RECOMMENDATION

That Council receive Report HYD 19-01 for information

And Further that Council direct staff to provide a report of options to exit the water heater rental service back to council by January 6, 2020.

OBJECTIVE

This report is to assist the Town of Tillsonburg in determining financial risks and mitigation options of the Water Heater Rental Tank program within the Town.

BACKGROUND

The Town of Tillsonburg inherited the Water Heater Rental Service from the former PUC. THI is not allowed to participate in this area of service so the Town has continued with this service. At a point in time, there was logic to be in the business when the PUC rented the water heaters and sold electricity with some cross benefit. This has not been the case for several years and the Town indirectly benefits from electrical sales through its ownership of THI but not enough to cover the losses and liability.

The Town currently rents electric hot water tanks to residents within the Town providing both a 40 Gal and 60 Gal option. As of October 31, 2019, the Town rents 360 water heater tanks to residents with the tank’s age demographics below:

<table>
<thead>
<tr>
<th>Age of Tank</th>
<th>Number Rented</th>
<th>Age of Tank</th>
<th>Number Rented</th>
<th>Age of Tank</th>
<th>Number Rented</th>
<th>Age of Tank</th>
<th>Number Rented</th>
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</thead>
<tbody>
<tr>
<td>0</td>
<td>2</td>
<td>5</td>
<td>24</td>
<td>10</td>
<td>10</td>
<td>15</td>
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<tr>
<td>1</td>
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<td>15</td>
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<td>13</td>
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<td>30</td>
<td>12</td>
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<td>11</td>
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<td>12</td>
<td>13</td>
<td>23</td>
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<td>12</td>
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<tr>
<td>4</td>
<td>24</td>
<td>9</td>
<td>16</td>
<td>14</td>
<td>10</td>
<td>19 +</td>
<td>48</td>
</tr>
</tbody>
</table>

Assuming the average life expectancy of a Water Heater Tank is 10 years, the Town’s deployed inventory has 176 tanks that are at, or past the expectant expectant life. Each tank to purchase and install cost approximately $1,000 and has an approximate 8 year payback of the installation...
costs and interest on financing, at $12 rental cost per month. This allows for an average of 2 years of rental revenue ($288) to offset labour, billing and profit margin, calculated at approximately $400 per tank installation, over the useful life resulting in a 10 year loss of $112.

The Water Heater Rental program budget line shows a $15,000 net profit but does not include the costs of operating the activities such as labour, mailing, collections etc..

As identified above, for the Town to continue providing this service a large capital outlay would be required and funded through user pay debt. The immediate number of tanks that are beyond their useful life is 176, with additional tanks reaching the end of the useful life each year. At the approximate $1,000 installation cost per tank, $176,000 is required immediately to bring our rental inventory up to standards and an additional $73,000 over the next five years.

Case law regarding Water Heater Rentals has undergone some change over the past few years, where now the owner of the tank (Town) has become responsible for damages resulting in tank failures (flood damage). The Town’s current deductible per claim is $20,000 and possibly moving to $50,000. If one of the 176 identified “at risk” tanks fails, a considerable loss would impact the Town.

The liability for the Town is not balanced out by the net benefits provided to the Town.

Current market rates for electric water heaters is between $13 and $14 per month. Moving towards market rates (from our current $11 & $12 monthly rental rates) would not materially impact the “Cost / Benefit” analysis.

With the above discussions considered, it is staff’s recommendation is to take action to exit this business immediately. The exit strategy will require legal input regarding active contracts (tanks installed within the past year) and could be developed for the January 6th Council Budget Meeting.

**FINANCIAL IMPACT/FUNDING SOURCE**

**Continue Water Tank Rental Service** – risks identified above including liability from failure ($20,000 per claim), capital cost outlay ($176,000 re-investment in current year) and impacts from rental rate increases.

**Exit Water Tank Rental Service** – loss of contribution to shared expenses of $15,000 and wind down costs.
COMMUNITY STRATEGIC PLAN (CSP) IMPACT

1. Excellence in Local Government
   ☒ Demonstrate strong leadership in Town initiatives
   ☐ Streamline communication and effectively collaborate within local government
   ☒ Demonstrate accountability

2. Economic Sustainability
   ☐ Support new and existing businesses and provide a variety of employment opportunities
   ☐ Provide diverse retail services in the downtown core
   ☐ Provide appropriate education and training opportunities in line with Tillsonburg’s economy

3. Demographic Balance
   ☐ Make Tillsonburg an attractive place to live for youth and young professionals
   ☐ Provide opportunities for families to thrive
   ☐ Support the aging population and an active senior citizenship

4. Culture and Community
   ☐ Promote Tillsonburg as a unique and welcoming community
   ☐ Provide a variety of leisure and cultural opportunities to suit all interests
   ☐ Improve mobility and promote environmentally sustainable living