



STAFF REPORT
THE CORPORATION OF THE TOWN OF COBOURG

Regular Council

Report to: Mayor, Deputy Mayor, and Councillors
From: Adam Giddings, Treasurer/Director of Corporate Services
Report Number: COR-2024-017
Council Meeting Date: September 25, 2024
Subject: **Billing Services Options**

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1. Recommendation:

THAT Council receive the report and analysis from staff outlining the options for billing water, wastewater, and stormwater for information purposes; and

FURTHER THAT Council direct staff to negotiate with Lakefront Utility Services Inc. on an updated contract for billing water, wastewater, and stormwater.

OR

FURTHER THAT Council direct staff to proceed with providing notice to Lakefront Utility Services Inc. that the Town of Cobourg will be billing water, wastewater, and stormwater and that staff report to Council with a detailed implementation plan.

OR

FURTHER THAT Council direct staff to proceed with the preparation of a request for proposal and report back to Council with the results and recommendation following the RFP process.

2. Executive Summary:

The following report examines the options for managing billing services and compares three options and analyzes factors such as cost, control, security, quality, and scalability. There are inherent limitations with all the options, with different impacts on the community.

Town of Cobourg received a draft Billing Services Agreement from Lakefront Utility Services Inc. on May 28, 2024. The agreement updated the current monthly pricing as well as incorporated the monthly costs of billing stormwater.

The proposed monthly fee included in the updated agreement was as follows:

Service	Monthly Fee (proposed)	Monthly Fee (current)	Increase - \$	Increase - %
Stormwater	\$7,197	\$0	\$7,197	100%
Wastewater	\$8,544	\$5,000	\$3,544	71%
Administration Fee	\$2,825	\$0	\$2,825	100%
Total	\$18,566	\$5,000	\$13,566	271%
Annual Cost	\$222,792	\$60,000	\$162,792	271%

The monthly stormwater fee of \$7,197 is based on billing stormwater, excluding any of the current issues. That is, costs associated with reconciling stormwater, billing corrections, etc., have been billed separately by LUSI and the monthly fee proposed by LUSI is based on billing stormwater utilizing the new rates.

As a result of significant increase and the rising costs of the service and the fact that the economics of billing need to reflect the economic capacity of the community, Council directed staff to prepare a report that analyzes the costs and benefits and considered the following options for billing water, wastewater, and stormwater:

- a. Town of Cobourg staff
- b. Lakefront Utility Services Inc.
- c. Third party (request for proposal)

Town staff met with LUSI staff regarding the above increase and LUSI staff indicated that the pricing provided reflected their costs and cannot be decreased.

Town of Cobourg staff surveyed Municipalities throughout Ontario. Of the nineteen municipalities that responded:

- Sixteen (16) municipalities already bill water/wastewater internally.

- Three (3) municipalities outsource billing water/wastewater however have indicated that they are exploring the opportunity to bill internally.

3. Background

Lakefront Utility Services Inc. (LUSI) currently bills water and wastewater through a services agreement dated November 2000. The costs charged to the Town of Cobourg for billing wastewater are \$5,000 per month or \$60,000 annually. The revised billing services agreement updates the monthly amount billed to the Town of Cobourg for performing billing services as well as incorporates stormwater billing.

LUSI bills water, wastewater, and stormwater on a monthly basis to Town of Cobourg residents. The revenue collected for wastewater and stormwater is collected by Lakefront and transferred to the Town of Cobourg which is then used to fund wastewater and stormwater operating and infrastructure costs, as budgeted.

The total annual revenue associated with wastewater and stormwater, as per the 2024 budget is as follows:

\$6,925,390 – wastewater
\$1,707,563 – stormwater

Based on the above revenue and proposed annual fee from LUSI, the annual represents 1.48% of the wastewater revenue and 5.06% of the stormwater revenue.

4. Discussion:

Billing services are a critical component of any municipality that directly impacts revenue management and customer satisfaction. The following options review the proposed billing options and evaluates the alternatives that might address the different municipal concerns and interests raised. The goal is to give voice to and reflect the different viewpoints of the municipality and to conduct a review of the proposed billing model and other options so their implications can be understood.

Option #1 - Lakefront Utility Services Inc.

Option #1 is the status quo, including signing the draft contract pending legal review, updates, etc. provided by LUSI. The primary goal of the contractor is improved, consistent operating performance thereby giving the Town of Cobourg the greatest value for the money spent. There have been issues with the stormwater roll out, both from a fee structure perspective and an implementation

perspective, and there was a resulting pause in stormwater billing. The implementation of the stormwater initiative has been challenging, and the issues with implementing stormwater billing and the pause in billing have been of great concern to taxpayers which has created and has led to a lot of negative feedback from residents for both the Town of Cobourg and LUSI.

Town of Cobourg staff had follow up discussions with LUSI management regarding the pricing in the proposed agreement and the significant cost increase. However, LUSI management has noted that the pricing is recovering the costs of billing, and no adjustments are necessary.

Some of the advantages are:

1. **Reduced overheads:** Outsourcing can reduce the need for investment in technology and personnel, as LUSI manages these aspects. Cost control by the contractor also tends to stabilize operating budgets by guaranteeing operating costs.
2. **Expertise and technology:** LUSI has specialized knowledge and the latest technology to efficiently manage billing processes.
3. **Scalability:** Services provided can be scaled up or down more easily according to business needs without significant internal restructuring.
4. **Focus on core business:** Outsourcing allows the Town to focus on its core competencies without being bogged down by non-core activities like billing.

Some of the disadvantages are:

1. **Loss of control:** Outsourcing billing services means relinquishing control over how billing is managed, which can lead to potential misalignment with the Town's objectives and standards.
2. **Data security risks:** Sharing sensitive customer and financial information with a third party introduces potential risks related to data breaches, fraud, and compliance violations.
3. **Higher long-term costs:** While outsourcing might seem cheaper initially, costs can escalate over time due to contract renewals, hidden fees, or extra charges for additional services.
4. **Dependency on vendor:** The Town becomes dependent on LUSI's stability, technology, and service quality. Any disruption on LUSI's side directly impacts the Town's operations.

Option #2 - Town of Cobourg Staff

Option #2 considers the Town of Cobourg preparing the billing for water, wastewater, and stormwater water internally. A summary of the costs is provided below.

Details	Annual Cost
Staff Wages and Benefits	\$104,000
Postage	\$60,000
Third party assistance	\$10,000
Total	\$174,000

In this option, the Town of Cobourg would hire an employee to oversee the billing function. There would be one-time annual costs for the operating system which are not factored into the above. Further, the annual costs would incorporate third party assistance for any billing support, however this cost would be expected to decrease as the Town becomes more familiar with the billing process. The Town of Cobourg would continue to promote ebilling services to encourage customers to receive bills electronically and therefore reduce postage costs.

Some of the advantages are:

1. Control and flexibility: Managing billing services internally allows for complete control over the processes and the ability to customize billing systems and procedures according to specific municipal needs. Adjustments can be made quickly without relying on a third party.
2. Data security and privacy: Keeping billing services in-house reduces the risk of data breaches and unauthorized access to sensitive financial and personal customer information. The municipality retains direct control over how data is handled, stored, and protected.
3. Cost efficiency: While there is an initial investment in software, hardware, and staffing, internal billing can be more cost-effective over time. The municipality avoids the recurring fees and potential price increases associated with outsourcing contracts.
4. Quality control: The Town can directly monitor and ensure the quality and accuracy of the billing process, reducing errors, and improving customer satisfaction.

Some of the disadvantages are:

1. Initial setup costs: The upfront cost of setting up internal billing systems, including purchasing or developing software, hiring, and training staff, can be substantial.
2. Resource allocation: Managing billing services requires dedicated personnel and resources, which could otherwise be allocated to core business activities.

As noted above, the majority of municipalities responded indicate that they are already billing for water/wastewater or are considering moving to billing internally.

Implementation Plan

If Council proceeds with option #2, the successful execution of the above hinges on a well-structured implementation plan. This document provides a concise summary of the implementation plan; however an updated report would be provided by staff that outlining key objectives, strategies, and timelines to ensure smooth and efficient execution if Council decided to proceed with option #2. The purpose of this plan will be to establish a clear roadmap that guides the implementation process, ensures alignment among stakeholders, and mitigates potential risks.

The plan will be designed to meet the Town's overarching goals by addressing the following core components: resource allocation, roles and responsibilities, project phases, timelines, etc. The subsequent sections of this summary will highlight the major phases. The detailed plan will include key deliverables, and critical success factors necessary for the effective execution of the implementation plan.

- Conduct a detailed needs assessment: Determine the specific requirements for the internal billing system, including technology, staffing, and integration with existing systems and report back to Council.
- Develop an internal billing system: Invest in or develop a billing software solution that meets the Town's needs.
- Hire and train staff: Recruit an employee dedicated to billing and provide training on the new system and processes.
- Establish data security protocols: Implement robust data protection measures, including encryption, access controls, and regular audits.

- Monitor and optimize: Continuously monitor the performance of the internal billing system and make improvements as needed to enhance efficiency and accuracy.
- The above implementation plan is a high-level plan and Town staff will report back to Council with a more detailed plan, including milestones and key performance indicators

Option #3 - Request for Proposal

Option #3 considers issuing a Request for Proposal (RFP) which would outline the Town's needs, requirements, and expectations for the billing, inviting qualified vendors (including LUSI) to submit a proposal. Choosing between internal preparation and issuing an RFP depends on the Town's resources, expertise, and priorities. Internal preparation is ideal for tasks within the team's skillset and where flexibility and control are important.

Issuing an RFP is more suitable for specialized tasks that require external expertise, clear deliverables, and where a competitive bidding process can add value. As the contract for billing is a professional service that provides management of billing, meter reading, customer service, and collections, a procurement process similar to that used in securing other professional services should be used.

Some of the advantages are:

1. Pricing can be competitive due to the bidding process. That is, with a formal bidding process, the Town of Cobourg would ensure that it receives optimal pricing.
2. External vendors often bring specialized knowledge and experience related to billing. This can be beneficial as currently the billing is outside the core competencies of the internal team.

Some disadvantages are:

1. While control is shared with the successful vendor, formal contracts ensure clarity in scope, deadlines, and deliverables. Vendors may have their own processes, requiring adjustments and oversight.

2. External vendors might execute tasks faster due to specialized focus and expertise, but the initial time investment in writing, issuing, and reviewing proposals can be significant.
3. If the vendor underperforms, it can be challenging to recover without incurring additional expenses.

Conclusion

The pricing for all three options are summarized as follows:

Options	Amount
Town of Cobourg staff	\$174,000
Lakefront Utility Services Inc.	\$222,792
Third party	N/A

5. Financial Impact and Budget

The 2024 budget includes the current costs of \$60,000 related to billing wastewater. The updated costs of the recommendation selected by Council for billing will have to be factored into the 2025 budget.

Further, the costs of billing water, wastewater, and stormwater can be factored into the applicable rate models and therefore won't necessarily impact the tax levy. However, the increased costs will ultimately impact water, wastewater, and stormwater rates.

6. Relationship to Council's Strategic Plan Priorities 2023 to 2027 and beyond:

Thriving Community

Service Excellence

Ensuring a stable and reasonable billing cost while minimizing tax impacts, provides service excellence to residents, ensuring they are valued and understood.

Sustainability

Staff analysis of the options assesses whether resources are being used efficiently, effectively, and economically to achieve the desired outcomes and therefore ensuring long-term sustainability.

7. Public Engagement:

The Town of Cobourg's communication strategy would focus on ensuring residents are well-informed, reassured, and supported throughout the recommendation selected by Council. The comprehensive communication plan would include a public notice, tax bill inserts, digital release, printed posters throughout municipal buildings, etc. By using multiple communication channels and providing ample support, the Town aims to minimize disruptions and ensure a smooth billing process going forward.

8. Attachments:

N/A

9. Report Not Considered by Standing Committee Because:

Time Sensitive Issue (information received too late for Standing Committee consideration)

Urgent Matter (issue arose after this month's Standing Committee Meeting)

Other: It was determined by staff that it's optimal to have the report on options on billing services as well as the update on stormwater presented to all of Council at a regular council meeting, as opposed to standing committee.