# THE REGIONAL MUNICIPALITY OF YORK

Finance and Administration Committee
October 2, 2003
Report of the
Commissioner of Finance
and
Commissioner of Transportation and Works

## 2004 USER RATES FOR WATER AND WASTEWATER

## 1. RECOMMENDATIONS

It is recommended that:

1. Area municipalities be advised that the Region's 2004 water and wastewater budgets are being prepared proposing the following rates effective January 1, 2004:
   - Water service rate of $0.4560 per cubic metre (2003 rate $0.4343).
   - Wastewater service rate of $0.4180 per cubic metre (2003 rate $0.3981).

2. The Regional Clerk forward a copy of this report to the clerk of each of the nine area municipalities.

## 2. PURPOSE

The purpose of this report is to seek authorization to advise the area municipalities of the proposed 2004 uniform Region-wide water and wastewater rates. Timely notification of these proposed rates will assist area municipalities in the preparation of their 2004 budgets.

## 3. BACKGROUND

Significant pressure has been placed on the operations budget for water and wastewater services by new legislation beginning in 2000. Increasing testing, monitoring, and reporting requirements, together with capital and operating modifications arising from the legislation have a substantial impact on the Region's Water and Wastewater Business Plan and Budget. In addition, the wholesale water rate from the City of Toronto is anticipated to increase by 5.1% and York's capital works program continues to impact the water and wastewater rates, as 20% of growth related projects are funded through the water and wastewater rates.

The Region has been proactive in addressing new legislation by conducting a comprehensive financial analysis of Water and Wastewater pressures. This review

indicates that an increase in the current rates will be required in 2004 to sustain growth, operational improvements and ensure continuity of safe water practices.
The increased rates will also ensure that sufficient funds are available to offset rising hydro and fuel costs, increased rehabilitation costs of ageing facilities and provisions to finance the non-growth component of capital programs.

The full 2004 Water and Wastewater Business Plan and Budget will be presented for Council's review as part of the Region's 2004 consolidated Business Plan and Budget.

## 4. ANALYSIS AND OPTIONS

### 4.1 Water and Wastewater Service Rates

In 1995, Regional Council adopted a policy of a uniform user rate for water and wastewater service. Area municipalities in York Region pay the same user rate charge per cubic meter, regardless of the source of service.

A number of components influence the Regional water and wastewater rates, such as:

- The cost of water from the City of Toronto to service Markham, Richmond Hill and Vaughan. The current 5.1% increase in wholesale water from $0.195 to $0.205 per cubic meter resulted from increased power costs and increased costs associated with asset management of trunk transmission works.
- An increased capital program expenditure in the years 2004 to 2026 to accommodate development within the Region.
- Operating costs associated with the Duffin Creek Water Pollution Control Plant due primarily to rehabilitation of ageing facilities.
- Financing charges for debentures.
- The contributions to reserve funds for capital rehabilitation and replacement.
- The costs incurred by York Region to operate regional facilities.

In 1999, Council retained Hemson Consulting to undertake a detailed review of the long-term requirements for the Region to ensure a proactive approach to infrastructure rehabilitation and replacement. The report indicated that the Region was progressing towards adequate reserve balances, provided that rates be adjusted annually in accordance with inflation. The initial work completed by Hemson is now being updated as part of the Region's planned implementation of an asset management strategy.

Funding for the water and wastewater programs comes from various sources, such as:

- User rates
- Development charges
- Reserves
- Debentures
- Other recoveries, such as grants.

Based on preliminary budget preparation and analysis of potential financial impacts, the proposed 2004 uniform water service rate will be $0.4560 per cubic metre and the proposed 2004 uniform wastewater service rate will be $0.4180 per cubic metre.

This rate increase is significantly less than other municipalities that have not established a rate stabilization reserve fund.

## 5. FINANCIAL IMPLICATIONS

The recommended increase in uniform water and wastewater service rates for 2004, to $0.4560 and $0.4180 per cubic metre respectively, is necessary to maintain current service levels, and to comply with legislation.

Tables 1 and 2 show the major components of the water and wastewater rates and their impact on the 2004 rate increase.

**Table 1: Water Rates, 2003 and 2004**

| Dollars per Cubic Metre | 2003 Budget | 2004 Budget | Yr-yr Chg |
|---|---|---|---|
| York Operations | $0.1023 | $0.1132 | $0.0109 |
| Purchased Water - Toronto* | $0.1569 | $0.1759 | $0.0190 |
| Debt Charges | $0.0934 | $0.1176 | $0.0242 |
| Contribution to Capital Construction (Non-Growth) | $0.0721 | $0.0816 | $0.0095 |
| Capital Replacement Reserve | $0.04 | $0.04 | 0 |
| Reserve Contribution to Operations | $(0.0304) | $(0.0723) | $(0.0419) |
| Total | $0.4343 | $0.4560 | $0.0217 |

* Cost of purchased water from Toronto is apportioned over all York Region water sources, including ground water and water from Lake Simcoe.

**Table 2: Waste Water Rates, 2003 and 2004**

| Dollars per Cubic Metre | 2003 Budget | 2004 Budget | Yr-yr Chg |
|---|---|---|---|
| York Operations | $0.0977 | $0.1077 | $0.01 |
| Duffin Creek Operations (net) | $0.1329 | $0.1632 | $0.0303 |
| Debt Charges | $0.1012 | $0.1169 | $0.0157 |
| Contribution to Capital Construction (Non-Growth) | $0.0893 | $0.0969 | $0.0076 |
| Capital Replacement Reserve | $0.03 | $0.03 | 0 |
| Reserve Contribution to Operations | $(0.053) | $(0.0967) | $(0.0437) |
| Total | $0.3981 | $0.4180 | $0.0199 |

Any subsequent changes to the uniform water and wastewater rates that may result from Council approval of the 2004 Regional Business Plan and Budget will be communicated to the area municipalities and effective mid-year 2004.

## 6. LOCAL MUNICIPAL IMPACT

This report has been prepared to provide adequate formal notice of the 2004 increases to the area municipalities. The rate increase of 5% is consistent with the 2004 outlook presented in the 2003 Business Plan and Budget. Because an increase in user rates will have an impact on the budget preparation of the area municipalities, it is necessary to advise area municipalities of proposed 2004 user rates on a timely basis.

## 7. CONCLUSION

In anticipation of the increase in costs for the rates for Toronto water and in consideration of increasing regulatory requirements and inflationary pressures in water and wastewater services, this report has been prepared to inform the area municipalities of changes to user rates for preparation of their 2004 budgets.

The Senior Management Group has reviewed this report.

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