



July 8, 2025

City Council Committee Report

To: Mayor & Council

Fr: Greg Breen, Director of Engineering & Infrastructure

Re: Water Rate Study and Long-Range Financial Plan

Recommendation:

That Council hereby receives the City of Kenora Water and Wastewater Rate Study completed by Watson and Associates; and further

That in accordance with O.Reg 453/07 Financial Plans, Council hereby approves the City of Kenora Long Range Financial Plan effective 2025 to 2034 as presented.

Background:

Council carried Councillor VanBelleghem's motion in the April 2023 Council Meeting to engage in a fulsome review of the current water and wastewater funding model to ensure equitable and sustainable revenue streams are in place to support the capital and operational needs of these assets via a third-party study.

Over the following months, Administration developed the scope of work for this study, and included the requirement to develop/update the City's Longterm Financial Plan in accordance with O.Reg 453/07.

Budget to complete the study was approved in the 2024 Operating Budget and Administration conducted a public RFP process which resulted in Watson and Associates Economists being awarded the work in February 2024.

Throughout the execution of the study, Watson and Associates presented to and sought feedback from Council at several meetings.

In April 2024, Watson provided an overview of the study program for Council's information.

In September 2024, Watson provided preliminary findings of the utility being underfunded, that could impact Kenora's water and wastewater billing rates. Following that presentation and acknowledging the current pressures on the water and wastewater reserve, Administration presented Council with the recommendation to adopt rate increases of 8.8-9.2%, depending on meter size, for the 2025 and 2026 years during the 2025 Budget process. Council adopted these increases, and they have been incorporated into the final Long Range Financial Plan.

In February 2025 Watson shared alternative rate structure options to support equitability between billing classes. Following Watson's presentation, Administration presented Council with options of alternative rate structures to be built into the long-range financial plan.

Council directed Administration to, starting in 2027, incorporate a new rate structure, that, in alignment with the American Water Works Association and industry best practice, bills consistently across user classes such as commercial or multi-unit residential, for similar access to the water and wastewater network. The Long-Range Financial Plan therefore incorporates the following:

- Single-detached residential customers only experience a 5.2% increase in 2027, then 8.8% is resumed in the outyears.
- Large commercial customers experience a 59.8% increase in 2027 and a 9.0% increase in the outyears.
- Multi unit residential customers (4 or more units) experience a 32.6% decrease in 2027 and a 9.0% increase in the outyears.

Although the impact of these rate structure changes will not be felt by customers until 2027, there is an immediate impact to the development community. Developers looking to support the City in its housing unit growth can plan their projects with these incoming rate structure changes in mind.

The rate study report is attached for Council and public information. Key highlights from the study are as follows:

- City of Kenora assets have been assessed with an estimated replacement cost of \$696.7M (2025 dollars).
 - This translates to an average annual lifecycle cost of \$11.4M (the amount the City should be spending or setting aside for capital works to ensure the system remains safe, operable and reliable)
- The City has a 10-year capital expenditure plan that includes \$111.3M in projected capital works (inflated) funded by \$40.8M in debt, and \$70.5M from reserves.
- The City has a 10-year operating forecast expenditure of \$96.9M (inflated) funded from reserves.

By the end of 2024, the City had been funding the utility annually with \$8.25M (2024 dollars) **less** than the annual life cycle cost of the utility. In late 2024, during the 2025 budget process, Administration presented to Council that this had led to an unbalanced 2025 Budget, with the reserve balance being depleted.

Administration presented and Council adopted the recommendation to increase rates by 8.8-9.2% in 2025 and 2026. This balanced the 2025 budget, with a positive reserve balance.

The rate study provides the following table summarizing the 2025 to 2034 billing rates increases that create a sustainable funding model to support the capital and operational needs of the water and wastewater utility network, incorporating the 2027 rate structure changes noted above.

Customer Type	Bill Component	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Residential - single-detached (170 m³ annual consumption, 5/8" meter)	Water	\$ 996	\$ 1,087	\$ 1,146	\$ 1,251	\$ 1,365	\$ 1,490	\$ 1,626	\$ 1,774	\$ 1,936	\$ 2,113
	Wastewater	\$ 990	\$ 1,074	\$ 1,127	\$ 1,223	\$ 1,327	\$ 1,441	\$ 1,564	\$ 1,698	\$ 1,844	\$ 2,003
	Total	\$ 1,986	\$ 2,161	\$ 2,273	\$ 2,474	\$ 2,692	\$ 2,931	\$ 3,190	\$ 3,472	\$ 3,780	\$ 4,116
	% change	8.8%	8.8%	5.2%	8.8%	8.8%	8.8%	8.8%	8.9%	8.9%	8.9%
Large Commercial (2,500 m³ annual consumption, 2" meter)	Water	\$ 6,689	\$ 7,288	\$ 11,726	\$ 12,789	\$ 13,947	\$ 15,211	\$ 16,589	\$ 18,093	\$ 19,732	\$ 21,521
	Wastewater	\$ 6,718	\$ 7,352	\$ 11,667	\$ 12,704	\$ 13,836	\$ 15,070	\$ 16,416	\$ 17,885	\$ 19,488	\$ 21,238
	Total	\$ 13,407	\$ 14,640	\$ 23,393	\$ 25,493	\$ 27,783	\$ 30,281	\$ 33,006	\$ 35,978	\$ 39,221	\$ 42,759
	% change	9.2%	9.2%	59.8%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Multi-residential Building (33 residential accounts, 2,376 m³ total annual consumption, 2" meter)	Water	\$ 15,627	\$ 17,056	\$ 11,448	\$ 12,486	\$ 13,618	\$ 14,853	\$ 16,200	\$ 17,669	\$ 19,271	\$ 21,018
	Wastewater	\$ 15,514	\$ 16,813	\$ 11,379	\$ 12,387	\$ 13,486	\$ 14,684	\$ 15,992	\$ 17,418	\$ 18,973	\$ 20,671
	Total	\$ 31,141	\$ 33,869	\$ 22,827	\$ 24,873	\$ 27,104	\$ 29,537	\$ 32,191	\$ 35,086	\$ 38,244	\$ 41,689
	% change	8.8%	8.8%	-32.6%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Multi-residential Unit (72 m³ annual consumption)	Water	\$ 474	\$ 517	\$ 347	\$ 378	\$ 413	\$ 450	\$ 491	\$ 535	\$ 584	\$ 637
	Wastewater	\$ 470	\$ 509	\$ 345	\$ 375	\$ 409	\$ 445	\$ 485	\$ 528	\$ 575	\$ 626
	Total	\$ 944	\$ 1,026	\$ 692	\$ 754	\$ 821	\$ 895	\$ 975	\$ 1,063	\$ 1,159	\$ 1,263
	% change	8.8%	8.8%	-32.6%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%

Implementing the recommended rates of this 10-year plan will still see the City's reserve balance depleted in the 2029, 2030, 2031 and 2032 years. The City will leverage debt in these years to operate the utility.

If the recommendations in the study are followed, the reserve balance will recover to a positive position, with an estimated closing balance of \$7.1M in 2034. This is a much better position for the utility to be in, with some ability to address unforeseen situations such as a sudden critical equipment failure.

Long-Term Financial Plan

O.Reg 453/07 Financial Plans, under the Safe Drinking Water Act, 2002, requires that the operator of a drinking water system (The City of Kenora) supply their updated long-term financial plan, approved by Council, when the City's drinking water license is renewed.

Financial plans must include details of the projected financial position of the drinking water system, details of the proposed or projected financial operations of the drinking water system, details of the drinking water system's proposed or projected gross cash receipts and gross cash payments and details of the extent to which the above information relates directly to the replacement of lead service pipes.

Financial plans must cover a period of six (6) years, including the year of expiry of the existing license. As an example, for a license that expires in 2025, the plan must cover at least the years 2025 through 2030 but could also include additional years before or after those.

The City's existing drinking water license expires January 28, 2026. The application for renewal is due July 28, 2025. The City's existing long term financial plan (May 2021) covers years 2021 through 2026 and is therefore not eligible to submit in this year's renewal application.

The City must provide notice of the availability of the financial plan, publish it on the City website and otherwise make it available, on request, to members of the public without charge.

Following Council's approval of the financial plan, Administration will complete the application for renewal of the City's drinking water licence this month.

Budget:

Approval of the plan has no immediate impact on the budget. The water and wastewater billing rates for 2025 and 2026 are currently incorporated into the 2025 adopted and 2026 projected budgets. Administration will bring the recommended 2027 and future rate increases to Council for their approval in future Tariff of Fees and Charges bylaw revisions.

Risk Analysis:

The outcomes of the water and wastewater rate study directly inform the financial plan. These are important documents that help ensure that the City is planning and spending within the utility in a manner that protects the safety, reliability and sustainability of the utility into the future. They help prevent the impacts from lack of foresight and help municipalities position themselves with financial protection for unforeseen events.

Council's approval of this financial plan represents approval of how existing conditions will be managed financially. We know that Kenora is expecting to realize growth of our community and that the City is actively pursuing provincial funding to support rehabilitation works needed. Changes to existing conditions like these may influence the plan in the future. If required, the plan can be amended when this occurs, ensuring that it continues to meet the regulatory requirements.

Communication Plan/Notice By-law Requirements: Public notice of plan approval and publishing on City website.

Strategic Plan or other Guiding Document:

Strategic Plan

Goal 1.2 – Ensure well maintained and sustainably financed City infrastructure

Safe Drinking Water Act, 2002

O.Reg 453/07 – Financial Plans