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2009 WATER AND WASTEWATER RATES AND OPERATING BUDGET

The Finance and Administration Committee recommends:

1. **Receipt of the presentation from Lloyd Russell, Commissioner of Finance; and**

2. **The adoption of the recommendations contained in the following report, November 19, 2008, from the Commissioner of Finance, subject to recommendation 2 being amended to read as follows:**

   2. (a) Council approve the recommended 10% Option for water increases set out in Table 1 and the 2009 water rate be 57.63 cents per cubic metre effective April 1, 2009; and

   (b) Council approve the 10% Option for wastewater increases set out in Table 1 and the 2009 wastewater rate be 65.3 cents per cubic metre effective April 1, 2009; and

   (c) The 2009 Water and Wastewater Rate Business Plan and Budget be amended accordingly.

1. RECOMMENDATIONS

It is recommended that:

1. The draft 2009 Water and Wastewater Rate Business Plan and Budget as tabled with Regional Council and on October 23, 2008 be recommended for approval.

2. The 2009 water and waste water rates effective April 1, 2009 of 57.63 and 68.26 cents per cubic metre respectively be recommended for approval, representing a combined rate increase of 12.7% compared to the 2008 rates.

3. The Regional Solicitor prepare the necessary by-law to enact this rate increase.

2. PURPOSE

The purpose of this report is to forward the water and wastewater operating and rate recommendations from the Transportation and Works Committee of November 5, 2008 to Finance and Administration Committee. This report also provides additional information requested by the Transportation and Works Committee.

3. BACKGROUND

Transportation and Works Committee requested additional information on an alternate rate increase scenario and international water/wastewater rate comparisons

At its meeting of November 5, 2008, the Transportation and Works Committee considered a report entitled "2009 Water and Wastewater Rate Supported Budget." This report outlined proposed 2009 operating budget requirements and water and wastewater rates. The proposed 2009 gross operating expenditure budget was $261 million and the combined water and wastewater rate increase was 12.7% , based on 2009 rates of 57.63 and 68.26 cents per cubic metre for water and wastewater respectively (effective April 1, 2009).

Transportation and Works Committee requested staff to provide analysis of another option reflecting the continuation of the 2.5% and 10% increases for water and wastewater respectively that have been in effect for the past three years. Staff was also requested to provide information comparing proposed York Region water and wastewater rates with other cities internationally.

This report responds to these requests and provides the information to Finance and Administration Committee for its meeting of December 4, 2008. It is intended that recommendations from Finance and Administration will be forwarded to Regional Council to finalize the 2009 water and wastewater operating and rate budget on December 18, 2008.

Current rate methodology has been in place since 2006

In 2005, the Region engaged a consultant to undertake a study and develop a long term model for water and wastewater rates. The study identified asset replacement needs and identified a funding plan. At that time, annual rate increases of 2.5% and 10% for water and wastewater respectively were forecasted for 2006-2010. On a combined basis, this reflects a 6.4% annual increase.

The study recognized that the system required significant up-front capital, resulting in large increases in the rate. To buffer these increases, it was recommended that the rate increase be smoothed over a longer period of time, resulting in deficit financing in early years.

Using the 2005 model, the deficit in water would have been eliminated by 2011, while the deficit in wastewater would not be fully self-financing within the rate until 2028. It was recognized that water and wastewater systems would borrow from within their reserves or from other Regional reserves to offset deficit requirements.

This methodology assumed inflationary adjustments of 2% annually in operating and capital costs. The forecast rates of 2.5% and 10% for water and wastewater were used for 2006, 2007 and 2008 budgets. The forecasting model developed by the consultant is now used by Regional staff for analysis and projections.

Actual results fell short of the model results

During the 2008 budget review, staff indicated that the rates were falling short of the funding forecast and would be reviewed in 2008. Some of the main areas where the model results differed from actual experience are noted below:

- Actual consumption volumes have not reached the forecast volumes resulting in $11 million in revenue shortfalls in each system for the 2006 to 2008 period.
- Water rates from suppliers have increased by an average of 9.3% since 2005 while the Region's water rate increased by 2.5% annually.
- Elimination of the DC discount for non-residential construction has had a positive impact.
- While capital forecasts in the model assumed cumulative inflation of 8.25% from 2006 to 2009, the construction price index has increased by 25% and many of the Region's projects have experienced increases beyond that level.
- Rehabilitation/renewal costs in the 2009 budget exceed the 2006 forecast by $21 million in water and $107 million in wastewater over a ten year period.

The financial impact of these factors has become increasingly significant. As a result, staff updated the original analysis based on current conditions. Based on this analysis, a combined water and wastewater rate increase of 12.7% was proposed and presented to Transportation and Works Committee on November 5, 2008.

4. ANALYSIS AND OPTIONS

Rate increase options will determine how soon reserve shortfalls and operational deficits can be eliminated

At T&W Committee, staff was requested to provide analysis of other scenarios in which the 2.5% and 10% increases for water and wastewater respectively that have been in effect for the past three years were maintained for 2009 and 2010. The impacts of these scenarios (the "Hybrid" options) along with other options discussed at T&W Committee are noted in Table 1 below.

Table 1
Impact of Rate Increase Options

	Scenario	Annual Rate Increase	Eliminate Reserve Deficit by	Operating Surplus by
Wastewater	15% Option*	15% in 2009-13, 5% thereafter	2015	2012
	12% Option	12% in 2009-13, 5% thereafter	2020	2014
	10% Option	10% in 2009-13, 5% thereafter	2023	2018
	Hybrid 1	10% in 2009-15, 5% 2016-2018, 2% thereafter	2019	2014
	Hybrid 2	10% in 2009-10, 15% 2011-14, 5% thereafter	2015	2013
Water	10% Option*	10% in 2009-11; 5% 2012-13; 2% thereafter	2009	2011
	7% Option	7% in 2009-11; 5% 2012-13; 2% thereafter	2016	2012
	5% Option	5% in 2009-13; 2% thereafter	after 2032	after 2032
	Hybrid 1	2.5% in 2009, 2010; 10% thereafter	2015	2012
	Hybrid 2	9% in 2009-10, 5% thereafter	2014	2012

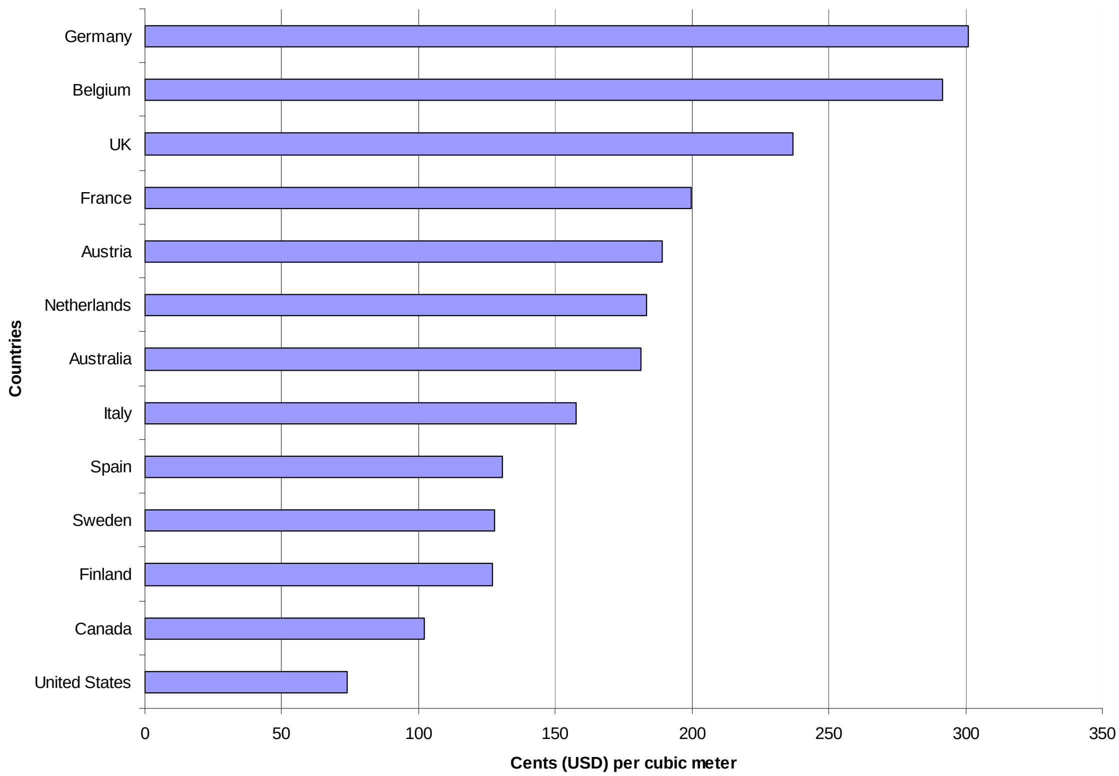
*recommended

Of the various options indicated in Table 1, the 10% and 15% options for water and wastewater rate increases achieve the earliest breakeven in operating expenses and elimination of reserve deficits. It is on this basis that staff recommends the 10% option for water and the 15% option for wastewater.

York's water and wastewater rates are competitive by international standards

Transportation and Works Committee requested information on how York Region's rates compare internationally. Figure 1 below provides a comparison of international water rates.

Figure 2
International Water Rate Comparisons



Source: 2007-2008 NUS Consulting Group International Water Survey & Cost Comparison, July 2008, NUS Consulting Group

As seen on this graph, Canadian water rates are among the lowest of the countries included in this comparison. For sake of comparison, in 2008, York Region's water rate including a weighted average local municipal component is approximately $0.86 in Canadian dollars or $1.06 in US dollars (based on an exchange rate of 81 cents for the Canadian dollar.)

5. FINANCIAL IMPLICATIONS

The water and wastewater gross operating expenditure budget of $260,568,000 million will be funded from user rates and accordingly has no impact on the 2009 tax levy budget.

The proposed 2009 water and wastewater rates are 57.63 and 68.26 cents per cubic metre respectively. On a combined basis, this represents an increase of 12.7% from the 2008 rates. These rates will be effective April 1, 2009.

6. LOCAL MUNICIPAL IMPACT

The Region is a wholesaler of water and wastewater services to area municipalities. To provide timely input for area municipalities as they develop their budgets, the water and wastewater operating budget and rates are being considered prior to the rest of the Region's operating budget.

7. CONCLUSION

This report provides the recommendations from and information requested by Transportation and Works Committee on November 5, 2008 to Finance and Administration committee in order to finalize the 2009 water and wastewater operating budget and rates.

For more information on this report, please contact Kelly Strueby, Director, Business Planning and Budgets at Ext. 1611.

The Senior Management Group has reviewed this report.