

**WATER AND SEWER UTILITY BUDGET
PRESENTATION OF JIM HOLMES
TO REGINA CITY COUNCIL MEETING
FEBRUARY 24, 2014**

Thank you for the opportunity to talk with you tonight about Regina's Water Utility. I want to acknowledge the Councillors' long hours and hard work. Thank you.

This presentation has three main themes:

Regina's Water and Utility Fees are unfair, redistributing income from those least able to pay to those who least need it.

Utility fees are higher than necessary.

The proposed wastewater treatment plant P3 is over budget and behind schedule.

Unfair water fees.

Regina overcharges low income citizens and discourages conservation.

Like most cities Regina water rates have two parts: a basic or flat rate charge and a consumption charge to encourage conservation.

Using the Budget's comparisons of Western Canadian cities residential water rates, Regina has the highest basic rate and the lowest percentage of the bill from consumption charges. Regina basic charge is a very high percentage of total residential water bills: two times Winnipeg's and almost three times Edmonton's percentage of the basic charge.

This effectively penalizes low income families, who must pay a high and mandatory basic charge. Low additional consumption charges do little to encourage conservation.

Additionally, Regina's residential customers subsidize business. Regina's commercial basic rate is not even twice as high as its residential basic rate. Calgary's is more than two and one half times as high, Edmonton's almost three and one half times, Saskatoon's 15 times higher.

A better policy would be to lower (or at least freeze) the base residential charge and apply increases to the consumption charge, ideally in a steeply tiered rate structure. Reduced consumption might result in lower revenue, but the exceptionally high rate increases of the last 7 years give the City some room to get the balance right.

Other useful policies would be rebates applied to the basic rate for water conservation; low flow showers; dual flush toilets; rain barrel
Higher Utility Bills.

Since 2007, property taxes have risen by almost 27%. **Water utility rates have risen by 71%.** Water utility rates, particularly when the basic rate is high, fall most heavily on low-income citizens. Property tax is only imperfectly based on ability to pay, but the basic water tax is completely regressive. The City should not subsidize property tax with water rates. This is redistributing income from the poor to the affluent.

Transfers from the Utility Reserve

The City will transfer \$8 million this year out of the Water Utility into General Revenue. This is effectively a municipal corporate income tax of 7.5% of the Utility revenue. In 1991 it was 2.5%. No other entity in Regina pays municipal corporate income tax. Other City owned properties, like City Hall, are exempt from even property tax.

As Council raises water rates, utility revenue and transfers to the General Fund rise. This puts an unnecessary burden on water rates. This is a particularly blatant example of redistributing income from the poor to the affluent.

Recovery from Developers

A substantial portion of the Water Utility rates is for infrastructure to support new growth.

As Design Regina noted: *...growth does not pay for the cost of servicing growth In the 2011 budget:*

- *Increased revenue due to an increase in the inventory of property that could be taxed (assuming no increase in property tax rates) was \$2.6 million*
- *Increased cost of providing services to accommodate our growth was \$4.7 million*

Using increased utility rates or property taxes to support growth is not an **“Investment in Growth and Opportunities”**. It is subsidizing new market priced construction, in some cases luxury housing and commercial development.

Council has consistently rejected accepting responsibility for subsidizing low income housing.

Yet Council seems comfortable with subsidizing developers.

Between 2007 and 2013 the selling price of a new house rose 60% in Regina.¹

Profits have increased from 9% to 13% of the selling price of a new house ²

At a time of high house sales and rising prices, why are taxpayers subsidizing home builders?

An accounting improvement would be to match expenditures for new infrastructure to the Servicing Fees paid by developers over a period of several years to ensure the accounts balance.

WasteWater Treatment Plant

Remember “Vote No to paying an additional \$276 on utilities each year”?

The \$276 utility increase Council threatened during the Referendum was only to be a four-year surcharge.

Between 2007 and 2012 Council has raised water utility rates by 9% a year. This compounded to an average \$640 increase.

In this budget City Council will raise water utility rates by 8%, an average of \$120 this year and proposes another 8% in 2015³ that will compound to an average \$240 more. Every subsequent years increase will compound on this base.

Unaccounted Expenses

The budget reveals some additional costs for the P3 Waste Water Treatment Plant.

McCarthy Pumping Station

In 2014, \$500,000 will be spent to sever the City operated McCarthy Boulevard Pumping Station from the P3 Consortium operated Treatment Plant.⁴ The pumping station collects all Regina wastewater and sends it to the Treatment Plant.⁵ Why its software is being separated is unclear, but it is clear that this was a cost never before revealed to the public.

Sludge

The Budget reports \$4.5 million in sludge management at the WWTP. This was not a cost identified in the 2013 budget. The work will take place in 2014, 2015 and 2016 when the WWTP operation is turned over to the P3 Consortium. Handling the lagoons and their sludge was supposed to be part of the P3 project.⁶ Why is this cost now being picked up by taxpayers and not the Consortium?

Vote No

The Budget reports Vote No costs of \$356,500.⁷ However, a November 1, 2013 response to an Access to Information request revealed the City spent actually

\$408,594.96 on the Vote No campaign.⁸ Why does the Budget contain the wrong figure?

P3 Bureaucracy

The budget reports the Federal Grant is \$58.7 million or one quarter of the cost of the WWTP. This would make the total cost \$234 million. The difference between this cost and the \$224 million reported in the budget is the additional \$10 million in payments to consultants and lawyers. These high bureaucratic costs are typical and predicted for P3 projects, but the City still does not report them.

The real total of the P3 including severing the pumping station, the Vote No costs, the hidden additional bureaucratic costs and the sludge management is \$239.5 million.

Overdue

Long delays are also typical of P3 projects. The Calgary School Board wants out of the P3 straitjacket for this reason.⁹

The City's original timeline was for the P3 consortium to be chosen by February 28, 2014 and construction to start this Spring. Currently the City expects bidding to close in May 2014 and construction to commence in the Summer or Fall.¹⁰ According to City Councillors, each month of delay adds \$1 million to the construction cost.

These are not Referendum related delays. The deadline for the Request for Qualified bidders was June 25.¹¹ This was only 5 days after the submission of the Water Watch Petition. The qualified bidders for the Project were to be announced July 10.¹² This was twelve days before City Council decided to hold the Referendum. The City missed this announcement deadline and did not announce the qualified bidders until Oct 16, 2013.¹³

Future Infrastructure

The Mayor has ruled out the P3 model for the \$85 million¹⁴ (at 2013 cost) needed to upgrade the Water Treatment Plant at Buffalo Pound.¹⁵

The City has argued the P3 model was appropriate for the WWTP but not for all infrastructure projects. Having championed the WWTP P3, the City is now faced with the Harper Government tying all Federal infrastructure funding for large projects over the next ten years to the P3 model. All projects will now have to be screened by P3 Canada.¹⁶

Regina Water Watch argued it was a prudent to refuse the P3 project since the higher P3 borrowing costs will wipe out the value of the Federal Grant. There was certainly was, and is widespread opposition to the forced P3 funding model. Perhaps the Federal Government would have changed the criteria faced with stronger opposition. Council felt that was too big a gamble.

Time will tell who was right or wrong. (Although it has often taken an Auditor General's audit to find the true cost of P3 projects.)

But having chosen to appease the Federal Government and its P3 strategy in 2013 , the City has certainly and completely lost any possibility of alternate financing options for large infrastructure projects.

Jim Holmes

¹ (Statistics Canada New House Price Index)

² (Cost of New Housing Study Oct 26 2011 RRHBA 1300 sq. ft. bungalow 2006-2011)

³ WSUB p. 4

⁴ *Water and Sewer Utility Budget Proposed 2014 (WSUB 2014)* p. 51

⁵ WSUB 2014 p. 32

⁶ *Request for Qualifications for the Design, Build, Finance, Operation and Maintenance of City of Regina Wastewater Treatment Plant Upgrade Regina, Saskatchewan, Canada, RFQ no: 2153* Submission deadline: June 25, 2013 2:00 p.m. (Regina time) p 9-10

⁷ *WSUB 2014* "In 2014, this charge also includes \$356,500 for the cost of the referendum held in 2013." p. 10

⁸ email from Shari Colliness Office of the City Clerk's Office to Cheryl Stadnichuk CUPE November 1, 2013

⁹ *Calgary Herald* Feb 3, 2014

¹⁰ *CKOM* Oct 2, 2103)

¹¹ RFQ no: 2153 p.1

¹² RFQ no: 2153 p12

¹³ City of Regina Website October 16, 2013

¹⁴ *WSUB* 2014 p. 2 N.B. In **20** year plan.

¹⁵ *Leader Post* Nov 8, 2013) "We would never consider a P3 on water," Fougere said, speaking from Toronto where he was at a national P3 conference.

¹⁶ *CBC* Feb 13, 2014

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