



Report to: General Committee

Meeting Date: October 18, 2021

SUBJECT: 2022 Water/Wastewater Rate
PREPARED BY: Veronica Siu, Manager, Budgets

RECOMMENDATION:

- 1) THAT the presentation entitled “2022 Water/Wastewater Rate Public Consultation Meeting” be received and approved for presentation at the November 18th Public Consultation meeting;
- 2) AND THAT the report entitled “2022 Water/Wastewater Rate” be received;
- 3) AND THAT Staff be authorized to hold an electronic public meeting on November 18th, 2021 at 6:30 p.m. to gather resident feedback on the principle of, increasing the 2022 water/wastewater rate by 3.7% or \$0.1667 from \$4.4680 to \$4.6347;
- 4) AND THAT feedback received at the public meeting along with the proposed 2022 water/wastewater rate be put forward for Council’s consideration on December 7th, 2021;
- 5) AND THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

Markham owns and operates the water distribution and wastewater collection systems, and purchases its water supply and wastewater treatment at a wholesale rate from the Region of York (Region). On September 23, 2021, York Region approved the annual water and wastewater user rates for a 6-year period from April 1, 2022 to March 31, 2028, equivalent to 3.3% increases each year, to maintain full cost recovery.

Markham’s water rate includes four components:

- A. Region’s wholesale rate – cost Markham pays to buy water from York Region
- B. Non-revenue water – cost of water that is used but not billed to the customer
- C. Operating Expenditures – funding needed to operate and maintain the water and wastewater systems
- D. Reserve Contribution – funding used for long-term infrastructure rehabilitation and replacement

Based on the Region’s wholesale rate increase of 3.3% and the results of this year’s reserve study update, which includes items B to D above, Markham will require a water and wastewater rate increase of 3.3% in 2022. This excludes the reserve recovery requirement resulting from maintaining the 2020 and 2021 rate at the 2019 level.

In response to the COVID-19 pandemic both the City and Region provided rate relief by deferring the schedule increases for 2020 and 2021. During prior year's water and wastewater rate discussions, staff identified that deferring rate increases in one year will require the City to recover it through future rate increases. As a result, the City's reserve study this year is showing an additional shortfall at the end of 25 years. There are two options to recover for this additional shortfall:

- One-time incremental rate increase in 2022 at 1.5% or \$0.0673/m³
- Phase-in over 4 years starting in 2022 at an incremental rate increase of 0.4% or \$0.0184/m³.

Staff recommend a 4-year phase-in at an incremental 0.4% be implemented starting 2022.

Staff are recommending an overall 2022 rate increase of 3.7%, which includes both the base rate increase of 3.3% and the reserve recovery phase-in of 0.4%.

PURPOSE:

The purpose of the report is to receive direction on the proposed 2022 water/wastewater rate and obtain approval to hold an electronic public meeting on November 18th, 2021 at 6:30 p.m. to discuss the 2022 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 13, 2019, Council approved a rate increase, effective April 1, 2021, 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, due to the COVID-19 pandemic, in an effort to provide relief to the residents and businesses of Markham, Council deferred the scheduled increase in both 2020 and 2021. York Region also deferred wholesale rate increases in both years.

Staff is recommending the City's portion of the deferred 2020 and 2021 rate increase be recovered through a 4-year rate phase in, starting in 2022, 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 2021, the Region updated its 2015 water rate study and recommended an increase of 3.3% from 2022 to 2027. Beyond 2027, the report identified an annual increase of 2.9%.

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 on

November 18, 2021 at 6:30 p.m. to discuss the 2022 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.

New this year, Staff will prepare a short 15-30 seconds video to attract public awareness/interest towards the 2022 water rate increase and the public meeting.

Staff propose to provide information on the feedback received at the public meeting along with the proposed 2022 water/wastewater rate scheduled for consideration of Council at the December 7th Council meeting.

OPTIONS/ DISCUSSION:
Water and Wastewater Rate

Markham’s water/wastewater rate is comprised of the following 5 components:

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

A. Region’s Wholesale Rate Increase

The Region provides water supply and wastewater treatment to the nine municipalities within the Region. On September 23, 2021, the Region approved annual rate increases for water and wastewater user rates effective 2022 to 2027.

<u>Approved</u> <u>September 23, 2021</u>		
Year Starting	Wholesale Rate (\$/m³)	Increase from Prior Year
April 1, 2022	3.1758	3.3%
April 1, 2023	3.2806	3.3%
April 1, 2024	3.3889	3.3%
April 1, 2025	3.5007	3.3%
April 1, 2026	3.6162	3.3%
April 1, 2027	3.7355	3.3%

The Region's increases would achieve the following crucial regional goals:

- Covering day-to-day operating costs
- Making required asset management contributions based on current estimated needs
- Servicing existing user-rate debt and eliminate new debt issuance
- Maintain full cost recovery while promoting intergenerational equity

Beyond 2027, the report identified an annual increase of 2.9%.

Based on the Region's approved increase of 3.3% for 2022, the Region's wholesale rate will increase by \$0.1015/m³ from \$3.0743/m³ to \$3.1758/m³.

As per the City's policy, the City will match the Region's monetary increase of \$0.1015/m³.

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.

Based on the Region's approved increase of 3.3%, the NRW component will be increased from \$0.3800/m³ to \$0.3925/m³, an increase of \$0.0125/m³ from 2021.

C. Operational Expenditure

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

The rate for this component will be increased by \$0.0178/m³, from \$0.4620/m³ to \$0.4798/m³ to cover operational increases such as cost of living adjustment, collective bargaining agreements and contract escalation.

D. Reserve Contribution

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

The rate for this component will be increased by \$0.0165/m³, from \$0.5517/m³ to \$0.5682/m³.

E. Reserve Recovery *NEW*

In response to the COVID-19 pandemic both the City and Region did not increase their water and wastewater rates in 2020 and 2021. As a result, the City's reserve study is showing an additional shortfall at the end of 25 years. Staff recommends eliminating the additional shortfall through a 4-year phase in starting in year 2022, at \$0.0184/m³ or 0.4% increase compared to the 2021 rate.

The rate for this component will be \$0.0184/m³.

2022 Water/Wastewater Rate Increase by Component Summary

Below is a summary of the proposed changes by component:

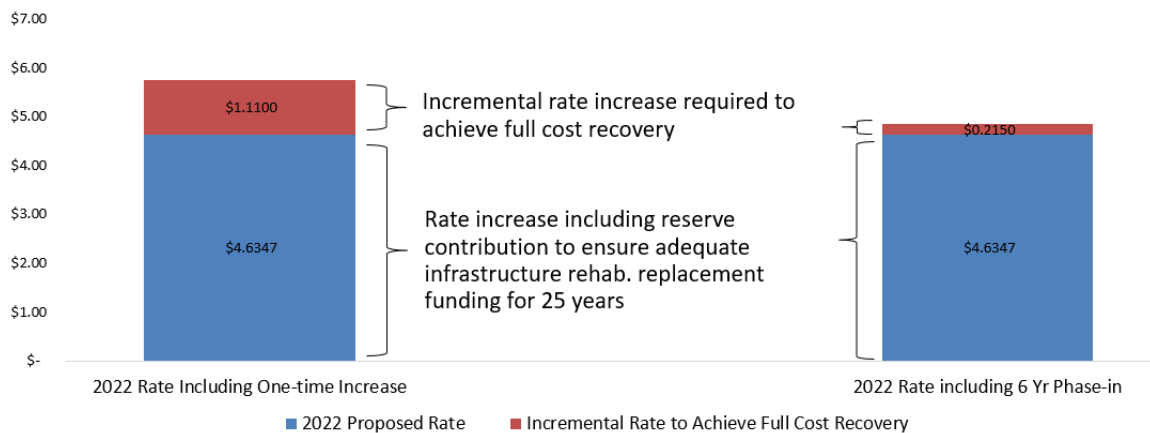
	2021 Rate \$/m ³	Increase \$/m ³	% Increase	2022 Proposed Rate \$/m ³
A. Region's Wholesale Rate	3.0743	0.1015	3.3%	3.1758
B. Non-Revenue Water	0.3800	0.0125	3.3%	0.3925
C. Operating Expenditures	0.4620	0.0178	3.9%	0.4798
D. Reserve Contribution	0.5517	0.0165	3.0%	0.5682
City's Water/Wastewater Rate before Reserve Recovery	4.4680	0.1483	3.3%	4.6163
E. Reserve Recovery (Yr 1 of 4)	0.0000	0.0184	0.4%	0.0184
City's Water/Wastewater Rate	4.4680	0.1667	3.7%	4.6347

Discussion: Full Cost Recovery

Markham's goal is to have sufficient funds in the Waterworks Reserve for the major repairs and replacements of assets for the next 25 years based on known inflows and outflows.

The City's practice is to begin setting aside funds in the last 25 years of an assets life cycle. For example, funds will be included in the reserve study beginning in year 26 for an asset with a 50-year life cycle.

If the City were to implement full cost recovery, using the 50-year asset example above, funds would have to be included in the reserve study starting in year 1 for its replacement. Staff estimate that there will be a requirement for an incremental one-time 24.9% rate increase in 2022 or if phased in over 6 years, an annual 4.8% incremental rate increase starting in 2022.



Staff do not recommend implementing full cost recovery and are comfortable with the strategy of including the asset in the reserve study in the last 25 years of its life cycle. This

method avoids putting a higher burden on current taxpayers and carrying an excessively large reserve balance.

FINANCIAL CONSIDERATIONS

It is proposed that the 2022 water/wastewater rate will increase by \$0.1667/m³ (3.7%) from \$4.4680/m³ to \$4.6347/m³.

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:

Eddy Wu
Director, Environmental Services

Joel Lustig
Treasurer

Morgan Jones
Commissioner, Community Services

Trinela Cane
Commissioner, Corporate Services

Andy Taylor
Chief Administrative Officer

ATTACHMENTS:

November 18, 2021 Presentation: 2022 Water and Wastewater Rate Public Consultation Meeting Presentation