

JOINT SERVICES AGREEMENT – CITY OF VAUGHAN AND POWERSTREAM INC.

Recommendation

The Commissioner of Finance/City Treasurer and the Director of Financial Services in consultation with the Director of Legal Services recommend:

- 1) That the Joint Services Agreement be approved for a five year term; and
- 2) That, in the event that Council approves the transfer of cashiering services back to the City, as recommended in the companion item “The Transfer of Cashiering Services to the City” on today’s agenda the Joint Services Agreement as outlined in this item be amended to reflect this change; and
- 3) That a By-law be enacted authorizing the Mayor and City Clerk to execute the necessary Joint Services Agreement.

Economic Impact

The economic impact of the annual Joint Services costs for services received by the City and services provided by the City are shown in the charts below.

Communications Plan

Council direction will be communicated to PowerStream and all City departments impacted by this agreement.

Purpose

The purpose of this report is to seek Council approval for the renewal of the Joint Services Agreement between PowerStream Inc. and the City of Vaughan for the term of five years 2011 to 2015.

Background - Analysis and Options

In 1993 the City of Vaughan and the Vaughan Hydro-Electric Commission entered into a Joint Services Agreement (JSA) for the purpose of leveraging functional expertise, generating synergies through the sharing of support services and the benefits of economies of scale. As a result both organizations have attained financial benefits from this partnership that would not exist otherwise. This shared services arrangement continues today with PowerStream Inc.

The agreement with PowerStream must comply with the Ontario Energy Board’s Affiliate Relationship Code. Therefore the pricing and costing methodology is based on the guidelines set out in the Affiliate Relationship Code. One intended purpose of the Code is to minimize cross subsidization and enhance the development of open competitive market pricing. This is accomplished by establishing pricing guidelines at either fair market value or if not available pricing at cost plus the utilities rate of return.

The draft Joint Services Agreement outlines the service responsibilities for each party and the related service fee attached to each of those services. The agreement contains terms and conditions relating to service costs, standards of service, service amendments, term extensions, termination requirements, service cost amendments, dispute resolution and limits of liability, etc. The current three year Joint Services Agreement expired on December 31st, 2010. The following report provides the details of the updated draft joint services agreement and the associated costs for each service.

Joint Services Agreement – Review and Update

The City of Vaughan and PowerStream staff have worked closely together to review and update the various components of the Joint Services agreement. The review included updating the services provided by each party, volume components and costing methodologies. More specifically in terms of the costing the staff review included looking at the cost drivers, service activities, overhead calculations, growth and inflation factors.

The service areas provided by the entities are as follows:

Services - Provided to the City

- Payroll Services
- Cashiering Services
- Water Meter Reading, Billing, Collection and Customer Services

Services - Provided to PowerStream

- Outside Storage Space - JOC
- JDE License Mtce & Network Link
- Cashier's Civic Centre Space

Options - Three Year or Five Year Term

The initial joint service discussions were based on a two year term starting in 2011. During the final discussion stage of the review process PowerStream put forward an offer to the City that included two optional terms with a pricing incentive.

The optional terms presented were a three year term (2011 to 2013) and a five term (2011 to 2015). PowerStream offered these optional terms so as to maintain continuity in their revenue streams over a longer period.

The subsequent offer to extend the term of the agreement also included a reduction in the 2011 pricing for water/wastewater billing and collection services. Secondly the offer included an annual fixed rate fee increase in the three year option for the years 2012 and 2013 for all services. For the five year term the same fixed rate increase applies however for the final two years are conditional based on growth. Details of the service costs and recoveries over both optional terms are provided below.

Service Costs and Recoveries

Services Costs – PowerStream Services Provided to the City

Payroll

Costs for payroll services increased by \$62,000 from 2010 to 2011 to reflect additional staffing and management costs allocated to the City's payroll, resulting from additional employees, as well as salary increases for PowerStream staff allocated to the City's payroll.

Cashiering

Costs for the provision of cashiering services increased marginally from 2010 to 2011 (\$2,000) due to increases in PowerStream staffing, courier and armored truck pick up costs allocated to providing this service offset by decreases in allocated PowerStream IT costs.

Water/wastewater Services

The reduction in costs in the original negotiated price referred to above for water/wastewater services for 2011 totals \$165,000. The savings is the difference in the initial pricing of \$1,312,000 and the subsequent offer of \$1,147,000 for the longer term.

Both optional terms as indicated above include a fixed annual 3% increase for all PowerStream services for a the years 2012 and 2013, rather than an increase based on growth in the number of accounts/customers/employees and related inflation increases. In the five year term the remaining two years of the services agreement contains a conditional provision that the flat fee increase maybe revisited if growth in the City's water/wastewater customer base exceeds 7%.

This will not likely occur as growth in the customer base is forecasted to be in the neighborhood of 2.0%.

For the base year 2011 each service provided by PowerStream was reviewed. This review included looking at each cost component within each business unit for the services provided. The components included staffing related costs, IT related costs, contractor costs, administration and overhead calculations, volume related cost drivers and inflation.

The PowerStream proposed pricing model for the remaining years 2012 to 2015 uses a fixed annual rate increase as opposed to a pricing model based on updating growth or activity volumes and inflation each year. From a City perspective a 3% fixed rate increase is a preferred pricing methodology. This approach reduces the impact of both growth and inflation over the term. This is especially true for water/wastewater where the customer base is expected to increase by at least 2.0% each year and inflation is estimated in the neighborhood of 2.5%. For example, a 3% fixed rate increase during a period when the number of accounts is expected to grow results in an effective "per account" increase of only one half percent (0.5%).

- 2011 - \$14.74 cost per account
- 2012 - \$14.82 cost per account
- 2013 - \$14.89 cost per account

This approach also provides a fixed known cost each year for budget purposes.

Following are the costs to the City based on a 3% incremental increase over the three or five year term of the agreement:

<i>Services – Provided to the City</i>	Three Year				
	2011	2012	2013	2014	Five Year 2015
Payroll	\$334,929	\$344,977	\$355,326	\$365,986	\$376,966
Cashier	\$242,890	\$250,176	\$257,682	\$265,412	\$273,374
Water / Wastewater Services	\$1,147,000	\$1,181,410	\$1,216,850	\$1,253,360	\$1,290,960

Services - Provided to PowerStream

As a result of the longer term requested by PowerStream, the City has also provided costs for a three year and five year term. Both the Building and Facilities and the Information Technology Management departments have provided costs for their services.

Following are the cost recoveries from PowerStream over the three year and five year term:

<i>Services – Provided to PowerStream</i>	Three Year				
	2011	2012	2013	2014	Five Year 2015
Facilities - JOC Outdoor Rent	\$123,000	\$126,000	\$129,000	\$132,000	\$135,000
Facilities - Civic Centre Cashier Office	\$10,149	\$10,454	\$10,758	\$11,062	\$11,367
Information Technology - JDE License Maintenance and Network Link	\$39,650	\$40,839	\$42,065	\$43,326	\$44,626

Recommendation – Option - Five Year Term

The five year term is being recommended. The longer term provides more certainty for costs and budgeting purposes and continues to leverage functional expertise, synergies generated through the sharing of support services and the benefits of economies of scale, particularly for the larger payroll and water/wastewater services.

Relationship to Vaughan Vision 2020

The topic covered in this report is directly related to Service and Management Excellence goals; specifically as it relates to enhancing productivity and cost effectiveness. It is also related to the process to allocate and approve the resources necessary to continue operations. The process is consistent with the priorities set by Council in the Vaughan Vision 2020 document.

Regional Implications

Not Applicable

Conclusion

The Shared Services Agreement between PowerStream Inc. and the City of Vaughan is reflective of services currently required and offers a continued opportunity for both organizations to benefit from leveraging functional expertise and synergies through the sharing of support services. The agreement complies with the transfer pricing and standards of conduct set out in the Ontario Energy Board's Affiliate Relationship Code.

Staff from both organizations have reviewed and updated the agreement in terms of services provided, cost methodologies, activity volumes and cost drivers of each business unit. It is therefore recommended that a five year joint services agreement be entered into with PowerStream.

Attachments

Not Applicable

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Respectfully submitted,

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