

Committee of the Whole (2) Report

DATE: Tuesday, April 13, 2021

WARD(S): ALL

TITLE: WATER AND WASTEWATER RATE STUDY

FROM:

Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: FOR INFORMATION

Purpose

To provide a summary of findings and recommendations identified through a consultant's review of Vaughan's water and wastewater rate structure and billing methodology. The study was conducted to ensure the rate structure continues to meet the city's water program goals and objectives.

Report Highlights

- Vaughan's last rate structure review was completed in 2012.
- Vaughan procured consulting services to review water and wastewater program costs, cost recovery strategies, rate structures and a water leak forgiveness program.
- A new accidental water leak policy will provide some financial assistance to those who have experienced a failure of plumbing devices.
- Vaughan's current uniform rate structure is best aligned with the key rate setting principles of the City.

Recommendation

1. That this report be received for information.

Background

Vaughan's last rate structure study was completed in 2012. With the exception of the introduction of a new stormwater charge in 2017, the structure has remained the same for the last nine years. It is considered a best practice to periodically review rate structures to ensure water and wastewater rates are affordable, rates continue to meet

the financial needs of the city, rates are fair and equitable for all customers and rates promote conservation. Rates and rate structures can be influenced by changes to regulations, legislation, budgets, capital requirements, consumption trends and the goals and objectives of the municipality. Substantive changes to any of these may necessitate a review the rate structure.

The BMA Management Consulting Inc. (BMA) was hired in 2020 to undertake a review of best practices in municipal water and wastewater management and to review rate structures to ensure Vaughan's current structure continues to meet the needs of the organization and provide a fair and easily understood method of billing for water and wastewater services. Specifically, the assignment included analysis and recommendations for:

- Cost of delivering water and wastewater services;
- Cost recovery through water and wastewater rates;
- Water and wastewater rate structures; and
- High consumption forgiveness program.

Previous Reports/Authority

N/A

Analysis and Options

Cost of delivering water and wastewater services

The review considered the drivers that impact costs associated with providing potable water and treating wastewater. Some of those drivers included population growth, consumption trends, York Region purchases and treatment costs, asset replacement, reserve balances and long-range financial plans. Forecasted cost increases related to managing both Vaughan's near-term and long-term water and wastewater programs suggest that rate increases will be required to ensure long term financial sustainability.

Cost recovery and water and wastewater rates

Current and future consumption trends, comparison and benchmarking of existing rates and rate structures and evaluation of the current water and wastewater rates and cost recovery methodology were reviewed by BMA and staff.

Current consumption trends show a year-over-year decrease in average residential consumption. Education about the importance of clean water, water efficient plumbing fixtures and recent rate increases have all lead to a decrease in consumption. This trend is forecasted to continue.

Region purchases and treatment expenses represent the majority of the City's expenses with 74 percent of water expenses related to purchases and 85 percent of wastewater expenses related to treatment costs. As a result, Region rate increases have a significant impact on the City's rates increases and reserve contributions. With a significant portion of all revenues collected going to pay York for water and wastewater

services, Vaughan is limited in cost recovery approaches. Vaughan's rates will need to at least keep pace with Region increases.

Water and wastewater rate structures

Vaughan currently has a uniform volumetric rate structure, whereby charges are calculated by multiplying water and wastewater rates by the water consumption which is recorded through a water meter. York Region also has a uniform volumetric rate structure which help simplify the annual rate setting process.

There are several different types of volumetric rate structures and, depending on which approach the municipality chooses, will provide different consumption patterns and revenue recoveries. For example:

- Inclining rates, rates increase as consumption volume increases, are used in municipalities where conservation is a priority and can also be used to reduce the cost of service to small volume customers; and
- Declining rates, rates decrease as consumption volume increases, tend to be in municipalities with several large industries to reflect potential economies of scale.

It is important to understand customer profiles when considering a rate structure change as the change will impact customers. Any change in the existing rate structure will result in shifts across the customers and classes, charging more to some and less to others.

The review considered the following key principles when analyzing potential changes to Vaughan's structure.

- Ratepayer Affordability – Ensuring the cost of service is not prohibitive.
- Financial Sustainability – Maintaining the cost of delivering quality water and wastewater services over the next 10 years.
- Easy to Understand and Transparent - The rate structure must be simple to understand and result in predictable bills for consumers.
- Conservation – Ensuring best practices in the development of programs to encourage water conservation and demand management. Programs that promote the efficient use of water may reduce operating costs and capital investment needed over time.
- Fairness and Equity – The rate structure should not benefit or adversely affect one customer class over another. The rate structure should ensure customers are contributing equitably to the cost of the systems.
- Revenue Stability – The rate structure should support revenue stability for the City to ensure that all fixed costs are recovered.

Surveys conducted as part of the review indicated that affordability was the most important consideration followed by easy to understand, fair and equitable, conservation and finally financial stability.

BMA recommended that Vaughan maintain the uniform volumetric rate structure after careful consideration of the key principles and York's existing rate structure.

High consumption forgiveness program

BMA was asked to recommend an approach that would provide financial assistance to residents who have experienced high water charges related to accidental plumbing failures. The cities of Guelph and Hamilton were identified as two examples with policies that authorized financial adjustments. The City of Vaughan recognizes that accidental high-water bills can create a hardship to customers. Further, a customer's inability to pay for all consumption as measured by the water meter could lead to penalties and collection charges. As a result, under separate report, a recommendation has been made to implement an accidental water leak adjustment policy similar to those already in place in Guelph and Hamilton.

Financial Impact

BMA was engaged primarily to review Vaughan's rate structure and as such there were limited financial impacts. BMA did recommend the continued use of the uniform volumetric rate structure and continue focus on building the water and wastewater reserves for future replacement needs. Rates setting will continue to reflect the costs of providing potable water and wastewater collection, daily water and wastewater operations and contributions to water and wastewater reserves.

Broader Regional Impacts/Considerations

York Region is presently reviewing the existing uniform volumetric rate structure currently used to determine costs and required recoveries. A report to Regional Council is expected in the second half of 2021.

Conclusion

Considering Vaughan's significant water purchases and wastewater treatment costs from York Region, the key principle of affordability, potential impacts of rate structure related change and survey results, it was recommended that Vaughan maintain its uniform volumetric rate structure. Further, under separate report, a water leak adjustment program has been recommended to help residents with leak related high water bills.

For more information, please contact:

Michael Coroneos, Deputy City Manager Corporate Services, City Treasurer & Chief Financial Officer

Zoran Postic, Deputy City Manager, Public Works

Dean Ferraro, Director of Financial Services and Deputy City Treasurer

James Steele, Director of Environmental Services

Attachments

N/A

Prepared by

Sean Skinkle, Finance Manager, Water/Wastewater/Stormwater. Ext 8486

Approved by

A handwritten signature in blue ink that reads "Michael Coroneos".

Michael Coroneos
Deputy City Manager
Corporate Services, City Treasurer
& Chief Financial Officer

Reviewed by

A handwritten signature in black ink that reads "Jim Harnum".

Jim Harnum, City Manager