROVIDES POTABLE WATER AND WASTEWATER SERVICES TO 65 MUNICIPAL COMMUNITIES, 9 RM'S, AND 81 RURAL PIPELINE GROUPS IN THE PROVINCE.

Communities with SaskWater service include Nipawin, Melfort, Melville, Humboldt, Pierceland, and the LaRonge area

SASKWATER'S PROPOSAL

- SASKWATER HAS PRESENTED COUNCIL WITH A POTABLE WATER SUPPLY AND ASSET PURCHASE AND MANAGEMENT AGREEMENT
 - SASKWATER WOULD PURCHASE THE CITY'S WATER PLANT, WATER PONDS, AND INTAKE PUMPS FOR A NET REVENUE TO THE CITY OF \$7 MILLION
 - SASKWATER WOULD THEN BECOME RESPONSIBLE TO MAINTAIN ALL WATER TREATMENT ASSETS AND MEET ALL CURRENT AND FUTURE WATER REGULATIONS
 - THE CITY WOULD CONTINUE TO OWN THE WATER RESERVOIRS, SEWAGE LIFT STATIONS, LAGOON, AND UNDERGROUND INFRASTRUCTURE
 - SASKWATER WOULD CREATE AND SELL POTABLE WATER TO THE CITY, AND THE CITY WOULD CONTINUE TO BILL RESIDENTS UNDER A RATE STRUCTURE SET BY COUNCIL

In addition to potable water, SaskWater would provide operations and maintenance of the sewage system and certified oversight of the distribution system.

PROPOSAL CONTINUED...

- THE CITY AND SASKWATER WOULD ENTER INTO A 30 YEAR AGREEMENT
- SASKWATER'S RATES CHARGED TO THE CITY WOULD BE FIXED FOR THE FIRST 7 YEARS UNDER A RATE PHASE-IN PROGRAM
- THIS WOULD BE FOLLOWED BY RATES SET FOR 3 YEAR INTERVALS, NEGOTIATED BETWEEN SASKWATER AND COUNCIL AND BASED ON ACTUAL AND FORECASTED COSTS OF OPERATIONS
- SASKWATER IS REQUIRED TO RECOVER ITS COSTS AS A COMMERCIAL CROWN USING A COST OF SERVICE MODEL
- THE POLICY FOR THIS MODEL IS THAT FOR EVERY \$1.00 OF COST SASKWATER IS EXPECTED TO RECOVER BETWEEN \$0.95-1.05.

If SaskWater identifies savings through efficiencies or regionalization it will be reflected in future water rates.

The background of the slide is a light blue gradient that transitions from a pale blue at the top to a slightly darker blue at the bottom. Scattered throughout the background are several realistic-looking water bubbles of various sizes, some with highlights and shadows, giving the impression of being underwater.

HISTORY AND CURRENT STATUS OF MEADOW LAKE'S WATER RATES

WATER REVENUE AND EXPENSES 2014-2019

	Revenue	Water	Sewer	Distribution	Amortization	Net Loss
2019	2,204,447	774,186	416,870	732,986	811,344	-530,939
2018	1,997,827	769,467	414,329	840,811	673,263	-700,043
2017	1,885,569	658,718	354,694	814,189	692,625	-634,657
2016	1,644,689	570,064	306,958	626,538	683,523	-542,394
2015	1,684,792	545,596	293,782	571,825	647,719	-374,131
2014	1,520,074	558,125	300,529	443,289	548,824	-330,693

Water costs have been steadily increasing due to regulation changes, water quality issues, and rising chemical costs.

Distribution costs have been steadily increasing due to increased repairs to water and sewer lines. In 2018 we had 7 water main breaks and 16 sewer service line breaks. Breaks are most frequently caused by drastic temperature changes and aging infrastructure.

Amortization represents the capital investments and the need to budget for future capital replacements. An average of \$2 million per year has been invested in the water and sewer system over the past 10 years with lagoon, lift station, reservoir, and water plant upgrades.

AVERAGE WATER BILLS - 2019

MEADOW LAKE RATES

- MONTHLY COST FOR AVERAGE RESIDENTIAL CONSUMPTION (17M3) = \$82.92
- MONTHLY COST FOR AVERAGE COMMERCIAL CONSUMPTION (58M3) = \$185.42

(2" METERS WERE USED FOR COMMERCIAL COMPARISONS – TYPICALLY FOUND IN A RESTAURANT, SCHOOL OR APARTMENT BUILDING)

SASK MUNICIPALITIES OVER 4,000

- MONTHLY COST FOR AVERAGE RESIDENTIAL CONSUMPTION (17M3) = \$99.36
 - LOW IS \$63.27, HIGH IS \$152.48
- MONTHLY COST FOR AVERAGE COMMERCIAL CONSUMPTION (58M3) = \$321.18
 - LOW IS \$185.42, HIGH IS \$465.65

Currently Meadow Lake's water rates are some of the lowest in the province for communities with populations over 4,000.

Because bills are issued quarterly and also include garbage and recycling fees the water charges seem higher than they actually are.

In order to cover rising costs, as well as the need for future infrastructure repair and replacement, Meadow Lake's water rates will need to be increased whether or not an agreement is signed with SaskWater.

These are average costs for 2019 and there is a trend across the province of increasing water costs as municipalities are faced with the challenges of aging infrastructure. Where a community's utility rates fall is also often a reflection of the amount of recent investment made in their capital infrastructure.

2019 PROVINCIAL WATER RATES FOR RESIDENTIAL CONSUMPTION OF 51M3/QUARTER

Community	Base Charge /month	Infrastructure Fee /month	Initial Consumption Rate (/m3)	Quarterly Bill Amount
Weyburn	\$ 26.26	\$ 9.55	\$ 1.62	\$ 189.80
Lloydminster	\$ 18.99	\$ -	\$ 3.60	\$ 240.57
Saskatoon	\$ 23.78	\$ -	\$ 3.45	\$ 247.09
Meadow Lake	\$ 40.42	\$ -	\$ 2.50	\$ 248.76
Swift Current	\$ 32.83	\$ -	\$ 3.00	\$ 251.44
Melfort	\$ 37.25	\$ -	\$ 3.08	\$ 268.83
Nipawin	\$ 51.96	\$ 30.00	\$ 2.93	\$ 272.47
Prince Albert	\$ 50.00	\$ -	\$ 2.44	\$ 274.34
Estevan	\$ 31.49	\$ 10.00	\$ 3.00	\$ 277.47
Moose Jaw	\$ 48.67	\$ -	\$ 2.70	\$ 283.92
Regina	\$ 44.70	\$ -	\$ 3.74	\$ 324.84
Martensville	\$ 39.50	\$ -	\$ 4.22	\$ 333.72
Warman	\$ 55.22	\$ -	\$ 6.81	\$ 335.91
Kindersley	\$ 34.50	\$ -	\$ 4.67	\$ 341.67
Humboldt	\$ 36.57	\$ -	\$ 5.78	\$ 404.49
Melville	\$ 65.00	\$ 25.00	\$ 3.68	\$ 457.43

This chart is based on the current water rate bylaws posted to other communities' websites and assumes a 5/8" meter size and consumption amount of 51 m3 per three month period (17 m3 per month).

As each community bills waste collection costs differently, those charges are not included in this chart, although Meadow Lake does also include waste collection in the utility bills. Some communities also include an additional storm water infrastructure levy in their utility bills. As Meadow Lake has no comparable levy, this data was not included.

WATER RATES POLICY

- IN 2015, COUNCIL ADOPTED A POLICY OF 'USER PAY' FOR UTILITIES AND ESTABLISHED A MONTHLY BASE CHARGE TO REPRESENT THE FIXED COSTS THAT EXIST TO HAVE UTILITY INFRASTRUCTURE IN PLACE, ALONG WITH A CONSUMPTION CHARGE WHICH REPRESENTS THE VARIABLE COSTS ASSOCIATED WITH TREATING WATER AND SEWER, AND WEAR AND TEAR ON INFRASTRUCTURE.
- RATES HAVE BEEN INCREASED ANNUALLY SINCE 2015 IN AN EFFORT TO REACH THE POINT WHERE UTILITY RATES ARE NO LONGER BEING SUBSIDIZED BY PROPERTY TAXES
- IT IS EXPECTED TO TAKE AT LEAST ANOTHER TWO YEARS AT THE CURRENT RATE OF INCREASES TO REACH THIS POINT, FOLLOWED BY ONGOING INCREASES FOR INFLATION
- SEWER RATES ARE 40% OF WATERWORKS BECAUSE SEWER MAKES UP APPROXIMATELY 40% OF THE OPERATING AND CAPITAL COSTS FOR THE DEPARTMENT

Prior to 2012 the City's water rates were set to recover the costs of the water production and treatment, and sewage collection. The rates did not include the costs of delivering water to residents – the distribution system. They also did not reflect capital investments by including amortization, which budgets for required future capital upgrades. This means the water rates were artificially low, and were being subsidized by taxes for a number of years. In addition, as our distribution system ages the costs for repair and rehabilitation increase, putting more pressure on water rates.



PROPOSAL BENEFITS

WATER SYSTEM RISKS

- CERTIFIED OPERATOR STAFFING
- WATER QUALITY
- FUTURE PLANNING AND GROWTH
- CHANGING REGULATIONS
- PERMIT TO OPERATE

Meadow Lake's plant is a Class IV plant, which requires a Class IV operator to legally run. There are very few Class IV operators in the province, with the majority working for SaskWater. Many communities in the province are also moving to regional water systems and pipelines and/or utilities serviced by SaskWater. The increase in water regulations has made class II, III and IV plants harder for smaller communities to operate independently as they require greater resources and experience.

Last year's extended PDWA was caused by unprecedented algae growth. Projections show that this type of water quality issue is expected to become more frequent in the future throughout the country.

Council is looking toward the future and trying to protect Meadow Lake's water quality in the long term. The plant is operating well now, but may not always continue to do so. In a partnership with SaskWater, SaskWater would assume the risks of future capital investment, as well as the risks of regulatory compliance and ensuring that Meadow Lake water customers continue to receive safe, reliable drinking water.

RESOURCES OFFERED BY SASKWATER

- COMPREHENSIVE PLANNING FOR ASSET REPLACEMENT
- CAPITAL FUNDING FOR FUTURE PLANT UPGRADES
- ENGINEERS WITH EXPERIENCE WITH DESIGN AND TREATMENT OF VERY DIVERSE WATER QUALITY SOURCES
- BROADER POOL OF OPERATIONS STAFF TO COVER VACANCIES
- 24/7 REMOTE ACCESS MONITORING OF FACILITIES WHICH REDUCES THE AMOUNT OF STAFF OVERTIME REQUIRED
- EXPERIENCE IN OFFERING STAFFING SUPPORT AND/OR PIPELINE EXPANSIONS TO A BROADER REGIONAL SERVICE AREA
- OPERATES UNDER A POLICY TO MEET OR EXCEED ALL WATER QUALITY REGULATORY PARAMETERS

SaskWater's capital investment in the purchase of the water plant would provide funds for Council to invest in current and future capital upgrades, which would mean that those upgrades could be done without the need to increase rates in the future. The \$7 million purchase revenue would be used to offset the need to borrow for current capital projects, and one plan would be to place \$2 million into an investment reserve with the interest revenue used to either offset rates or future project costs.

SaskWater has greater capacity to look at future regional partnerships for water services, whether through the sale of potable water or through providing certified staff support.

SaskWater is able to provide dedicated expertise in the event of future water quality issues.

In 2018, Water Plant staff worked approximately 500 hours of extra overtime responding to the extended PDWA and the water quality issues that caused it. In a normal year, Water Plant staff work an average of 1300 hours of overtime.

SaskWater's remote access monitoring system would significantly reduce the amount of overtime required and the risk of staff burnout.



PROPOSAL RISKS

FUTURE WATER RATES & OWNERSHIP

- THE LARGEST RISK IN THIS PROPOSAL IS THAT THE CITY WOULD HAVE LESS CONTROL OVER THE OPERATING AND CAPITAL COSTS OF THE WATER SYSTEM
- THE CITY WOULD NO LONGER OWN THE WATER PLANT, ALTHOUGH THE MAJORITY OF WATER AND SEWER INFRASTRUCTURE WOULD REMAIN UNDER THE CITY'S CONTROL

While the factors related to budgeting decisions remain the same (regulatory requirements, water quality, infrastructure needs), SaskWater's policy is to operate on a risk averse model that seeks to ensure that there are as few issues with water quality and service as possible. The impact of this is often an increase in financial investments for equipment or facility upgrades that may have been viewed as optional or able to be postponed under previous Councils. SaskWater would still work on behalf of the City to secure grant funding and if no funding is available, and SaskWater will work with council to determine appropriate timing for capital investment.

One of the biggest risks to the City is that residents may start using less water in response to rate increases. An agreement with SaskWater would have a flat annual cost associated to the fixed costs of operating the plant regardless of the amount of water used, which means that if water consumption drops the City would need to find other ways to make up the difference.

SaskWater will provide a 5 year rolling forecast of capital and operating needs and will work with the City to time expenditures and apply for funding.

The background of the slide is a light blue gradient that transitions from a pale blue at the top to a slightly darker blue at the bottom. Scattered throughout the background are several realistic-looking water bubbles of various sizes, some with highlights and shadows, giving the impression of being underwater.

FUTURE RATES FORECAST

PROJECTED 2020-2025 COST COMPARISON (WITHOUT LONG-TERM DEBT PAYMENTS)

	City Expense Forecast	SaskWater Expense Forecast	Difference
2020	2,921,807	3,216,208	294,401
2021	2,959,305	3,354,101	394,796
2022	2,991,554	3,500,718	509,164
2023	3,036,568	3,656,651	620,083
2024	3,076,362	3,822,533	746,171
2025	3,116,952	3,999,043	882,091

At the beginning of the phase in process, costs under SaskWater will be very similar to the projected costs for the City operating on its own. This forecast for City expenses includes a 6% increase in 2020 to the Water & Sewer Treatment operations to account for probable staffing risks and needs. These forecasts are an estimate only, as there are a number of unknown variables in the City's expenses that cannot be wholly accounted for. By the end of the phase-in process, there is a significant forecasted difference in costs, however once this point is reached annual cost increases from SaskWater are expected to be within the normal range of inflation.

The difference does not necessarily need to be offset by utility rate increases but will need to be offset through municipal funds in some way – through a possible combination of infrastructure levies, increasing the number of water customers, and other strategies.

*Yes there is an additional expense in 2025 but the City expense forecast doesn't include a reflection of costs for an additional \$7 million in capital.

PROJECTED 2020-2025 COST COMPARISON (WITH LONG-TERM DEBT PAYMENTS)

	City Expense Forecast	SaskWater Expense Forecast	Difference
2020	3,334,410	3,216,208	-118,202
2021	3,371,908	3,354,101	-17,807
2022	3,410,157	3,500,718	90,561
2023	3,449,171	3,656,651	207,480
2024	3,488,965	3,822,533	333,568
2025	3,529,555	3,999,043	469,488

The current City budget includes plans to borrow for the City's 1/3 portion of the recent water plant upgrade, as well as the new sewage lift station being constructed this year. The above table shows the additional impact to the City's water and sewer costs of the estimated annual loan payment amounts.

If the City is able to apply some of the \$7 million purchase revenue towards these capital projects, there would not be any additional borrowing costs. Under this scenario, the difference in annual costs is significantly reduced.

PROJECTED 2020-2025 REVENUE COMPARISON

	Revenue without Agreement	Revenue with Agreement
2020	2,363,154	2,443,154
2021	2,539,287	2,620,887
2023	2,738,560	2,821,792
2023	2,951,918	3,036,815
2024	3,184,655	3,271,250
2025	3,435,242	3,523,568

These projections include maintaining the current levels of annual rate increases. They do not reflect the hypothetical utility rates shown on the next slide. The higher revenue under a SaskWater agreement is based on a plan to invest \$2 million of the asset purchase price and use the interest revenue to help offset the impact of cost increases.

These projections do not include the City 'billing itself' for water used by City facilities. A significant amount of water is lost each year between the water plant and the metered customers through fire hydrant use, operating facilities like the arena and swimming pool, and water line breaks. One way the City could potentially keep water rates lower is to bill itself for its water usage, essentially offsetting water costs through another revenue source such as taxes, grants or user fees.

PROJECTED 2019-2025 RATES COMPARISON AVERAGE RESIDENTIAL BILL (17M3/MONTH)

	Without SaskWater		With SaskWater	
	Quarterly	Monthly	Quarterly	Monthly
2018	232.29	77.43	n/a	n/a
2019	248.75	82.92	n/a	n/a
2020	371.70	123.90	354.92	118.31
2021	380.99	127.00	372.76	124.25
2023	390.52	130.17	391.30	130.43
2023	400.28	133.43	410.86	136.95
2024	410.29	136.76	431.40	143.80
2025	420.54	140.18	452.97	150.99

This projection is based on an average residential property using 17m3 of water per month, and is broken down into monthly and quarterly billing amounts. The rates presented here are very unlikely to be used in practice as they are based on have a \$0 net loss between water and sewer expenses and revenues, which is a goal that has not currently been achieved in the utility rates being used. In practice, the City would likely offset these costs through buying its own portion of the water being used.

These rates are presented for discussion purposes only, and show the true cost of water services when utilities are not being subsidized in any way. These rates include a significant increase in 2020 to close the current funding gap, and thereafter include annual increases based on the projected cost increases.

These projections are also based off of the second table of operating expenses, which includes an estimated amount to cover long term debt payments. Currently the water rate structure does not include the principal payment of loans in the cost recovery model, only the interest.



CLOSING COMMENTS

CLOSING COMMENTS

- COUNCIL HAS NOT MADE A FINAL DECISION ON THIS AGREEMENT
- COUNCIL IS AWARE THAT THIS IS A VERY SIGNIFICANT DECISION FOR THE COMMUNITY AND WANTS TO HEAR PUBLIC FEEDBACK
- ONE OF THE MAIN REASONS COUNCIL IS CONSIDERING THIS PROPOSAL IS BECAUSE OF THE GREATER EXPERTISE AND RESOURCES BROUGHT BY SASKWATER
- REGARDLESS OF WHETHER OR NOT COUNCIL VOTES TO ENTER INTO AN AGREEMENT WITH SASKWATER, THE RISKS OUTLINED IN THIS PRESENTATION REMAIN THE SAME AND WILL REQUIRE AN INCREASED INVESTMENT IN WATER SERVICES ALONG WITH CORRESPONDING RATE INCREASES INTO THE FUTURE

A rectangular area with a blue gradient background, transitioning from a lighter blue at the top to a darker blue at the bottom. The corners of the rectangle are decorated with several realistic water bubbles of various sizes, some with highlights and shadows, giving them a three-dimensional appearance.

FLOOR OPEN FOR QUESTIONS

OTHER WAYS TO PROVIDE FEEDBACK

- COMMENTS CAN BE EMAILED TO CITYCLERK@MEADOWLAKE.CA
- LETTERS CAN BE DELIVERED TO CITY HALL (120 1ST ST. EAST)
- COMPLETE THE SURVEY POSTED ON THE WEBSITE HOMEPAGE – MEADOWLAKE.CA
- ATTEND FUTURE COUNCIL MEETINGS WHERE A DECISION WILL BE MADE ON THE PROPOSED AGREEMENT