



**Subject: Drain Accounting and Billing Process**

**To: Council**

**From: Corporate Services Department**

Report Number: 2023-37

Meeting Date: April 11, 2023

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**Recommendation:**

That Corporate Services Department Report 2023-37 be received; and

That interest be charged to previously approved and future drain construction accounts effective January 1, 2023. Interest will be accrued at a rate of Bank Prime + 2% on drain construction account balances starting January 1, 2023, and all new charges until billed, not to exceed more than 120 days after the drain construction account completion certificate is issued.

That drains construction accounts be billed when the drainage engineer issues the final completion certificate and account allocations for the drain construction project, effective April 11, 2023.

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**Purpose:**

This report seeks approval to incorporate interest charges into all drain construction accounts ("drain accounts") and bill the assessed costs prior to receiving Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) grant funding.

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**Background:**

At December 31, 2022 the City of Port Colborne ("City") had approximately \$3.4 million in outstanding drain accounts. Historically the City has not charged interest on drain accounts. Charging interest on drain accounts is a common practice of municipalities and permitted in the *Drainage Act*, R.S.O 1990 (the Act). Council has approved interest to be charged at Bank Prime + 2% on recently approved drain construction projects.

Historically drain accounts have been billed once Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) has signed off on the drain construction and accounts. This can take 12 to 18 months from the time the drain engineer has finalized activity and the drain account allocations. A common practice in other municipalities is to bill once the drainage engineer issues a final certificate of completion on a project and the drain account allocations.

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## **Discussion:**

The recommendation in this report seeks to align the City's interest and billing practices with other municipalities.

### Interest

As noted above, historically the City has not charged interest on drain accounts. Staff have identified this to Council and recently Council has approved an interest charge of Prime + 2% on drainage construction accounts. This new practice is consistent with other municipalities and allowable through the Act.

The interest charge recognizes the funds required to pay drain construction costs comes from the levy and when those funds are used for this purpose, the municipality, and ultimately the City's taxpayers, essentially lose the opportunity to earn interest on those funds. This essentially means less investment in areas such as infrastructure. As noted during the 2023 Capital Budget presentation, the City's annual infrastructure deficit is currently above \$7.6 million.

In recognition of the above, staff recommend that interest be charged to previously approved and future drain construction accounts at a rate of Bank Prime + 2% effective January 1, 2023.

### Timing of Billing

As noted above, historically the City has sent invoices to property owners after OMAFRA has issued the applicable drainage grant.

This practice has had the benefit of providing the City and property owners with precise billing and has provided property owners with a built-in deferred payment model.

Inherent concerns with the timing of billing currently include:

- Drain account charges reside with the property at the time the bill is sent. When properties sell between drain construction and billing, it can be very confusing for new property owners.
- When interest is charged on drain accounts, the longer the time between drain construction and billing (not to exceed more than 120 days after the drain

construction account completion certificate is issued), the more a property owner needs to pay.

Given the inherent concerns with the timing of billing currently, staff recommend that effective April 11, 2023, the City invoice the construction costs incurred immediately after the issuance of the final completion certificate and before the decision made on the Municipal Drain Construction/Improvement grant application to OMAFRA.

In the event OMAFRA identifies a change to be made, staff will either re-bill or re-fund as required. However, the City's Drainage Superintendent cannot recall a time when OMAFRA did not sign-off and/or had a change to the drain engineer's final drain report.

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### **Internal Consultations:**

This report has been prepared as a co-operative effort between Corporate Services (Financial Services) and Public Works (Drainage).

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### **Financial Implications:**

The financial impact of adding interest to drain accounts is estimated to be \$200,000 or more to the Levy in 2023. In developing this estimate, staff have considered future drain billings, construction, and potential future interest rates. Staff identify this amount could fluctuate significantly based on drain construction activity, billing, and interest rates.

Staff identify interest will be applied monthly based on the interest rate at the end of the month.

The financial impact of the proposed invoice timing is to reduce interest charged on drain construction accounts and thereby reduce the amount owing by property owners.

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### **Public Engagement:**

Specific public input has not been sought. The recommendation of this report seeks to align the City's interest and invoicing practices with other municipalities. As noted above, it further seeks to align interest charges on drain accounts that were recently approved vs. less recently approved drain accounts.

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### **Strategic Plan Alignment:**

The initiative contained within this report supports the following pillar(s) of the strategic plan:

- Service and Simplicity - Quality and Innovative Delivery of Customer Services
  - Value: Financial Management to Achieve Financial Sustainability
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## **Conclusion:**

To align drain accounting and invoice practices to other municipalities and address inherent risks with the current invoice model, staff recommend the following:

- That interest be charged to previously approved and future drain construction accounts at a rate of Bank Prime + 2% effective January 1, 2023.
  - That drains construction accounts be billed when the drainage engineer issues the final completion certificate and account allocations for the drain construction project, effective April 11, 2023.
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Respectfully submitted,

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## **Report Approval:**

All reports reviewed and approved by the Department Director and also the City Treasurer when relevant. Final review and approval by the Chief Administrative Officer.