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2005 REGIONAL WATER AND WASTEWATER RATE SUPPORTED BUSINESS PLAN AND BUDGET

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, undated, from the Chief Administrative Officer and the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The 2005 Regional Rate Supported Operating Budget with total gross expenditures of \$184,968,000, be approved.

2. The 2005 Water and Wastewater Capital Budgets with total gross expenditures of \$319,310,000, be approved with the following funding sources:

Debt Financing	
- Rate Funded - \$ 32,141,000	
- DC Funded - \$128,565,000	\$160,706,000
Development Charges	\$ 64,411,000
Contribution from Water/Sewer Rate	\$ 40,515,000
Other Revenues/Recoveries	\$ 27,779,000
Capital Replacement Reserve	\$ 25,899,000
Total	\$319,310,000

3. The Water Service Rate of 48.64 cents/m^3 and the Wastewater Service Rate of 44.59 cents/m^3 be approved effective April 1, 2005.

4. Staff report back with recommended rate adjustments following the rate review scheduled for Spring, 2005.

2. PURPOSE

The purpose of this report is to seek Council approval of the 2005 Capital and Operating Business Plans and Budgets for Water and Wastewater services.

3. BACKGROUND

3.1 2005 Rate Supported Business Plan and Budget Review

The 2005 Rate Supported Business Plan and Budget review commenced in June 2004, with staff. The following table outlines the steps that have taken place regarding the review of the 2005 Business Plan and Budget submissions for water and wastewater services.

June	- Commence development of 10 year capital plans, business plans and key performance indicators (KPI's)
July to September	- Complete and review Business Plans and 10 Year Capital Forecasts by CAO & Treasurer
October 16	- Capital budget presented to Council
October/November	- Review of rate supported budgets by Chair, CAO & Treasurer
November 3	- Capital budget recommended by Transportation & Works Committee
November 18	- Rate supported budget presented to Council
December 1	- Rate supported budget recommended by Transportation & Works Committee

The rate supported budgets were all prepared in accordance with the Region's practice of identifying base, growth and enhancement pressures on each program.

4. ANALYSIS AND OPTIONS

4.1 Pressures on 2005 Budget

There are a number of key cost drivers that impact the water and wastewater programs. Some significant cost drivers are outlined below.

Water

- Toronto water rate increase
- Increase debt repayment ($1.6 million)
- Growth in water flow volumes
- Increased contribution to capital ($5.8 million)
- Increased costs related to Provincial requirements

Wastewater

- Sludge haulage to Michigan
- Debt repayment ($1.4 million)
- Growth in wastewater flow volumes
- Increased contribution to capital ($13.3 million)
- Increased cost related to Provincial requirements

4.2 Operating Expenditures

As detailed in the 2005 Business Plans for water and wastewater programs, the 2005 budgeted water and wastewater gross expenditures are summarized below.

Table 1
Water and Wastewater Gross Expenditures ($000's)

Gross Expenditures	2005 Budget
Staff Related Costs	10,410
Program Costs	46,374
Occupancy/R&M Costs	9,140
Minor Capital	1,009
Contribution to Reserves	8,565
Financial Items	66,321
Interdepartmental Allocations/Recoveries	2,635
Sub-total	*144,454*
Contribution to Water Capital	17,404
Contribution to Wastewater Capital	23,111
Sub-total	*40,515*
Total Gross Expenditures	184,968

The 2005 gross expenditures increased by $47.7M or 34.7% over 2004. It should be noted that approximately $40.0M of the increase is attributable to the contribution towards capital projects and the debt repayment associated with capital project costs.

4.3 Capital Expenditures

The Region's 10 Year Capital Forecast contains expenditures of $5.4B from 2005 to 2014. Water and wastewater capital expenditures over this period are estimated at $1.5B. The 2005 Capital Budget for water and wastewater totals $319.3M and is detailed in Table 2 below. This represents over 50% of the Region's $601.5M capital budget for 2005. Details are included in the Capital Business Plan and 10 Year Forecast document.

Due to the acceleration of the growth-related water and wastewater capital programs, for 2005 and future years, significant amounts of debt are projected to be required in order to finance these plans. In addition, recent additional environmental requirements imposed by the Provincial government on water and wastewater capital projects have significantly increased the costs of these projects, which will impact on future service rates.

Table 2
Water and Wastewater Capital Financial Summary ($000's)

Gross Expenditures	2005 Budget
Rehabilitation/Replacement	27,675
Growth/Expansion	282,156
Service Improvements/Enhancements	9,479
Total Capital Expenditures	*319,310*
Debenture/Rates	32,141
Debenture/Development Charges	128,565
Development Charges	64,411
Contribution from Rates	40,515
Other Revenues/Recoveries	27,779
Capital Replacement Reserve	25,899
Total Funding Sources	*319,310*

4.4 Water and Wastewater Rates

In order to offset some of the impact of increases in operating expenditures, particularly those related to the increased capital-related requirements, an annual increase to the water and wastewater service rates of 5% is proposed for 2005. It is proposed that the rate increase be implemented effective April 1, 2005. In order to achieve an increase of 5% for the year, the water and wastewater rates will increase by 6.7% effective April 1, 2005.

However, due to the cost pressures impacting the water and wastewater programs, a water and wastewater service rate review has commenced, to determine service rate requirements to support future operations. The results of the rate review are expected in the new year and should not preclude the possibility of a mid-year adjustment.

5. FINANCIAL IMPLICATIONS

The following tables outline the impact of 2005 Water and Wastewater Budgets on the water and wastewater service rates by expenditure category.

Table 3
Water Servicing Rate Impact

	cents per m^3		
Expenditure	2004 Budget	2005 Budget	Change
York Operations	0.1198	0.1292	0.0094
Purchased Water	0.1607	0.1703	0.0096
Debt Charges	0.1136	0.1217	0.0081
Contribution to Capital Construction	0.0982	0.1412	0.0430
Capital Replacement Reserve	0.0400	0.0400	0.0000
Reserve Contribution to Operations	(0.0762)	(0.1236)	(0.0474)
Total	0.4561	0.4788*	0.0227

*Represents 5% annual rate increase. Actual rate is increasing to 48.64 cents effective April 1, 2005, or 6.7% increase over 9 months.

Table 4
Wastewater Servicing Rate Impact

	cents per m^3		
Expenditure	2004 Budget	2005 Budget	Change
York Operations	0.1146	0.1243	0.0097
Duffin Creek Operations (net)	0.1345	0.1459	0.0114
Debt Charges	0.1157	0.1220	0.0063
Contribution to Capital Construction	0.0846	0.1907	0.1061
Capital Replacement Reserve	0.0300	0.0300	0.0000
Reserve Contribution to Operations	(0.0614)	(0.1740)	(0.1126)
Total	0.4180	0.4389*	0.0209

*Represents 5% annual rate increase. Actual rate is increasing to 44.59 cents effective April 1, 2005, or 6.7% increase over 9 months.

It is important to note that the 2005 Water and Wastewater Budgets show a significant increase in reserve contributions to fund the rate supported programs. In addition, contributions toward capital construction and repayment of debt will continue to place significant pressure on service rates. These service rates also have an approximate annual average pressure of $11 million, that are generated from the subsidies provided for the discounting of the non-residential development charge within the Region.

The following chart illustrates the reserve fund balances and the significant decline projected in 2005 as a result of accelerated capital spending.

Water & Wastewater Reserves Balances [combined @ December 31]

Year	Amount
2000	$90.8m
2004	$92.9m
2005	$33.6m [projected]

The combined water and wastewater debt repayment was 31% of total budget expenditures in 2000. The impact of capital spending increases the debt repayment to 35% of total budget expenditures in 2005. The projection for 2007, based on planned capital expenditures, will then raise the debt repayment to 52% of the total budget.

While debt financing has been used to smooth the accelerated capital spending plan, when combined with declining reserve balances, a potentially negative financial position could result. In order to address and mitigate this situation, reserve balances must be improved. One solution to achieve this is through a rate adjustment, commencing mid-year 2005, which would provide additional revenues for allocation as contributions to reserves to replenish reserve balances and improve our financial position in this area.

In order to ensure service rates are sufficient to recover future water and wastewater operating costs as well as the cost of rehabilitating and replacing existing capital infrastructure, a review of the water and wastewater rates and the adequacy of water and wastewater reserves has commenced, and will be completed in early 2005.

It is anticipated that rate increases greater than 5% may be warranted. Further, the possibility exists for a mid-year rate adjustment. This will address the impacts of capital investments, ensuing adequate reserves for capital asset management and to replenish reserves being depleted by accelerated spending plans.

6. LOCAL MUNICIPAL IMPACT

The Region provides water supply and wastewater treatment services to the nine area municipalities within the Region. It is the area municipalities' responsibility to provide water distribution and wastewater collection services to residents and businesses within York Region. As such, the Region's operating and capital business plans and budgets impact the area municipalities' cost and ability to deliver services to the residents and businesses in York Region.

7. CONCLUSION

It is proposed that the 2005 Rate Supported Business Plan and Budget be adopted, with water and wastewater service rates increasing to 48.64 cents/m^3 and 44.59 cents/m^3 respectively, effective April 1, 2005.

The Senior Management Group has reviewed this report.