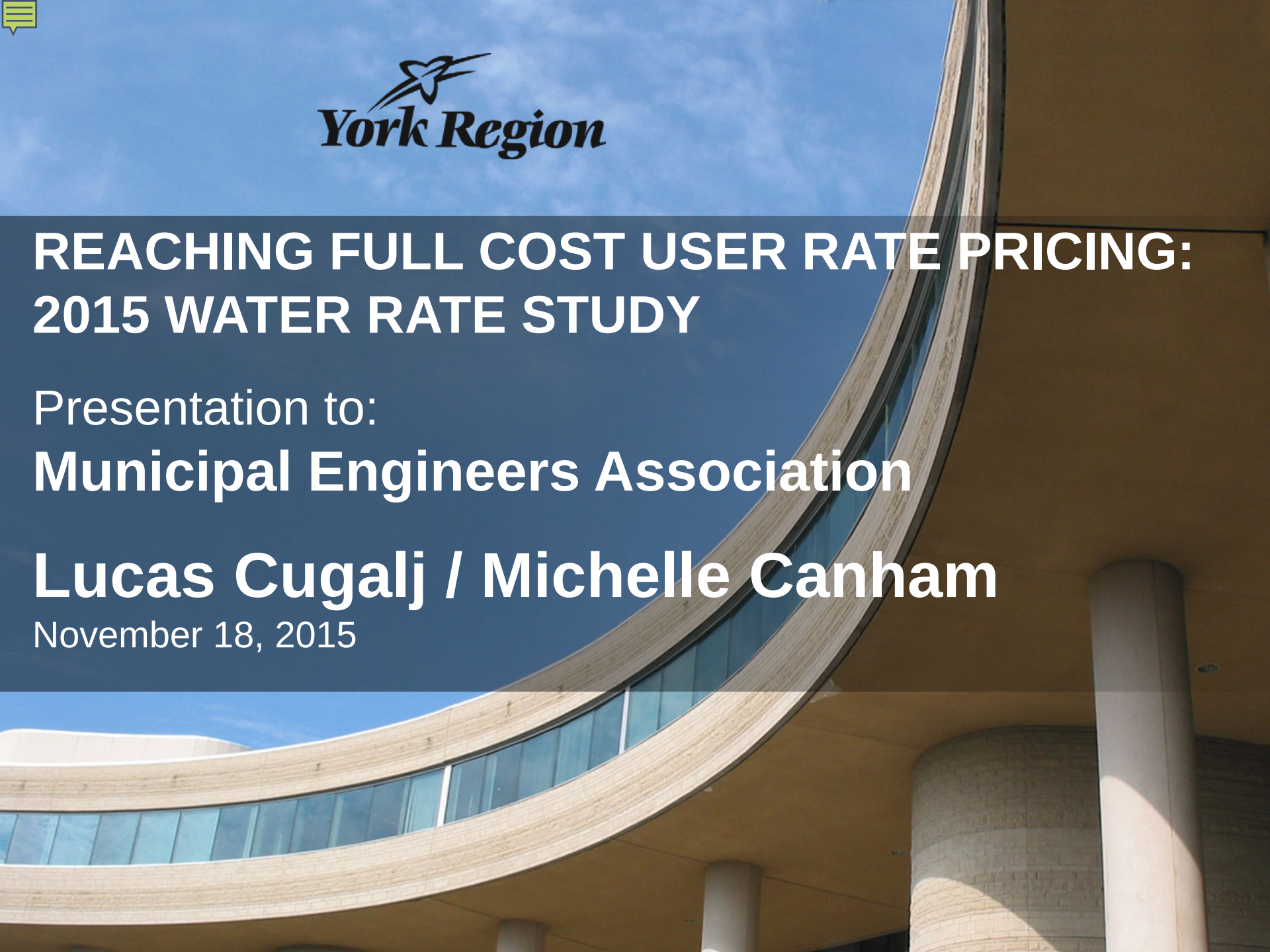


REACHING FULL COST USER RATE PRICING: 2015 WATER RATE STUDY

Presentation to:

Municipal Engineers Association

Lucas Cugalj / Michelle Canham

November 18, 2015

Policy Objectives and Principles

Objectives and Principles

Realizing Operational Excellence

- Provide clean and safe drinking water to over 1.1 million residents
- Keep over $5.3B of capital infrastructure in good condition
- Comply with complex Provincial environmental regulations

Effective delivery of water and wastewater services

Moving Towards Financial Sustainability

- Set prices to achieve full cost recovery
- Build reserves for future capital rehabilitation and replacement
- Establish rate stabilization reserves

Rate Review Objectives Align with Fiscal Strategy

Essence of the Fiscal Strategy

- Manage the capital plan
- Reduce reliance on debt
- Save for the future

+

Additional Objectives for Water and Wastewater

- Fully fund operating and non-growth capital requirements through user rate
- Promote intergenerational equity

The rate review objectives were developed based on the Fiscal Strategy

What is Full Cost Recovery?

Full cost recovery means that all costs associated with delivering the service are recovered through water and wastewater rates

Costs recovered include:

- ✓ **Operating costs** of York-owned infrastructure (i.e. labour, energy and chemicals)
- ✓ **Payments to other municipalities** for water and wastewater services (operating)
- ✓ **Major life cycle and asset replacement contributions** to capital reserves based on current replacement values
- ✓ **Environmental costs**, including source water protection
- ✓ **Allocation of corporate costs** to water and wastewater services
- ✓ **Financing** (interest) costs
- ✓ Allowance for **future, more stringent regulations**

Why Aren't We Already at Full Cost Pricing?

- Significant progress made towards full cost recovery since 2011 rate study, but we are not there yet
- Better information now available on long-term asset management requirements
- Compared to previous rate model:
  - True replacement value of built infrastructure 141 per cent higher
  - Asset management spending has increased
  - New infrastructure more complex to operate and maintain
  - Flows are lower than anticipated

Asset management and future operating costs key to full cost pricing

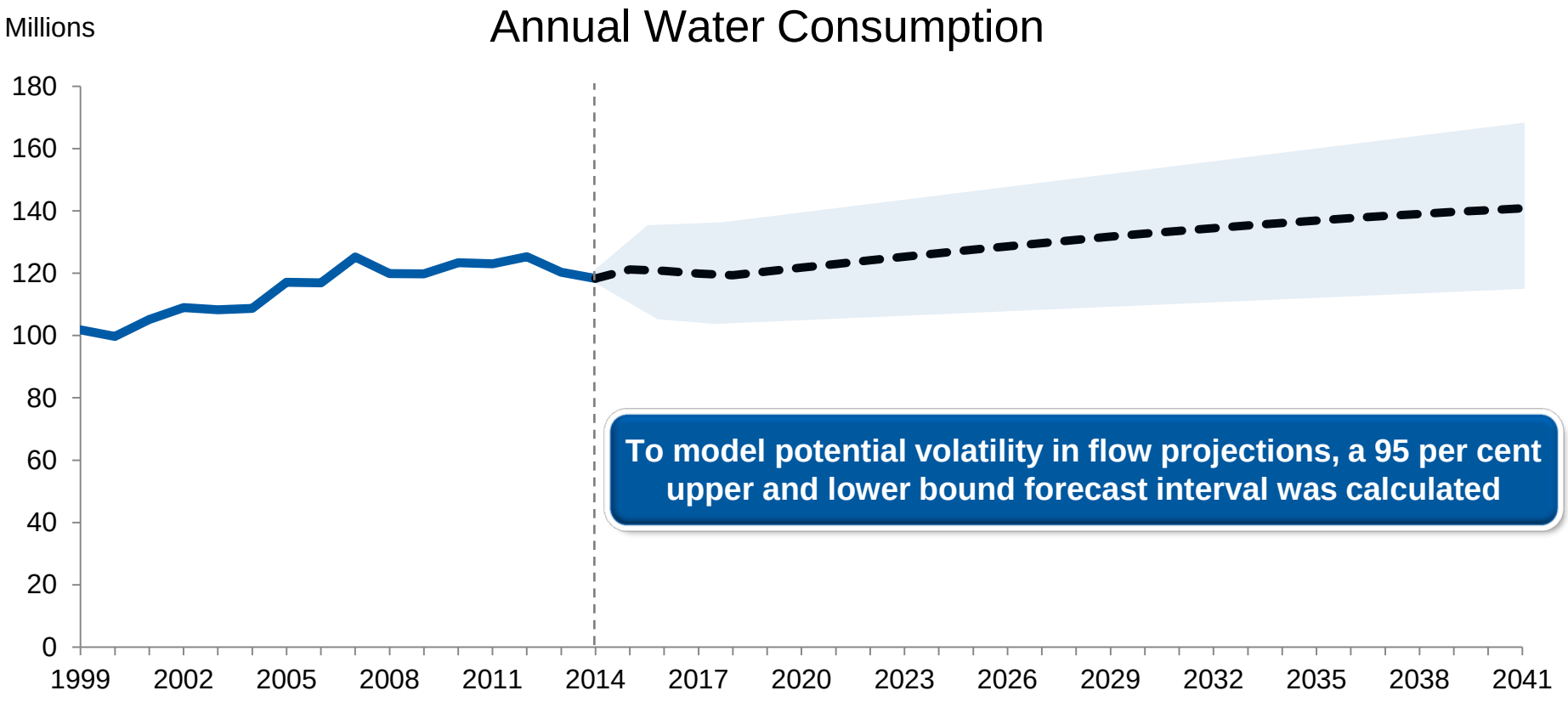
Rate Review Process

- Inter-jurisdictional review of best practices in rate setting
- Consultation with CHS to review impact of rate increases on vulnerable sectors
- Establish funding policy for major rehabilitation and replacement projects to eliminate debt funding
- Establish separate rate stabilization reserve to protect funds reserved for capital replacement
- Review of asset condition and long-term asset management cost estimates
- Review of various rate structures, including mixed rate structures
- Advanced demand forecast including multi-variable flow forecasting
- Public consultation surveys to measure views on water use, pricing and conservation

Engagement with local municipalities throughout review

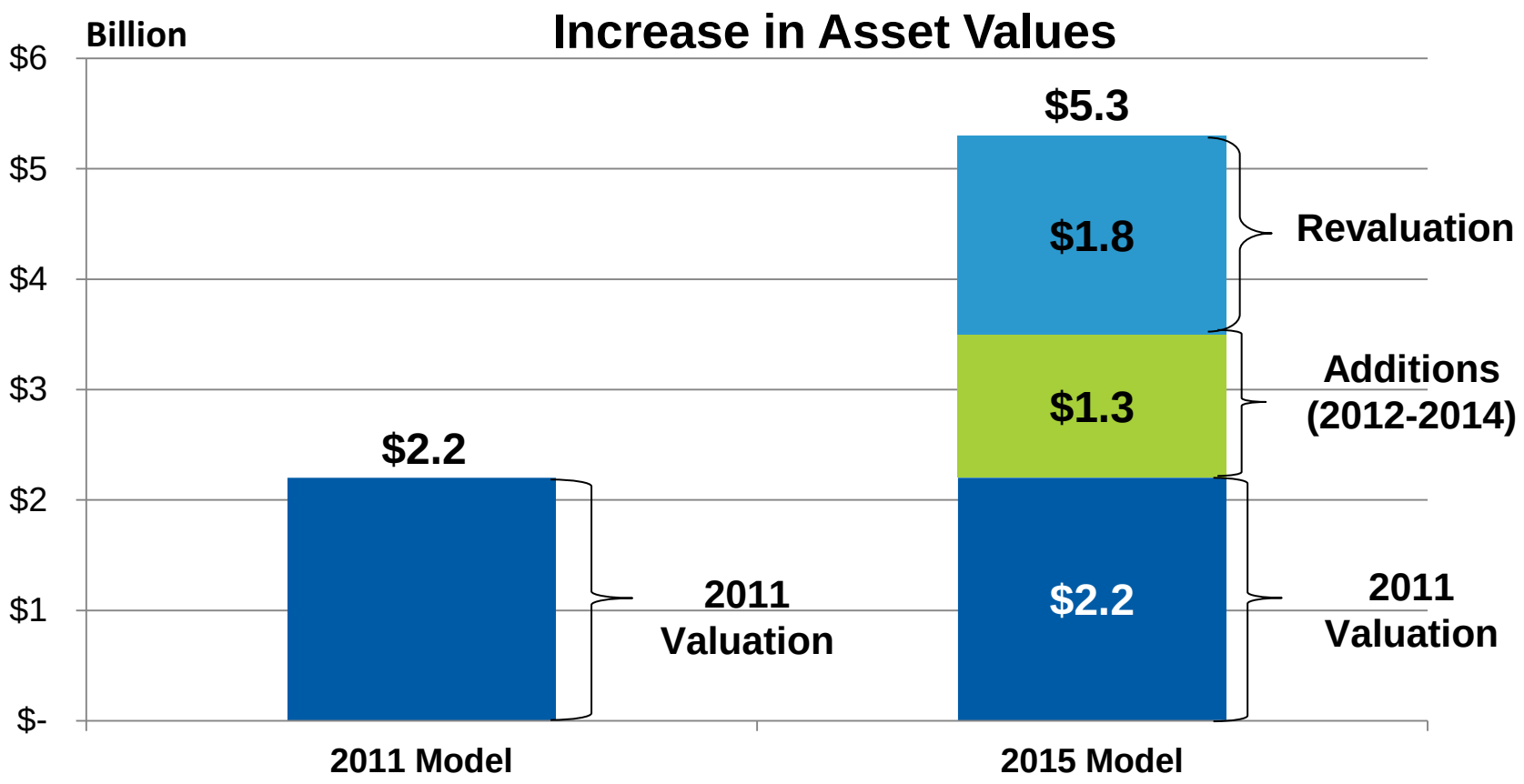
Key Influences on Rates

Historical and Forecasted Water Demand



Conservation and other factors offset population growth

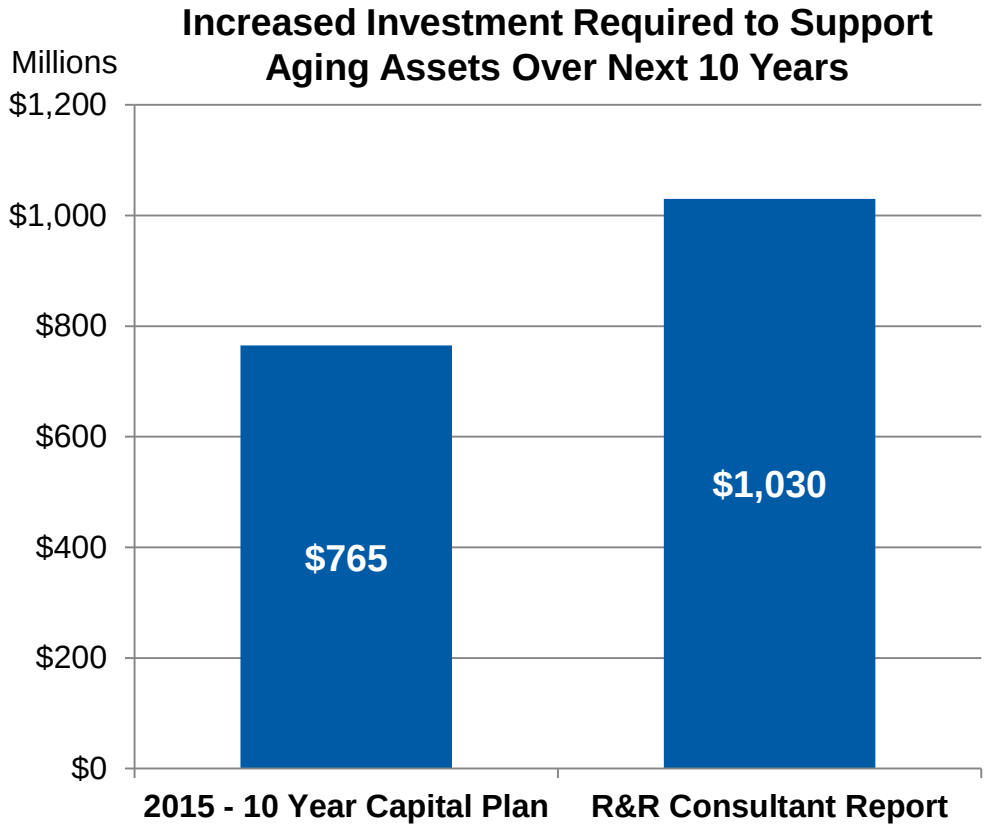
High Value Asset Base



True replacement value of built infrastructure 141 per cent higher

Significant Investment Required to Support Aging Assets

- Asset management needs in the next ten years over $1 billion
- Over 50 per cent of this relates to rehabilitation work on the York Durham Sewage System



Better information available on future asset management needs

Options

Seven Rate Options to Achieve Financial Sustainability Were Reviewed

Option	Meet annual operating requirements	Meet capital plan requirements	No new user rate debt issued	Meet full cost recovery pricing by
1	✓	✓	✓	2016
2	✓	✓	✓	2017
3	✓	✓	✓	2018
3A	✓	✓	✓	2018
4	✓	✓	✓	2019
4A	✓	✓	✓	2019
5 (Approved)	✓	✓	✓	2021

Options to achieve full-cost recovery in 1 to 6 years

Increases Associated with Options Reviewed

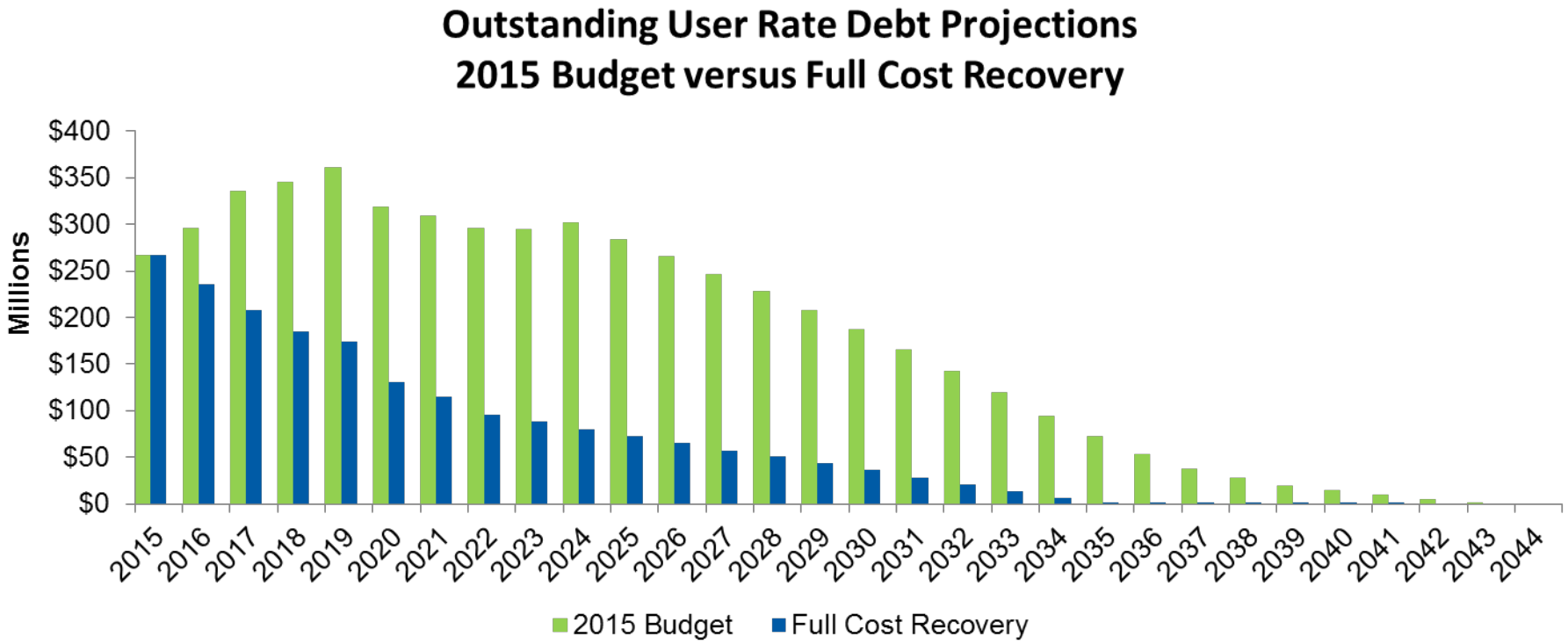
Options	Wholesale Rate Increases Effective April 1st of Each Year					
	2016	2017	2018	2019	2020	2021
Option 1	27.1%	3.7%	3.7%	3.7%	3.7%	3.7%
Option 2	17.2%	16.2%	2.9%	2.9%	2.9%	2.9%
Option 3	12.9%	12.9%	11.7%	2.7%	2.9%	2.8%
Option 3a	15.0%	13.0%	6.0%	3.0%	3.0%	3.0%
Option 4	10.8%	10.5%	10.2%	10.2%	2.9%	2.9%
Option 4a	13.0%	10.0%	9.0%	6.0%	3.0%	3.0%
Option 5	9.0%	9.0%	9.0%	9.0%	9.0%	2.9%

- Highlighted cells indicate year in which full cost recovery pricing is achieved

Balancing impact with timing of full cost recovery pricing

Results of Full Cost Pricing

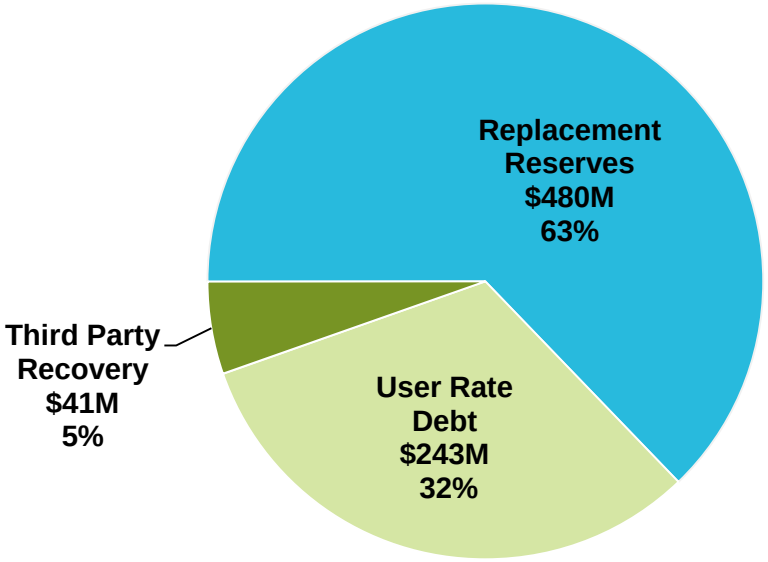
User Rate Debt Significantly Reduced Under Recommended Rate Scenario



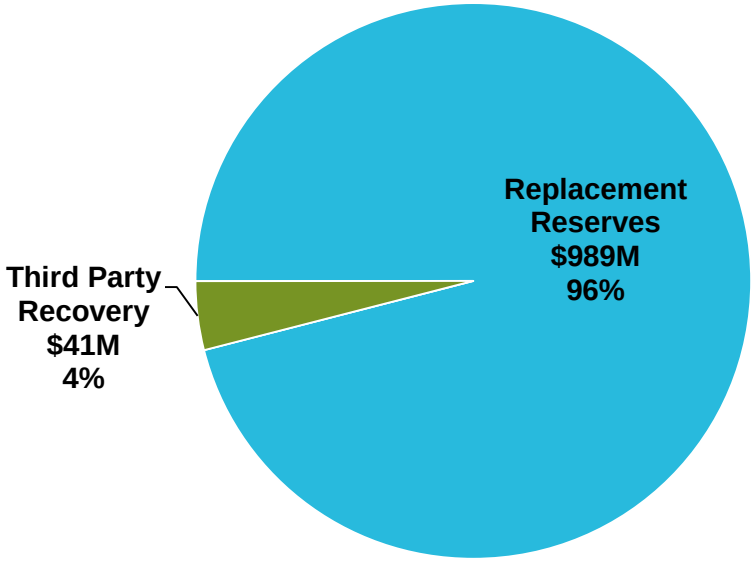
All new user rate debt avoided under full cost pricing

Rate Increases Meet Capital Investment Need and Eliminate Debt Financing

Funding for Rehabilitation & Replacement in 2015 Budget (2016-2025): $765 Million



Funding for Rehabilitation & Replacement in Full Cost Recovery Pricing (2016-2025): $1,030 Million



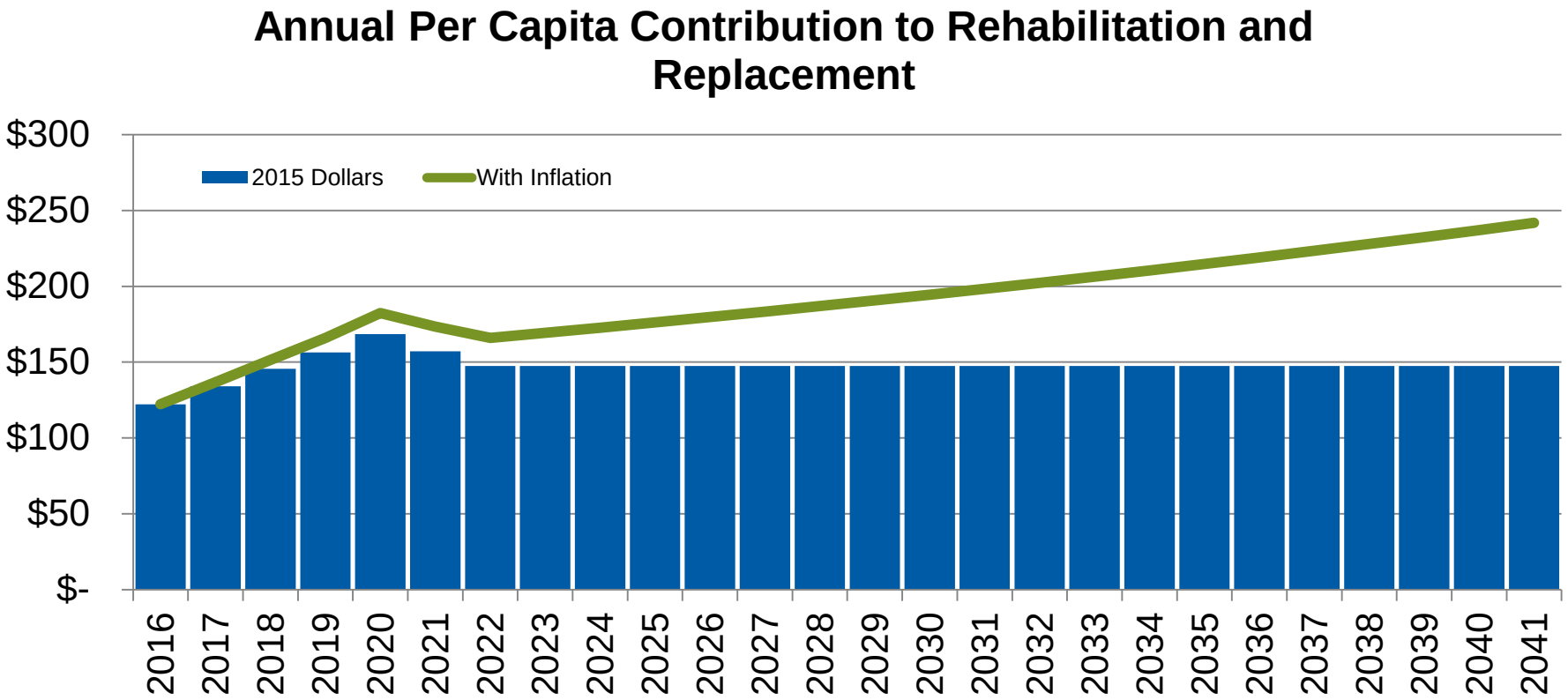
Recommended rates fund $265M increase in rehabilitation and replacement

Intergenerational Equity

- Intergenerational equity means spreading costs and benefits between current and future users fairly
- Objective is to ensure all users pay their share and to ensure no users or group of users are unfairly burdened
- Guiding principle that each person should pay the same real capital cost per capita regardless of when they use the system
- Can only be realized once full cost recovery pricing is reached – longer it takes to get to full cost recovery pricing, longer it will take to achieve intergenerational equity

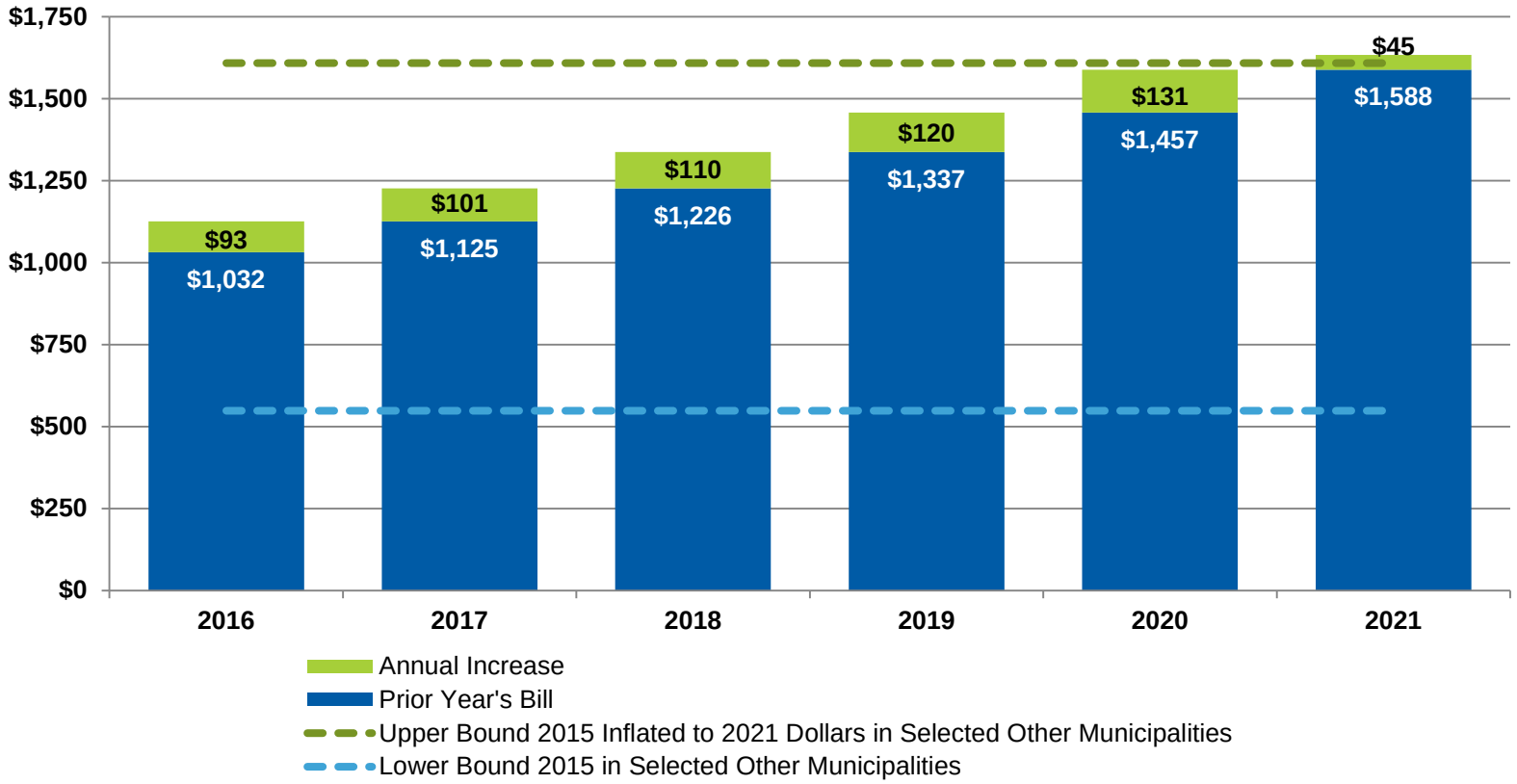
Fair distribution of long-term rehabilitation and replacement costs

Option 5 Achieves Intergenerational Equity



All users pay same for rehabilitation and replacement after 2021

Estimated Cost per Household Under the Approved Scenario



Average household bill by 2021 within range of other municipalities.

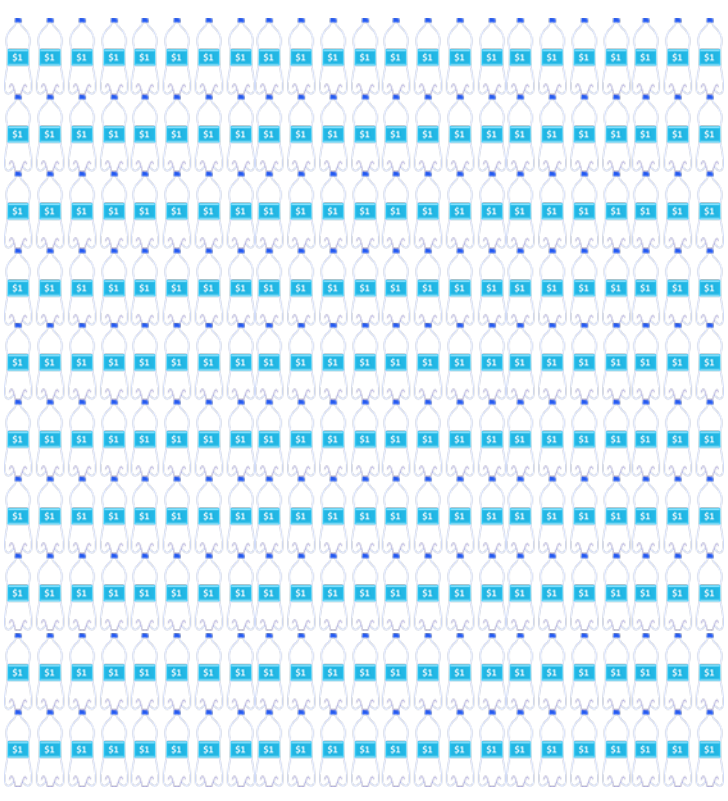
Affordability Considerations

- Households in York Region at the low income threshold pay between 1.4 per cent and 5.0 per cent after tax income for water and wastewater
- This is consistent with findings of international studies
- Programs exist within Community and Health Services to provide residents with financial assistance including rent, mortgage, utilities and housing costs: the Housing Stability Program and the Homelessness Prevention Program
- Some local municipalities also have programs

Water Affordability Studies Analyzed

- Organization for Economic Cooperation and Development
- United Nations
- Environmental Protection Agency
- California Department of Public Health

Water is Affordable



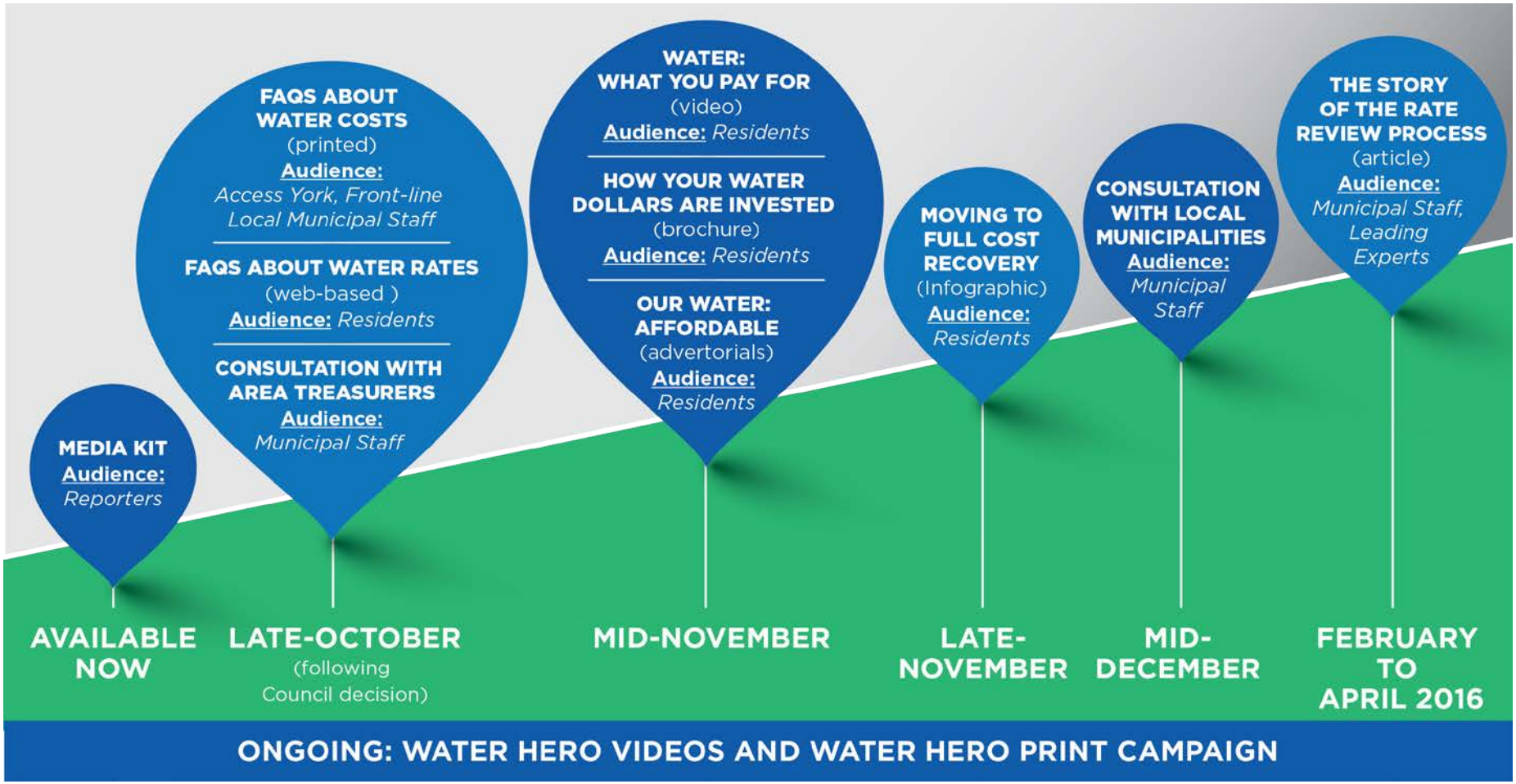
455
500 ml
refills

=

Under the recommended scenario, spending $1 on a bottle of water in 2016 would be equivalent to refilling a 500 ml bottle of water 455 times, including wastewater costs

Communication and Outreach

Communication Deliverables



WATER IS *Outreach Metrics*

www.York.ca/WaterIs

2,456

Total Page Views

***Water Works* and *Water Heroes* on**

YouTube

2,394

Video Views

facebook

239,911

Views

Like **518**

Share **263**

2 Advertorials in 2015:

7 PAPERS
1 MAGAZINE

Total Circulation

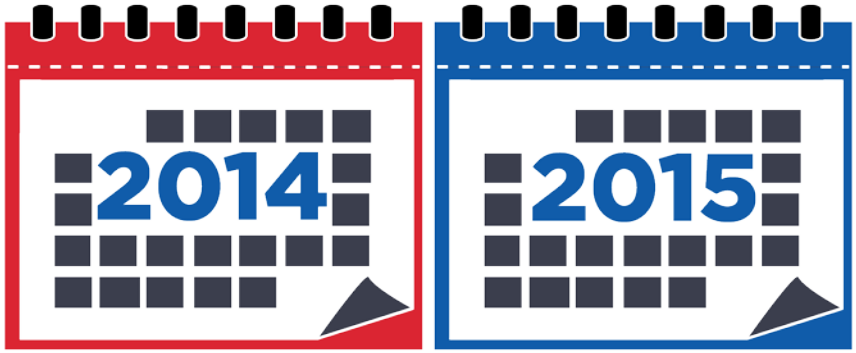
607,120

2014 Newspaper Ads

Total Circulation

352,254

Event Outreach



Population Reached

9,150

Population Reached

6,824

Social Media

2014 Population Reached	211,381
2015 Population Reached*	9,612

* Does not include *Water Works* and *Water Hero* videos listed above

TOTAL ESTIMATED TOUCH POINTS 1,441,102

Thank you!

Questions?