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2023 Water, Wastewater and Stormwater 10-Year Financial Plans Staff Report to Council

Report Number: 2023-47

Department(s): Financial Services

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Meeting Date: June 19, 2023

Recommendations

1. That the report entitled 2023 Water, Wastewater and Stormwater 10-Year Financial Plans dated June 19, 2023 be received; and,
2. That Council approve the proposed Water, Wastewater and Stormwater 10-year Financial Plans; and,
3. That Council approve a one-time transfer of \$25 million from the Wastewater Asset Replacement Fund to the Stormwater Asset Replacement Fund to meet the funding requirements as outlined in the plan; and,
4. That any year-end surpluses will be allocated in the following manner:
 - first to reserve requirements, if any;
 - second to the respective Rate Stabilization Reserves up to the defined levels;
 - any remaining surplus to the respective Asset Replacement Reserve Funds;
5. That Council approve the defined levels for Rate Stabilization Reserves at 10% of revenues for water and wastewater and 15% for stormwater on an interim basis pending results of the upcoming reserve and reserve funds review; and,
6. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

The Water, Wastewater and Stormwater Financial Plans have been updated to include a 10-year forecast that covers the years from 2024 to 2033.

The updated financial plans incorporate the replacement costs as identified in the Asset Management Plans (AMP), capital inflation supplement of 30% due to construction costs increase for the years 2021 and 2022 (subsequent to 2020, the base year for the AMPs) and Region's wholesale rate increases for water supply and wastewater treatment services.

The proposed annual rate increases from 2024 to 2033 are as follows:

- Stormwater: 10.0%
- Water: 7.0%
- Wastewater: 7.0%

Purpose

The purpose of this report is to obtain Council approval of the 2023 Water, Wastewater and Stormwater 10-year financial plans.

Background

In 2020, the Town was proactive in creating The Fiscal Strategy to ensure future sustainability as a community. Since then, regular updates on the implementation of the recommendations from the Fiscal Strategy have been provided. The Fiscal Strategy identified 79 recommendations. The updated financial plans will address the following recommendations from the Fiscal Strategy:

- carry out a comprehensive rate setting study that covers water, wastewater and stormwater rates;
- employ strategies to increase contributions to reserves to build them to more appropriate levels (this includes the Asset Replacement Fund and Rate Stabilization);
- Develop detailed ten-year financial plans for water, wastewater and stormwater.

The Fiscal Strategy also identified the challenge for asset management policy would be achieving integration between asset management plans and financial plans.

Discussion

In order to align the recommendations from the Fiscal Strategy, objectives of the Water, Wastewater and Stormwater Financial Plans are as follows:

- provides a 10-year outlook for each of the rate-supported budgets;

- integrates the asset replacement requirements as outlined in the Asset Management Plan;
- identifies the operating requirements at the current service levels;
- sets future rates that covers the costs of providing services including the day-to-day operations, asset replacements and other non-growth capital costs, and contributions to reserves.

The AMPs were developed based on 2020 values. Since then, non-residential construction prices have increased by 30% over the years 2021 and 2022 due to the pandemic. This has significant impact on capital requirements which are incorporated in the updated financial plans.

Stormwater Financial Plan

The Stormwater Financial Plan was first developed in 2017 with the introduction of a stormwater rate to fund the Town's stormwater management program. Revenues from the stormwater rate are generated to support day-to-day operations, storm drain infrastructure replacements, stormwater management pond cleaning, and contributions to reserves.

The updated plan incorporates the following:

- Asset replacement requirements as identified in the Asset Management Plan
- Capital inflation supplement
- Stormwater management pond cleaning costs
- Use of Ontario Community Infrastructure Fund (OCIF) as a funding source (see Report 2022-45 Water, Wastewater and Stormwater Rates, dated June 20, 2022)

Without other funding strategies, it would require an annual increase of 25% to fund the operating costs, asset replacements and to build up the ARF.

The 25% annual rate increase is required due to the following factors:

- The Town started collecting stormwater fees in 2018; therefore the reserve balances in the Stormwater rate stabilization and ARF are not as established as those for water and wastewater;
- Costs to replace existing stormwater infrastructures are as significant as those for water and wastewater infrastructures;
- the total revenue base for stormwater is approximately \$3,000,000. Therefore, for every 1% rate increase, it will generate only \$30,000 additional revenues, compared to \$250,000 additional revenues from 1% increase in water and wastewater rates.

The Municipal Act 417 (4) allows re-balance of reserve funds, where appropriate:

“A municipality may by by-law provide that the money raised for a reserve fund established..... may be spent, pledged, or applied to a purpose other than that for which the fund was established.”

As such, in order to bring down the stormwater annual rate increase, Staff recommends a transfer of \$25 million from the Wastewater ARF to Stormwater ARF in 2023, and an annual transfer of \$3 million between the Water/Wastewater ARF. With these transfers, it is projected the required stormwater annual rate increase will be reduced from 25% to 10% while the Water and Wastewater ARF will still be maintained at a sustainable level to fund asset replacements over the 10-year period.

Stormwater Rate Increases

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Annual cost \$ *	\$61.05	\$67.15	\$73.87	\$81.26	\$89.38	\$98.32	\$108.15	\$118.97	\$130.86	\$143.95
Increase %	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Increase \$	\$5.55	\$6.10	\$6.72	\$7.39	\$8.13	\$8.94	\$9.83	\$10.82	\$11.90	\$13.09

* based on a 465 square metre lot

The proposed increases achieve fiscal sustainability by meeting the operating and asset replacement requirements over the 10-year period. In addition, it is projected that the rate stabilization reserves will have a balance that is equivalent to 15% of annual revenues.

The Town is working to mitigate this increase further:

- Improved processes are being developed for condition assessments
- The Town has entered in a partnership with Lake Simcoe Conservation Authority and the other N6 municipalities to explore a System-Wide Stormwater Management Plan that may result in savings over the long term.

Water & Wastewater Financial Plans

The Region of York (“Region”) is a wholesale provider of water supply and wastewater treatment services to the Town. The Region developed a Financial Sustainability Plan in 2020 and 2021 to support periodic review of the Region’s wholesale rates for water and wastewater. Rates identified in the plan were also set with the expectation to achieve and maintain full cost recovery over the period from April 1, 2022 to March 31, 2028. Regional Council approved the plan with annual water and wastewater rate increases of 3.3% on April 1 each year from 2022 to 2027. Increases in the wholesale rates have been considered in the 2023 financial plans.

Other assumptions are used in developing the financial plans including:

- Population growth of 0.65% which is consistent with the Town's growth projection offset by assumption on water conservation; and
- Non-revenue water at 15% based on recent year's results. Non-revenue water is water that has been supplied to the distribution system that does not generate revenue at the individual customer level. Examples include water for fire hydrants, water to flush out watermain to maintain water quality, as well as system leakage and unauthorized use.

Based on the 2023 Ten-Year Water and Wastewater Financial Plans, the annual increases are as follows:

Combined Water & Wastewater Rate Increase

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate \$/m ³	\$4.86	\$5.20	\$5.57	\$5.96	\$6.37	\$6.82	\$7.30	\$7.81	\$8.36	\$8.94
Increase %	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Annual Cost \$*	\$1,459	\$1,561	\$1,670	\$1,787	\$1,912	\$2,046	\$2,189	\$2,343	\$2,507	\$2,682
Increase \$	\$95	\$102	\$109	\$117	\$125	\$134	\$143	\$154	\$164	\$175

* based on average annual consumption of 200m³ per BMA Study

The proposed increases achieve fiscal sustainability by meeting the operating and asset replacement requirements over the 10-year period. In addition, it is projected that the rate stabilization reserves will have a balance that is equivalent to 10% of annual revenues for water and wastewater.

Conclusion

The 2023 Water, Wastewater and Stormwater 10-Year Financial Plans achieve the following objectives that align with the recommendations from the Fiscal Strategy:

- provides a 10-year outlook for each of the rate-supported budgets; and
- integrates the asset replacement requirements as outlined in the Asset Management Plan; and
- identifies the operating requirements at the current service levels; and
- sets future rates that covers the full costs of providing services including the day-to-day operations, asset replacements and other non-growth capital costs, and contributions to reserves.

Business Plan and Strategic Plan Linkages

The proposed rates for each of the rate-supported budgets cover the costs of providing utility services including the day-to-day operations, asset replacements and contributions to reserve. These financial plans provide a framework in achieving financial sustainability for the next 10 years. Recommendations from the Fiscal Strategy have been addressed by integrating asset replacement costs and desired level of contributions to the respective ARF outlined in the Asset Management Plan into the financial plans.

Consultation

The Development Infrastructure Commission has been consulted.

Human Resource Considerations

Not applicable.

Budget Impact

Adoption of the 2023 Water, Wastewater and Stormwater Ten-Year Financial Plans will guide operating and capital budget requests from 2024 to 2033. The rates are subject to review as part of the annual budget process.

Attachments

Appendix A: 2023 Ten-Year Water Financial Plan

Appendix B: 2023 Ten-Year Wastewater Financial Plan

Appendix C: 2023 Ten-Year Stormwater Financial Plan

Approval

Mike Mayes, CPA, CGA, DPA
Director of Financial Services

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Commissioner, Corporate Services

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