



Report to: General Committee

Meeting Date: November 2, 2020

SUBJECT: 2021 Water/Wastewater Rate
PREPARED BY: Asif Aziz, Senior Financial Analyst

RECOMMENDATION:

- 1) THAT the presentation entitled “2021 Water/Wastewater Rate Public Consultation Meeting” be received and approved for presentation at the November 12th Public Consultation meeting;
- 2) AND THAT the report entitled “2021 Water/Wastewater Rate” be received;
- 3) AND THAT Staff be authorized to hold an electronic public meeting on November 12th, 2020 at 6:30 p.m. to gather resident feedback on the principle of, increasing the 2021 water/wastewater rate by the same percentage as the Region of York’s wholesale rate and present two scenarios:
 - a. Scenario 1: Increase of 0%
 - b. Scenario 2: Increase of 2.9%, which is consistent with the Region of York’s wholesale rate increase for 2021, as tabled at Regional Council in the Region’s Water and Wastewater Financial Sustainability Plan from October 2015.
- 4) AND THAT feedback received at the public meeting along with the proposed 2021 water/wastewater rate tentatively scheduled to be put forward for consideration of Council on December 9th, 2020;
- 5) AND THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

The City is proposing to increase the 2021 water/wastewater rate by the same percentage as the Region of York’s wholesale rate once it is approved by Regional Council. A report is being tabled to Regional Council in December.

On November 13th, 2019, Council approved a rate increase, effective April 1, 2020, of \$0.3500/m³ (from \$4.4680/m³ to \$4.8180/m³) or 7.8%. This increase included an increase of 9% on the wholesale rate from the Region. In response to the COVID-19 pandemic both the City and Region waived the scheduled increases.

As a result, the City’s portion of the 2020 rate increase which was waived will need to be recovered in the 2021 rate or phased in, in future years, to ensure that there is adequate funding in the Waterworks Reserve to sustain future replacement and rehabilitation requirements of the City’s water and wastewater infrastructure for the next 25 years.

PURPOSE:

The purpose of the report is to receive direction on the proposed 2021 water/wastewater rate and obtain approval to hold an electronic public meeting on November 12th, 2020 at 6:30 p.m. to discuss the 2021 proposed water/wastewater rate increase.

BACKGROUND:

Markham owns and operates the water distribution and wastewater collection systems, and purchases its water supply and wastewater treatment from the Region of York (Region). The Region purchases water from the City of Toronto and Region of Peel. The Region's current wholesale rate is \$3.0743/m³ and Markham's current rate is \$4.4680/m³. Revenues are used to fund Regional purchases (i.e., water and wastewater costs), Waterworks day-to-day operations and capital expenditures.

On November 13th, 2019, Council approved a rate increase, effective April 1, 2020, of \$0.3500/m³ (from \$4.4680/m³ to \$4.8180/m³) or 7.8%. This increase included an increase of 9% on the wholesale rate from the Region.

Subsequently in March 2020, due to the COVID-19 pandemic, in an effort to provide relief to the residents and businesses of Markham, Council waived the scheduled increase of \$0.3500/m³, or 7.8%, to the 2020 water/waste water rate. In April 2020, Regional Council also waived its scheduled increase of \$0.2767/m³ or 9% resulting in no increase to the Region's 2020 wholesale rate.

In March 2020, Staff indicated to Council, that waiving the increase to the 2020 rate, by both the City and Region, would result in an unfavourable variance of \$1.0M to the 2020 Waterworks operating budget. It is anticipated the shortfall will be recovered in the future.

In May 2020, Staff reported back to Council, that due to the mandated closure to non-essential businesses, there was an expected reduction on water consumption resulting in an additional \$2.6M unfavourable variance, for a total unfavourable variance of \$3.6M (\$1.0M + \$2.6M). The forecasted reduction in consumption was based on very limited pandemic data. Therefore, assumptions were made by Staff that included an increase in residential consumption as there would be more people working from home, and a significant reduction in non-residential consumption due to mandated closure of non-essential businesses.

Since then, data related to water consumption during the pandemic has become available, showing that the reduction in consumption was not as severe as initially thought. Staff are now projecting a favourable variance in the range of \$0.7M to \$1.3M. Both non-residential and residential consumption have been higher than what was forecasted and presented to Council in May. To date residential consumption has been higher than budget, this increase has more than offset the reduction in non-residential consumption to budget, resulting in a net consumption increase to budget during the pandemic period.

The City's portion of the 2020 rate increase which was waived will need to be recovered in the 2021 rate or phased in, in future years, to ensure that there is adequate funding in the

Waterworks Reserve to sustain future replacement and rehabilitation requirements of the City's water and wastewater infrastructure for the next 25 years.

In 2015, the Region completed a water rate study to determine the rates required to: build adequate reserves for future asset rehabilitation and replacement; maintain existing assets; cover day-to-day operations; eliminate the need to issue rate-supported debt; and achieve full cost recovery pricing by 2021. The outcome of the water rate study was an increase of 9% from 2016 to 2020 and 2.9% for 2021. Due to the pandemic, the Region waived the 9% increase scheduled for 2020, and is updating the water rate study. A report will be tabled at Regional Council in December, with a proposed wholesale rate for 2021 and future year increases.

Accordingly, Staff have prepared two scenarios:

1. No increase to Region's wholesale rate and the City's water/wastewater rate
 - If this is the case, the deferred 2020 and 2021 increase will need to be recovered in a future year, or phased in over multiple years
2. Regional increase to the wholesale rate of 2.9%, matched with an increase to the City's water/wastewater rate of 2.9%
 - 2.9% is the increase approved by Regional Council in 2015
 - Incorporates full recovery of 2020 waived rate increase

If the Region's rate increase differs from the scenarios above, the City plans to match the Region's increase.

It is Markham's practice to hold a public meeting before passing an amendment to the Fee By-law for a water/wastewater rate change. The electronic public meeting will be held November 12th, 2020 at 6:30 p.m. to discuss the 2021 proposed water/wastewater rate change.

Notice of the public meeting will be posted on the "City Page" in local newspapers, the City website, electronic information boards in City facilities and through social media. Councillors will receive copies of the notice to send to residents.

Staff propose to provide information on the feedback received at the public meeting along with the proposed 2021 water/wastewater rate tentatively scheduled for consideration of Council at the December 9th Council meeting.

OPTIONS/ DISCUSSION: **Water/Wastewater Rate**

Markham's water/wastewater rate is comprised of the following 4 components:

- A. Regional wholesale rate
- B. Non-revenue water
- C. Operational expenditure
- D. Reserve contribution

A. Region's Wholesale Rate Increase

The Region provides water supply and wastewater treatment to the nine municipalities within the Region. On October 15, 2015, the Region approved annual rate increases for water and wastewater user rates effective April 1, 2016 through April 1, 2021.

In response to the COVID-19 pandemic the Region waived the 9% increase scheduled for April 1, 2020 and held its rate at the previous year's level. A report will be tabled to Regional Council in December with a proposed wholesale rate for 2021 and future year increases.

Year	<u>Approved</u> <u>October 15, 2015</u>		<u>Revised due to COVID-</u> <u>19 Pandemic</u>	
	Wholesale Rate (\$/m ³)	Increase from Prior Year	Wholesale Rate (\$/m ³)	Increase from Prior Year
April 1, 2016	2.3741	9.0%	2.3741	9.0%
April 1, 2017	2.5876	9.0%	2.5876	9.0%
April 1, 2018	2.8205	9.0%	2.8205	9.0%
April 1, 2019	3.0743	9.0%	3.0743	9.0%
April 1, 2020	3.3510	9.0%	3.0743	0.0%
April 1, 2021	3.4468	2.9%	TBD	TBD

The Region's increases support the following ongoing requirements including:

- Building adequate reserves for future asset rehabilitation and replacement
- Maintaining existing assets
- Covering day-to-day operations
- Elimination of the need to issue rate-supported debt; and
- Achieving full cost recovery pricing in 2021.

Scenario 1: Based on the Region's assumed change of 0% for 2021, the Region's wholesale rate will not increase and remain at \$3.0743/m³.

Scenario 2: Based on the Region's assumed increase of 2.9% for 2021, the Region's wholesale rate will increase by \$0.0892/m³ from \$3.0743/m³ to \$3.1635/m³.

As per the City's policy, the City will match the Region's monetary increase once it is approved by Regional Council.

B. Non-Revenue Water

For every 1,000 litres of water that Markham buys from the Region, it is budgeted to sell only 890 litres. This unsold water is known as non-revenue water (NRW). The most frequent occurrences of non-revenue water are through system leakage and watermain breaks, metering inaccuracies, system flushing to maintain water quality and other uses such as fire fighting and unauthorized uses.

Scenario 1: Based on the Region's assumed change of 0%, the NRW component will not change and will remain at \$0.3800/m³.

Scenario 2: Based on the Region's assumed increase of 2.9%, the NRW component will be increased from \$0.3800/m³ to \$0.3911/m³, an increase of \$0.0110/m³ from 2020.

The City will increase the NRW component by the same percentage increase as the Regions wholesale rate increase, once it is approved by Regional Council.

C. Operational Expenditure

The Operational Expenditure component is required in order to fund the operations and maintenance of the water and wastewater systems.

Scenario 1 and 2: The rate for this component will be increased by \$0.0170/m³, or 3.8%, from \$0.4450/m³ to \$0.4620/m³ to cover operational increases such as cost of living adjustment, collective bargaining agreements and contract escalation.

The increase to this component includes the recovery of the 2020 increases that were waived and the 2021 increases to operations.

D. Reserve Contribution

The Reserve Contribution component addresses the ongoing replacement and rehabilitation requirements for Waterworks infrastructure and other Waterworks related capital assets.

Scenario 1: The rate for this component will be decreased by \$0.0170/m³, or -3%, from \$0.5687/m³ to \$0.5517/m³. The reduction to this component is required to match the Region's overall rate change of 0%. In doing so, both the 2020 and 2021 increases to this component are being deferred, and will need to be recovered in a future year or phased in over multiple years.

Scenario 2: The rate for this component will be increased by \$0.0124/m³, or 2.2%, from \$0.5687/m³ to \$0.5811/m³. The increase to this component includes the full recovery of the 2020 increases that were waived.

2021 Water/Wastewater Rate Increase by Component Summary

Below is a summary of the proposed changes by component for Scenario 1 (change of 0%) and Scenario 2 (increase of 2.9%):

A		B=D-A	C=B/A	D=A+B	E=G-A	F=E/A	G=A+E
		1. Rate with Region @ 0.0%			2. Rate with Region @ 2.9%		
	2020 Rate \$/m ³	Increase \$/m ³	% Increase	2021 Proposed Rate \$/m ³	Increase \$/m ³	% Increase	2021 Proposed Rate \$/m ³
A. Region's Wholesale Rate	3.0743	0.0000	0.0%	3.0743	0.0892	2.9%	3.1635
B. Non-Revenue Water	0.3800	0.0000	0.0%	0.3800	0.0110	2.9%	0.3910
C. Operating Expenditures	0.4450	0.0170	3.8%	0.4620	0.0170	3.8%	0.4620
D. Reserve Contribution	0.5687	-0.0170	-3.0%	0.5517	0.0124	2.2%	0.5811
City's Water/Wastewater Rate	4.4680	0.0000	0.0%	4.4680	0.1296	2.9%	4.5976

FINANCIAL CONSIDERATIONS

It is proposed that the 2021 water/wastewater rate increase by the same percentage as the Region's wholesale rate once it is approved by Regional Council.

In advance of the Region approval of the wholesale rate Staff have prepared the two scenarios below:

Scenario 1: Assumes that the 2021 water/wastewater rate will not increase and remain at \$4.4680/m³. In doing so both, the 2020 and 2021, increases to component D are being deferred and will need to be recovered in a future year or phased in over multiple years.

Scenario 2: Assumes that the 2021 water/wastewater rate will increase by \$0.1296/m³ (2.9%) from \$4.4680/m³ to \$4.5976/m³. The increase incorporates full recovery of the 2020 increases that were waived.

Impact to Residents & ICI Customers

Based on an average household water consumption of 208 m³ per year and assuming an increase of 2.9%, there will be an increase of approximately \$27 to an average total annual household bill.

$$\begin{aligned} 2020: & \$4.4680 \times 208 \text{ m}^3 = \$929 \text{ (A)} \\ 2021: & \$4.5976 \times 208 \text{ m}^3 = \$956 \text{ (B)} \\ \text{Increase in 2021} & \quad \quad \$27 \text{ (C = B - A)} \end{aligned}$$

The impact to the top 10 ICI customers, including manufacturers, office buildings and hospitality providers, will range from \$9,000 to \$13,000 per year.

HUMAN RESOURCES CONSIDERATIONS

Not applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Environmental Services have reviewed this report and their comments have been incorporated.

RECOMMENDED BY:

Phoebe Fu
Director, Environmental Services

Joel Lustig
Treasurer

Andy Taylor
Chief Administrative Officer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

2021 Water and Wastewater Rate Public Consultation Meeting Presentation