



Government of Newfoundland and Labrador
Department of Municipal Affairs and Environment

OCT 19 2017

TOWN OF PORTUGAL-COVE-ST-PHILIP'S

Town of Portugal Cove - St. Philip's
1119 Thorburn Road
Portugal Cove - St. Philip's, NL A1M 1T6

OCT 20 2017

RECEIVED

Dear Mayor:

I am pleased to advise you that the Department of Municipal Affairs and Environment has released the following allocation as part of the Federal Gas Tax Program:

\$157,849.48 Year 12A Allocation

A payment totaling \$157,849.48 has been requisitioned with the Department of Finance and will be forwarded to you. If you do not receive this payment or if you require additional information, please contact me at 709-729-5401 or the Gas Tax Secretariat at: 1-877-729-4393 or by email: deannspurrell@gov.nl.ca.

Yours sincerely,

A handwritten signature in blue ink that reads "Deann Spurrell".

Deann Spurrell
Manager, Gas Tax Administration

OCT 24 2017

COR/2017/03998-01

Mayor Carol McDonald
Town of Portugal Cove - St. Philip's
1119 Thorburn Road
Portugal Cove - St. Philip's, NL A1M 1T6

Dear Mayor McDonald:

Re: Cancellation of Project # 17-CWWF-17-00033 (Portable Sludge Drying Unit)

This is in response to Town's request to cancel the above mentioned CWWF project has been approved by provincial and federal funding partners. All funds associated with 17-CWWF-17-00033 are cancelled and have been re-allocated to other essential municipal infrastructure projects.

The Town of Portugal Cove – St Philips has been approved for cost-shared funding to complete another CWWF project under the Clean Water Waste Water Funding (CWWF) Program. Town will get separate correspondence related to the approval of the new CWWF project.

If you need further clarification or have any questions, please contact Mr. Inayat Rehman, Eastern Regional Engineer at 709-729-5337 or through e-mail: inayatrehman@gov.nl.ca.

Sincerely,



HEATHER TIZZARD
Assistant Deputy Minister

Enc.

cc: Mr. David Brazil - MHA
Mr. Ian Duffett, P. Eng., Director
Ms. Lori Evoy, Regional Manager
Mr. Inayat Rehman, Regional Engineer
Ms. Bertha Fowler, Project Representative



**Portugal Gove
St. Philip's**

Other Reports

Advisory Report

November 6, 2017

Report to: Council

From: Town Manager

Reference: Notice of Motion Regarding Direction to Take with the Water Meter Project

Issue: The water meter project is one that all councillors have given significant consideration. A notice of motion was presented at the October 10, 2017 Public Council Meeting, generating the need to gather and share as much information on the subject as possible before it was to be brought forward for debate and vote at the October 24, 2017 Council Meeting. It was deferred for another two weeks at that meeting. This report intends to summarize the information and provide advice or recommendation to council for consideration and debate in accordance with s55(2) of the Municipalities Act.

Background:

During the term of the prior council a number of initiatives aligned in such a way that they decided it was practical to introduce water meters to the Municipality. Some of these initiatives included:

- investigation into the self-sufficient funding of the water service
- development of an asset management plan
- long term budgeting
- debates including environmental considerations

Following attendance at an environmental sustainability conference where the topic of universal water metering was discussed, a prior councillor brought the idea back for debate. Some research was collected and summarized by staff to the point where Council decided to initiate a pilot project. As research and planning of the project proceeded, Council decided it was beneficial to bypass the pilot project and go straight to universal metering.

The project was announced and the Town sought feedback from the public so that the project plan could consider and address the concerns. A significant concern heard during the public information sessions was that the public felt using meters was a more costly way of doing business and they would receive higher or additional taxes.

Using the information learned and also the subsequent announcement that the project would be funded by the Federal Clean Water and Waste Water Fund, a feasibility study and report was prepared by one of Atlantic Canada's leading water meter firms. The report also summarized characteristics of the Town water and wastewater systems and made recommendations with respect to complete management of them. The "Water and Wastewater Metering Study" predicted that using water meters will lead to significant conservation and will be a critical part

of a modern and efficiently operated water system. The conservation and efficiencies would produce considerable cost savings. Cost savings are passed along to tax payers so the single biggest public concern with the project was addressed. It was recognized that higher than average water consumers would likely pay more in water tax than they do today if they do not conserve.

A long wait period occurred between the decisions to proceed and issuing an RFP. The approval to use an RFP had to come from the House of Assembly and was a more complicated process than expected. Once the RFP went to market, the winning proponent turned out to be one of, if not, the most experienced manufacturer/supplier/installers of meters in North America.

The contract which includes significant public engagement and education materials using the vast knowledge and experience of the contractor was signed in the last few weeks of the last Council's term in office.

Information Considered:

Since the notice of motion was introduced, a lot of information had to be made available to Council for consideration in making a decision at the November 7, 2017 Council meeting. Most of that information is included and available on the Town's Water Metering Project website. All publicly available presentations, reports, mail-outs, frequently asked questions and answers can be found there.

The Motion:

The motion that was presented at the October 10, 2017 Council Meeting is as follows:

Notice of motion put forth by Councillor Harding: to immediately halt the residential water meter project and to partition both levels of government to allow any funds allotted for the purchase and installation of water residential meters to be diverted into ground water distribution infrastructure repair and underground zone metering.

Council subsequently met and discussed this motion in a committee of the whole Council meeting and agreed upon better wording.

The edited notice of motion to be presented currently is as follows:

Notice of motion to immediately halt the residential water meter project and to petition both levels of government to allow any funds allotted for the purchase and installation of residential water meters to be diverted to repairs to the water distribution infrastructure repair and implementation of zone metering

It is understood that the motion may be modified further before or at the Council meeting. This report only considers the possible pros and cons of either carrying or defeating the motion given. It is understood that they both versions have the same intent. Carrying the motion means that the contract will be terminated or may be considered constructively terminated

whereas the installation of residential water meters is the bulk and main objective of the contract.

Consideration:

For the purpose of this report, the costs of operating the water system includes such things as the purchase of water from the regional water authority, the repair and maintenance of the system, and salaries of staff to perform all functions related to the operation of the system.

Leak detection and repair, as well as, meter reading; invoice generation; and processing of water bills would be included in operating costs.

The water meter project's budget was set at \$1,500,000.

Based on the awarded contract, the total estimated cost at completion of the project is now about \$1,210,000, which includes a 10% contingency for over runs.

The funding agreement dictates that the Town would be responsible for 30% of the project cost with the Federal and Provincial Governments jointly paying for 70% of the cost up to the total agreed funding amount. The municipal share of the estimated cost is \$363,000. Like all operating and municipal project costs, this amount will be paid by the water or general tax rate payers.

To date this project has cost about \$80,000 in consultant and project management fees. The cost of internal resources such as staff time and materials dedicated to the project has not been included in this figure. This figure is a component of the estimated cost at completion. If the contract is terminated the agreement between the Town and senior levels of Government would likely make the Town responsible for the full cost of the project.

The contractor has put an unknown amount of effort into this project to prepare their response to the Request for Proposal and in project work since the award. I would estimate that it would be about \$25,000 in effort. If the contract is terminated, the Town will likely be required to pay the contractor for this amount of effort.

If the contract is terminated, contract law would predict that the Town will be expected to pay for the contractor's lost profit. A 10% profit margin of the contract is \$98,900. We have no idea how much profit the contractor was expecting. The legal opinion received suggests the profit could be as high as \$200,000 depending on what the contractor is able to prove from similar projects. There is no way to determine precisely what this figure could be until we head down the route of settlement.

Contract law also suggests that there is a possibility of being required to pay for the contractor's lost opportunity. I suspect that as the expected project's profit margin lowers the value of lost opportunity increases as a contractor likely would sacrifice profit to break into a new market.

If we need to defend our position to minimize costs of terminating the contract, there will be unknown legal costs.

Considering the profit level suggested by the legal opinion and no lost opportunity or legal costs, the cost of carrying the motion would be $\$80,000 + \$25,000 + \$200,000 = \$305,000$. This would be paid by the water or general tax rate payers as determined by council.

Outcome Value:

The Council debate becomes a comparison of expected benefit and risk for the cost. In other words Council will need to debate and compare the value of the two possible outcomes of the decision. I will present this information in the form of pros and cons for each option.

We have received a very good report that has provided valuable information about our water and wastewater system. A couple other projects were spawned from the same report (zone metering, water loss control program). This is a benefit already received so can be considered a pro for both sides of the debate, therefore it is not included in the comparison.

Likewise it has been suggested, without evidence, that the unit cost of the water could go up whether regional water consumption goes up or down. One side is that our project will cause consumption to go down and unit rate to go up as a result of fixed supply costs. On the other hand if the rate of consumption is not reduced in the region, it will have to bring another water supply source on line at a great cost that will have to be paid for using higher water rates. As our municipality represents a tiny portion of the regional water use, any change to our consumption as a result of this decision would have little impact on the region and water purchase rates. For this reason I have not included water unit rate price increase as a Con for either outcome.

	\$365,000 Complete Project	\$305,000 Terminate Contract
Pros	<ul style="list-style-type: none"> Statistically and case proven conservation = reduced operating costs for water and waste water systems = reduced tax income Greater operational efficiency* = Reduced operating costs for water system = reduced tax income. A tax formula dependent on meters has been devised that will enable the cost of the project to be paid by water users. 	<ul style="list-style-type: none"> Cheaper option (-\$60,000) Guaranteed income for budgeting that is independent of water use. Will satisfy the number of residents who are vocally opposed to meters. Will enable some newly elected councillors to honour their election platforms. High water consumers will not pay more than low water consumers. No change is easier to manage than change.

	<ul style="list-style-type: none"> • A tax formula dependent on meters has been devised that will enable water service to be self-funding from water tax alone – not subsidized by residents without municipal water service • A tax formula dependent on meter devised has been devised that will mean average or below average water consumers will pay less than their current fixed water tax. <p>*overall resulting from leak detection efficiency; targeted repairs; offsets new meter read and billing tasks.</p>	<ul style="list-style-type: none"> • Do not have to address the issues of finding solutions and dealing with: those that oppose, cannot feasibly be installed, new regulations, effects of being the first. • No new operational function – Meter reading and billing.
Cons	<ul style="list-style-type: none"> • A tax formula dependent on meter devised that will mean above average water consumers will pay more than their current fixed water tax if they do not reduce their water use. • Degree of conservation will be influenced by the number of services with a meter. Requires developing innovative ways to get as many meters installed as possible. • No guaranteed income for budgeting. As consumption goes down, tax income will go down. • From information obtained to date we know what the reaction of a part of the population is. Of those who were vocal we know they feel strongly opposed to water meters. • Need to understand the opposition to meters and devise best approach to try and change opinion or address the 	<ul style="list-style-type: none"> • Requires additional effort to identify leaks = increase operational cost = increased taxes • Requires additional effort to drive conservation = increase operational cost = increased taxes • Impact and value of other conservation programs are unknown at this time. • A new higher flat rate will have to be devised to match operating costs or else water service must be subsidized by general tax income. • We do not know how the population will react to the decision. We will have to devise a strategy to address their issues. • Average or low water users will pay the same amount for their service as high water users. • No farther ahead on the issue if the decision to proceed is made in the future. The opportunity for shared funding on a similar project in the future is unknown.

	<p>opposition in a politically correct manner.</p> <ul style="list-style-type: none"> • Require additional regulations for meters. • Require an approach to deal with those that refuse participation. • Requires an approach to deal with cases where it is not feasible to install (ie. Frost risk) • May be contrary to campaign platforms of some newly elected members of council requiring a plan to recognize and respond. • Requires an approach to deal with negative connotation of being the first to do it – possibly a plan to present the positive outcomes of being the first. • More costly option (+\$60,000) 	
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Conclusion:

Monetary values for the benefits of the two possible outcomes are easy to compare. The project will add tangible assets to the water system, pay for itself, and result in lower average water tax bills than a self-supporting system using fixed rates, therefore on monetary value alone, I recommend proceeding with the project.

Social, political, and democratic value and impact in making a decision is harder to gauge in a report but is known to be very prominent in the minds of the Council and citizens. The Council needs to somehow weigh these substantial but immeasurable factors with the measurable ones. I am not in a position to be able to give recommendations based on social, political, or democratic value.

Whatever decision is made, I would recommend that the Town immediately work with the contractor to find ways to minimize the negative impacts (cons) of the decision made and accentuate the benefits.

