



Report to: Council

Meeting Date: December 9, 2020

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

RECOMMENDATION:

- 1) That the report entitled “2021 Water/Wastewater Rate” be received; and,
- 2) That the Minutes from the November 12, 2020 Water/Wastewater Rate Public Consultation meeting be received; and
- 3) That the wholesale component of the 2021 Markham water and wastewater rate be adjusted by the corresponding water and wastewater rate increase approved by the Region of York; and further,
- 4) That Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of the report is for Council to approve an increase to the 2021 water/wastewater rate equivalent to the Region’s increase to the wholesale rate.

BACKGROUND:

Markham owns and operates the water distribution and wastewater collection systems, and purchases its water supply and wastewater treatment from the 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 for water sales and purchases. 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 to water consumption resulting in an additional \$2.6M unfavourable variance, for a total unfavourable variance for water sales and purchases 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.

In November 2020, Staff reported back to Council, that the actual water consumption data during the pandemic was not as severe as initially thought and are now projecting a favourable variance for water sales and purchases 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% per year from 2016 to 2020 and 2.9% for 2021. Due to the pandemic, the Region waived the 9% increase scheduled for 2020 and are now in the process of re-evaluating the rate increase for 2021.

On November 12, 2020 the City held a public meeting and presented the recommendation to increase the City's 2021 water/wastewater rate by the same percentage as the Region's increase once approved. Accordingly, Staff prepared and presented two scenarios:

1. No increase to Region's wholesale rate and the City's water/wastewater rate
 - 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 proposed 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

At the November 12th, 2020 public meeting it was requested that Staff provide a financial forecast for the following scenario (detailed below in the Options/ Discussion section):

- Flow through the Region's wholesale rate to the City at a proposed increase of 2.9%
- Defer the required increases to the non-revenue water, operating expenditures and reserve contribution components in 2021

- Show the impact of deferring these components on future rates if recovered over 5 and 10-years respectively

At the November 20th, 2020 Budget Committee meeting, Staff advised that the Region will now be holding a Special Council meeting on December 10, 2020 to discuss the 2021 water rate which is after Markham approves its 2021 Budget on December 9, 2020.

At the November 20, 2020 Budget Committee meeting, and consistent with the financial forecast requested at the public meeting, Staff advised that should the Region approve a 2.9% increase, the City's blended rate increase would be 2%, with an unfavourable impact to reserve of \$1.2M in 2021 (scenario detailed below in the Options/ Discussion section).

Budget Committee approved keeping the City's expenditure portion of the 2021 water/wastewater rate at 0%, and flowing through only the Region's wholesale rate increase approved by the Region.

OPTIONS/ DISCUSSION:

Water/Wastewater Rate

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

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

Detail	2020 Rate	2021 Changes		2021 Rate no Deferral		Deferred Rate		Proposed 2021 Rate	
		\$/m ³	%	\$/m ³	%	\$/m ³	%	\$/m ³	%
A. Region's Wholesale Rate	\$3.0743	\$0.0892	2.9%	\$3.1635	2.9%			\$3.1635	2.9%
B. Non-Revenue Water	\$0.3800	\$0.0110	2.9%	\$0.3910	2.9%			\$0.3910	2.9%
C. Operating Expenditures	\$0.4450	\$0.0170	3.8%	\$0.4620	3.8%			\$0.4620	3.8%
D. Reserve Contribution	\$0.5687	\$0.0124	2.2%	\$0.5811	2.2%	(\$0.0404)	-7.1%	\$0.5407	-4.9%
Total: Water/Wastewater Rate	\$4.4680	\$0.1296	2.9%	\$4.5976	2.9%	(\$0.0404)	-0.9%	\$4.5572	2.00%

Summary

A. Region's Increase	\$3.0743	\$0.0892	2.9%	\$3.1635	2.9%			\$3.1635	2.9%
B to D. City's Increase	\$1.3937	\$0.0404	2.9%	\$1.4341	2.9%	(\$0.0404)	-2.9%	\$1.3937	0.0%
Total: Water/Wastewater Rate	\$4.4680	\$0.1296	2.9%	\$4.5976	2.9%	(\$0.0404)	-0.9%	\$4.5572	2.0%

As noted in the table above, if the Region increases the wholesale rate by 2.9%, the City will increase Component A by 2.9% in 2021. The City will defer the combined increase to components B to D of 2.9% or \$0.0404 in 2021. This reduces the overall rate increase from 2.9% to 2.0%.

The impact of not increasing components B to D results in an unfavourable impact to the 2021 reserve balance of \$1.2M.

The deferred increases to components B to D of \$0.0404, or 0.9% to the overall rate, if phased-in over 5-years results in an additional increase of \$0.0098 or 0.2% per year over normal increases. If phased-in over 10-years an additional increase of \$0.0058 or 0.1% per year over normal increases is required.

The table below summarizes the impact to the 2021 rate and the additional rate increase required to be phased-in, if it is phased-in over 5 and 10-years respectively:

	Markham's Increases by Component		Rate Deferred in 2021				If Phased In Over 5-Years		If Phased In Over 10-Years	
	A	B to D	Rate with no Deferral	Proposed Rate	Rate Deferred	Reduction to 2021 Reserve (\$ M's)	\$ / m ³	%	\$ / m ³	%
			1	2	3=1-2					
Region's Increase of 2.9% Increase to Components	2.9%	0.0%	\$4.5976 2.9%	\$4.5572 2.0%	\$0.0404 0.9%	\$1.2	\$0.0098	0.2%	\$0.0058	0.1%

FINANCIAL CONSIDERATIONS

If the Region increases the wholesale rate by 2.9%, the City will increase component A by 2.9% in 2021. The City will defer the combined increase to components B to D of 2.9% or \$0.0404 in 2021. This reduces the overall rate increase from 2.9% to 2.0% and it has an unfavourable impact to the 2021 reserve balance of \$1.2M.

The deferred increases to components B to D will need to be recovered in future years.

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:

Post-Meeting Minutes – Water and Wastewater Rate Public Consultation Meeting – November 12, 2020