



Report to: General Committee

Meeting Date: February 7, 2023

SUBJECT: 2023 Water/Wastewater Rate
PREPARED BY: Jay Pak, Senior Manager, Financial Planning
Heena Mistry, Senior Financial Analyst

RECOMMENDATION:

- 1) THAT the presentation entitled “2023 Water/Wastewater Rate Public Consultation Meeting” be received and approved for presentation at the February 13th Public Consultation meeting;
- 2) AND THAT the report entitled “2023 Water/Wastewater Rate” be received;
- 3) AND THAT Staff be authorized to hold a hybrid public meeting on February 13th, 2023 at 5:30 p.m. to gather residents’ feedback on the principle of increasing the 2023 water/wastewater rate by 3.8% or \$0.1774 from \$4.6163/m³ to \$4.7937/m³ effective April 1st, 2023;
- 4) AND THAT feedback received at the public meeting along with the proposed 2023 water/wastewater rate be put forward for Council’s consideration on February 22nd, 2023;
- 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 whole sale 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 3.4% in 2023. 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 completed in 2021 was showing an additional shortfall at the end of 25 years.

In 2021, the previous Council approved a 4-year phase-in of an incremental rate increase, also known as the Reserve Recovery, starting in 2023 at a rate of \$0.0196/m³ or 0.4% to compensate for the 0% rate increases in 2020 and 2021.

Staff are recommending an overall 2023 rate increase of 3.8%, which includes both the base rate increase of 3.4% and the reserve recovery phase-in of 0.4%.

PURPOSE:

The purpose of the report is to receive direction on the proposed 2023 water/wastewater rate and obtain approval to hold a hybrid public meeting on February 13th, 2023 at 5:30 p.m. to discuss the 2023 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 December 14, 2021, Council approved a rate increase, effective April 1, 2022, of \$0.3500/m³ (from \$4.4680/m³ to \$4.6163/m³) or 3.3%. This increase included an increase of 3.2% on the wholesale rate from the Region.

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.

In December 2021, the previous Council approved the City's portion of the deferred 2020 and 2021 rate increase be recovered through a 4-year rate phase in, starting in 2023, 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

February 13th, 2023 at 5:30 p.m. to discuss the 2023 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 2023 water/wastewater rate scheduled for consideration of Council at the February 22nd 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 2023, the Region's wholesale rate will increase by \$0.1048/m³ from \$3.1758/m³ to \$3.2806/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 firefighting and unauthorized uses.

Based on the Region's approved increase of 3.3%, the NRW component will be increased from \$0.3925/m³ to \$0.4055/m³, an increase of \$0.0130/m³ from 2022.

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 \$0.0229/m³, from \$0.4798/m³ to \$0.5027/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 \$0.0171/m³, from \$0.5682/m³ to \$0.5853/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. In 2021, the previous Council approved an incremental rate increase to be phased in over a 4 years starting in 2023, at \$0.0196/m³ or 0.4% increase compared to the 2022 rate.

The rate for this component will be \$0.0196/m³.

2023 Water/Wastewater Rate Increase by Component Summary

Below is a summary of the proposed changes by component:

	2022 Rate \$/m ³	Increase \$/m ³	% Increase	2023 Proposed Rate \$/m ³
A. Region's Wholesale Rate	3.1758	0.1048	3.3%	3.2806
B. Non-Revenue Water	0.3925	0.0130	3.3%	0.4055
C. Operating Expenditures	0.4798	0.0229	4.8%	0.5027
D. Reserve Contribution	0.5682	0.0171	3.0%	0.5853
City's Water/Wastewater Rate	4.6163	0.1578	3.4%	4.7741
E. Reserve Recovery (Yr 1 of 4)	0.0000	0.0196	0.4%	0.0196
City's Water/Wastewater Rate	4.6163	0.1774	3.8%	4.7937

FINANCIAL CONSIDERATIONS

It is proposed that the 2023 water/wastewater rate will increase by \$0.1774/m³ (3.8%) from \$4.6163/m³ to \$4.7937/m³.

Impact to Residents & ICI Customers

Based on an average household water consumption of 208 m³ per year and assuming an increase of 3.8%, there will be an increase of approximately \$36 to an average total annual household bill.

The impact to the top 10 ICI customers, including manufacturers, office buildings and Markham Stouffville Hospital, will range from \$8,000 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:

Eddy Wu
Director, Environmental Services

Mark Visser
Acting Treasurer

Trinela Cane

Commissioner, Community Services

Commissioner, Corporate Services

Andy Taylor
Chief Administrative Officer

ATTACHMENTS:

Presentation: 2023 Water and Wastewater Rate Public Consultation Meeting Presentation