



## Staff Report for Budget Committee of the Whole Meeting

**Date of Meeting:** December 5, 2023

**Report Number:** SRCFS.23.060

**Department:** Corporate and Financial Services

**Division:** Financial Services

**Subject:** 2024 Draft Rate Supported Operating Budgets

### **Purpose:**

To present staff's recommended 2024 Rate Supported Operating Budgets to Mayor and Council for review.

### **Recommendations:**

- a) That the Budget Committee of the Whole recommends that the Mayor submit for Council's review, 2024 Rate Supported Operating Budgets that propose:
  - i. The Water, Wastewater and Stormwater Management Rates, as identified in Appendix 'C' of Staff Report SRCFS.23.060;
  - ii. A Water and Wastewater Budget, with a total expenditures budget of \$100,423,800, as summarized in Appendix 'A' of Staff Report SRCFS.23.060; and
  - iii. A Stormwater Management Services Budget, with a total expenditures budget of \$5,901,200, as summarized in Appendix 'B' of Staff Report SRCFS.23.060.

### **Contact Person:**

Andrew Li, Supervisor, Operating Budgets, Ext. 3646

Lisa Chen, Manager, Fiscal Planning and Strategy, Ext. 6311

### **Report Approval:**

**Submitted by:** Sherry Adams, Commissioner of Corporate and Financial Services

**Approved by:** Darlene Joslin, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner, and City Manager. Details of the reports approval are attached.

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### Background:

The City of Richmond Hill’s budget is the financial expression of Council’s strategic priorities delineated into specific goals and objectives. This staff report is a continuation of the operating budget process and will focus specifically on the City’s rate-supported budgets, whereby the 2024 Draft Operating Budget was presented through staff report ([SRCFS.23.052](#)) on the City’s webpage.

The City’s rate-supported budgets are separately maintained from tax-supported budgets and are comprised of the Water & Wastewater Budget and Stormwater Management Budget. The Water and Wastewater Budget reflects the costs and revenues associated with the maintenance of the water distribution and wastewater collection system and is mainly funded through water and wastewater usage rates. The Stormwater Management Budget represents the costs and revenues that are associated with maintaining the stormwater network and is funded primarily through stormwater management fees.

Category	Budgets	Description	Main Funding Sources
<b>Operating (Rate-Supported)</b>	Water and Wastewater Services	Expenses and revenues that support the day-to-day operations necessary to deliver waterworks operations	<ul style="list-style-type: none"> <li>Water and Wastewater rates</li> <li>User Fees and Fines</li> </ul>
<b>Operating (Rate-Supported)</b>	Stormwater Management (SWM) Services	Reflects the expenses and revenues that support the day-to-day operations necessary to deliver SWM	<ul style="list-style-type: none"> <li>Stormwater Management Fee</li> <li>Reserves and Reserve Funds</li> </ul>

### Consolidated Operating Budget Strategy

The 2024 Draft Rate Supported Operating Budgets reflects the Council adopted budget strategy endorsed via the Budget Committee of the Whole (BCW) meeting on June 27, 2023. The approved 2024 Draft Capital and Operating Budget Strategy staff report (SRCFS.23.034) includes the following objectives and directives, related to rate supported operating budgets, whereby staff propose an operating budget that:

1. Supports Council priorities
2. The operating budget considerations outlined in Staff Report SRCFS.23.034 (2024 Capital & Operating Budget Strategy) be used as a guideline in the development of the 2024 Draft Operating Budget
3. That staff present a 2024 Draft Water & Wastewater Budget that reflects the wholesale rate increase from Region of York and approved factors from the Water & Wastewater Financial Plan
4. That staff present a 2024 Draft Stormwater Management Budget that reflects the new stormwater management funding and rate structure

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The proposed 2024 Draft Rate Supported Operating Budgets, as presented in this report, were produced with consideration to the above objectives.

### Expenditure and Revenue Definitions

The main operating expenditures are:

- Personnel costs – total staffing costs, including salaries, benefits, overtime, vacation and other costs related to full-time and part-time employees
- Water/Wastewater – Regional Charges – reflect the total cost of water purchased from the Region of York, at the Region’s wholesale rates, for distribution to the community
- Contracts / Services – a contractual obligations and service related expenses that the City incurs to fulfill its municipal duties
- Materials / Supplies – the physical materials and supplies that the City purchases to deliver on municipal services
- Other expenditures – other costs required to fulfill municipal services and requirements. For example, minor capital costs and write-offs
- Transfer to Operating Fund – operating costs incurred within the City’s operating budget on behalf of water, wastewater or stormwater activities. These could include staffing resources and other materials / contracts / overhead recoveries
- Transfer to Water and Wastewater (WWW) Fund – operating costs incurred within the Water & Wastewater Budget on behalf of stormwater management activities. These could include staffing resources and other materials / contracts / overhead recoveries
- Contribution to Reserves and Reserve Funds – monies set aside to reserves / reserve funds and other funds to offset other current or future obligations

The main sources of operating revenues are:

- Water/Wastewater Supply Revenues – reflect the revenues collectible from residents and businesses for the usage of water and collection of wastewater
- Transfer from Operating Fund – includes the cost recovery of water used for City operations (eg. splashpads)
- User Fees and Fines – generated from the community through the administration of water and wastewater related activities. For example, water meter reading fees, water certificates, water collection overdue charges, etc. Stormwater billings are also captured under user fees
- Investment Income – earned from the City’s short-term investment portfolio
- Contributions from Reserves and Reserve Funds – monies drawn from reserves / reserve funds and other funds to offset other current expenditures
- Contributions from Stormwater Fund
  - Stormwater Management Fund recoveries offset expenditures incurred in the WWW Fund on behalf of Stormwater operations

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### Budget Considerations – External Influences

Internal and external factors influence rate supported budgets. Internal influences include Council priorities and finite financial resources, while external influences can include demographics, economic outlook, legislation and weather conditions.

One of the key budget considerations is Richmond Hill's growth – as population increases and families grow, water consumption will likely increase accordingly while the costs to maintain and repair an expanded water and wastewater network will also grow. On the stormwater side, intensification will increase hard surface area as vacant land meets housing or commercial requirements. The increasing development adds financial pressure on stormwater Infrastructure operating, maintenance and lifecycle costs. The refined stormwater rate structure improves stormwater fee equity, however supplementary rate increases are also required to meet the capital and operating needs.

The impacts of Covid-19 have largely subsided, however, there continues to be lingering impacts that remain as the City adapts to a new normal. Water usage experienced an 8 year peak in 2020, at 20.8 million cubic metres of water used, coinciding with the beginning of the Covid-19 pandemic and the provincial mandated stay at home orders. However, water usage is also reliant on weather conditions, as a hotter, dryer summer will generally result in greater water usage through the maintenance of lawns, parks and other outdoors spaces. Since the onset of the pandemic, the City has seen annual water usage closer to the 21 million cubic metres range, than pre-pandemic levels, where it was closer to 20 million cubic metres.

Stormwater management fees are different from water and wastewater, as they are not based on amount of water consumed or sewage estimated to have been generated. In general, all properties contribute some form of runoff into the City's stormwater infrastructure system. Properties are billed based on land area and, average imperviousness by property type. The stormwater fees collected are a dedicated funding source for the maintenance of stormwater ponds, storm sewers and the entire infrastructure network to prevent flooding and erosion and improve water quality.

Water, wastewater and stormwater management billings are collected to support present day operations and fund future infrastructure needs. As part of the City's total 2024 Capital Budget request of \$102.2 million, approximately 19.3%, or \$19.8 million are related to rate supported assets, such as watermain replacements and sanitary sewer improvements. Looking ahead, the 9 year capital forecast (2025-2033) projects a similar trend, with approximately 19% of the total \$1,678 million capital asset forecast relating to rate supported projects. The full details of capital requests are outlined in the 2024 Draft Capital Budget and Forecast staff report ([SRCFS.23.054](#)).

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Financial sustainability is a trademark of good municipal governance and is needed to ensure that service levels are maintained, while balancing escalating costs with revenue generation and adequate reserve funding. The City will be undertaking a combined Water, Wastewater and Stormwater Management Financial Plan in 2024, to outline forecasted costs and revenues, and account for the timing of infrastructure repairs and replacements. At the completion of the Plan, the City will have a fulsome review of all such costs and recoveries, and factor them all into overall rate projections for Water, Wastewater and Stormwater to achieve long-term fiscal sustainability.

As part of the 2024 Rate Supported Operating Budgets, the City proposes the implementation of rate increases, outlined in Appendix 'C', effective April 1, 2024. The City's Water and Wastewater Budget, as outlined in Appendix 'A', incorporates a water and wastewater services retail rate increase of 4.0%. The City's Stormwater Management Budget, as outlined in Appendix 'B', incorporates a stormwater management rate increase of 9.0%.

### Operating Budget Process

The City's operating budget process is a continuous, year-round activity. The budget is consolidated and reviewed through a series of in-depth senior management workshops and Executive Leadership Team meetings. The draft is compared to prior year's projections and many meetings held to amend the draft budgets to best align with Council's budget objectives and guidelines for the upcoming year.

In addition to the 2024 Draft Rate Supported Operating Budgets scheduled to be deliberated at the Budget Committee of the Whole (BCW) meeting today, presentations include tax-supported budgets for Corporate and Financial Services, Corporate Accounts, Richmond Hill Public Library and Business Improvement Area (BIA). Departmental presentations for Office of the City Manager, Planning and Building Services and Community Services were presented at the November 28, 2023 BCW meeting.

*Strong Mayor Powers*, proclaimed on Nov 3, 2022, is in effect for Richmond Hill and all municipalities who committed to the province's Housing Pledge. In effect, the Budget Committee of the Whole recommends that the Mayor submit, for Council's review, the rate supported budgets and corresponding Water, Wastewater and Stormwater rates, as outlined in this staff report. Council has 30 calendar days to pass a resolution to make an amendment from the tabling of the Budget on December 13, 2023. **Staff will recommend the shortening of the 30 calendar day amendment period at the December 13, 2023, Council meeting.**

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### Financial/Staffing/Other Implications:

#### Municipal Impact of the Water, Wastewater and Stormwater Rate Increases to Average Residential Household

Water and wastewater usage is measured and billed in cubic metres. The more water is used through watering the lawn or turning on the tap, or wastewater used by flushing the toilet, the greater the water bill. The average Richmond Hill residential property uses approximately 300 cubic metres of water and wastewater annually. At this level of usage, the proposed rate increase of 4.0% would have an annual billing impact of \$60.72.

Stormwater billings are used to fund the infrastructure (e.g. storm sewers, catch basins), and network system necessary to control rain and melting snow run-off over impervious surfaces, in the event of these natural events. All of these are necessary costs to reduce the risks of flooding, stream erosion and to protect water quality. The median residential property has a billable area of 5,398 square feet and the proposed stormwater management rate increase of 9.0% would have an annual billing impact of \$4.91. The below table highlights the cost of the rate increases. The Water and Wastewater rate increase amounts to a cost of \$60.72 annually, \$5.06 monthly, or \$0.17 daily. The stormwater rate increase amounts to a cost of \$4.91 annually, \$0.41 monthly or \$0.01 daily.

Estimated Rate Impact	Water Bill	Stormwater Bill
2023 Average Annual Billings	\$1,518.15	\$54.58
Annual Rate Impact	\$60.72	\$4.91
<b>2024 Average Annual Billings</b>	<b>\$1,578.87</b>	<b>\$59.49</b>

### Operating Budget Analysis

#### Operating Budget Pressures

The City has classified the various budget pressures into two categories; maintaining existing core business and growth/service enhancements. Maintaining existing core business comprises of base, legislated, housing related legislation and annualization impacts. Pressures from growth and service level enhancements are incremental costs from providing the same/enhanced levels of service to a growing community. A high level breakdown of the operating budget by the various budget pressures is presented below.

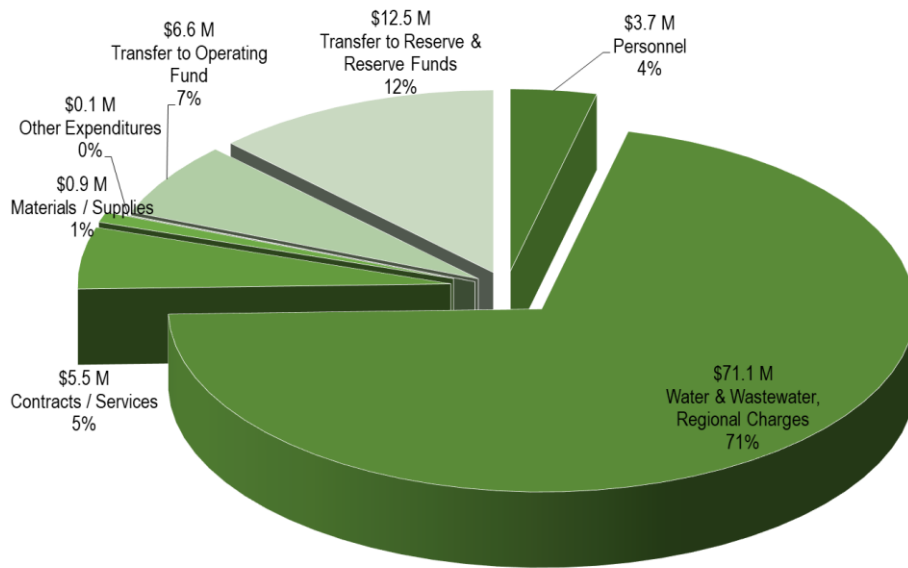
#### 2024 Draft Water and Wastewater Budget

##### Operating Expenditures

The total expenses included in the 2024 Water and Wastewater Operating Budget is \$100.4 million. The major operating expenditures are comprised of:

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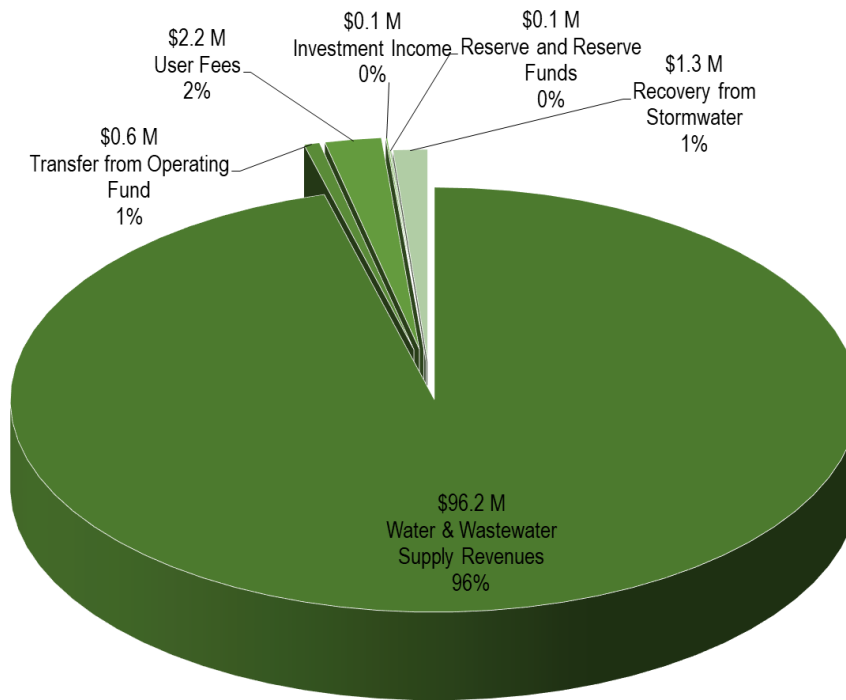
## Operating Expenditure Budget



## Operating Revenues

The main sources of Water and Wastewater revenues are:

## Operating Revenue Budget



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### Base Pressures

Base Budget decreased by \$142,300, the net result of a \$4.63 million expenditure increase offset by a \$4.77 million non-taxation revenue increase.

#### a) Base Expenditure Pressures

Base expenditure pressures resulted in a total budget increase of \$4.6 million as detailed in Appendix 'A'. Full-time personnel expenditures reflect an increase of \$91,700 and includes cost of living adjustments, benefits and grade/step-rate increases.

The base increase for non-personnel expenditures is \$4.5 million and is mainly due to the cost of water purchased from the Region (\$3.2 million). The increase in cost is due to the increase in wholesale rates, 3.3% increase from the Region (effective April 1, 2024), while factoring volume of 20.982 million cubic metres. In addition, increased transfers to the Operating Fund were included to reflect cost escalations and resource alignment allocations. Transfers to Reserve and Reserve Funds rose by \$995,500 to support future infrastructure requirements.

#### b) Base Revenue Pressures

The majority of base revenue increases related to water supply revenues, and the proposed retail rate increase of 4.0%, effective April 1, 2024. The rate increase, factoring anticipated volumes, generated an additional \$4.7 million in water billing revenues. Other revenue increases related to recoveries from the operating fund for splash pads and recoveries from stormwater for costs expended on behalf of stormwater related activities.

### Legislated Pressures

Legislated pressures reflect the incremental impact of a Project Manager, Water and Wastewater, that was requested as part of the Operating Budget, and is partially funded from the Water and Wastewater Fund. This position will help support Consolidated Linear Infrastructure Environmental Compliance Approval (CLI ECA) legislated monitoring requirements at a net cost of \$75,500 to the Water and Wastewater Fund.

### Growth Pressures

As noted previously, the City will be undergoing a combined Water, Wastewater and Stormwater Financial Plan, that will assist in outlining the costs and revenues for a minimum of 6 years, to ensure adequate reserve funding and rate implementation are realized. The cost of the project will be split between the two rate-supported budgets, with the inclusion of \$67,000 included as part of growth budget pressures in the 2024 Draft Water and Wastewater Operating Budget.



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In summary, the 2024 Draft Water and Wastewater Budget provides for:

- A combined 4.0% Water & Wastewater retail rate increase, this includes 3.3% wholesale rate increase for provision of water and wastewater treatment services passed from the Region of York
- Greater Transfers to the Operating Fund to reflect increased workflow activity toward Water & Wastewater functions
- Increased contributions to Repair & Replacement reserve funds to continue to provide for full replacement funding of Water & Wastewater assets

The combined retail rate is \$5.2629/m<sup>3</sup>, and a water service only rate is \$2.1825/m<sup>3</sup>. While all properties in the City are required to have a water meter installed, periodically a property becomes occupied before the meter is installed. In these instances, properties without a water meter will be charged a flat rate of 1 m<sup>3</sup>/day at the current combined water & wastewater retail rate. The rate increase continues to be consistent with the legislatively required Safe Drinking Water Act, 2002, Ontario Regulation 453/07. The budget incorporates the results of the approved Financial Plan/Rate Study completed by staff in 2019. As noted previously, a Water and Wastewater Financial Plan update will commence in 2024 and the completed results can be incorporated into the 2025 Water and Wastewater budget.

### **2024 Draft Stormwater Management Budget**

The 2024 Draft Stormwater Management Budget includes a proposed Stormwater Management Rate increase of 9.0% (effective April 1, 2024). The budget also reflects the refinements to the stormwater management rate structure, which was presented through the Stormwater Rate Structure Review staff report ([SRCFS.23.045](#)) and approved at the November 22 Council meeting.

An individual property's annual stormwater charge is calculated by the rate per square foot and the site area of the respective property. The rate per square foot calculation factors in the average impervious area for each property type. For example, a farm or vacant piece of land may have the majority of snowmelt or rainfall absorbed into the property, with very little runoff to impervious areas. An average impervious factor is applied to each property type in the rate structure property classification and although the percentage of impervious area differs for each individual property within each property type, the use of the average allows for ease of calculation, equity and lessens the administration burden.

In early 2023, staff implemented a more equitable rate structure, with maximum land area capping of 1 acre for residential and 10 acres on farmland, vacant land and golf courses, for retroactive billing to April 2022. To address further inquiries and challenges of this rate structure, the City underwent the aforementioned 2023 rate structure review to arrive to the refinements referenced in the noted staff report.

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### **Budget Pressures**

Staff have completed the stormwater rate structure review and Council approved refinements of the rate structure model that considered the property classification and land use types to ensure an equitable allocation between residential and non-residential rate payers. The 2024 Draft Stormwater Management Budget reflects the approved rate structure review refinements, combined with the proposed (See Appendix 'C') Stormwater Management Rate increase of 9.0% (effective April 1, 2024), generating additional revenues of \$369,800.

The budget includes increased transfers of \$253,200 to the Operating Fund to account for escalating operating costs and resource alignment allocations on behalf of stormwater operations, additional transfers of \$65,500 to reserve and reserve funds to fund future infrastructure requirements and \$30,000 budget for the communication of the new rate structure and stormwater ambassador program costs.

The 9.0% rate increase provides for additional contributions to Repair & Replacement reserve funds to continue to provide for full replacement funding of Stormwater Management assets. The stormwater management fee was implemented in 2013 to gradually phase-in rate increases to build up reserve funds to provide long-term financial sustainability of the stormwater management infrastructure. Similar to other municipalities facing financial challenges with the stormwater management fee, the City has not implemented the rate increases necessary to achieve financial sustainability.

As discussed in the Water & Wastewater Budget, the 2024 workplan includes a combined Water, Wastewater and Stormwater Financial Plan, that will assist in outlining the costs and revenues for a minimum of 6 years, to ensure adequate reserve funding and rate implementation are realized. The financial and asset management strategies will be reviewed with the Capital Sustainability Steering Committee with respect to the forecasted infrastructure funding gap.

The 2024 Stormwater Management Budget includes a 9.0% rate increase as an interim measure to narrow the gap. If approved for each of the next ten years, the reserve funds are forecasted to grow and fund 25% of infrastructure renewal requirements.

### **Relationship to Council Strategic Priorities 2020 to 2022:**

The City of Richmond Hill's annual Operating Budgets reflect the overall use and wise management of resources, but also touches on other goals within Council's Strategic Priorities:

- Fiscal Responsibility in Richmond Hill to serve as a role model for municipal management. Through the operating budget, staff incorporate Council approved guidelines into building budgets that reflect the efficient and effective use of resources, while providing quality levels of service;
- Stronger Sense of Belonging in Richmond Hill provided through the efficient provision of services to all residents and from the processes in which public input

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is sourced. Suggestions and feedback from residents and businesses are an important part of the City's budget process.

### **Climate Change Considerations:**

Climate change considerations are not applicable to this staff report.

### **Conclusion:**

This report includes a summary of the 2024 Operating Budget:

- Effective April 1, 2024, the retail rate for water & wastewater services is recommended to be increased by 4.0%, in order to provide full cost recovery for water and wastewater functions and replacement funding of related assets to support future sustainability of the water and wastewater infrastructure.
- Effective April 1, 2024, the retail rate for stormwater management services is recommended to be increased by 9.0%, based on the new multi-tiered rate structure in order to provide full cost recovery for stormwater services.

### **Attachments:**

The following attached documents may include scanned images of appendices, maps and photographs. If you require an alternative format please call the contact person listed in this document.

- Appendix A: 2024 Draft Water and Wastewater Operating Budget
- Appendix B: 2024 Draft Stormwater Management Services Operating Budget
- Appendix C: 2024 Water and Wastewater Services Rates and Stormwater Management Rates

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### Report Approval Details

Document Title:	SRCFS.23.060 - 2024 Rate Supported Operating Budgets.docx
Attachments:	- SRCFS.23.060 - Appendix A - 2024 Draft Water and Wastewater Budget.pdf - SRCFS.23.060 - Appendix B - 2024 Stormwater Management Services Budget.pdf - SRCFS.23.060 - Appendix C - 2024 Water Wastewater Stormwater Rates.pdf
Final Approval Date:	Nov 30, 2023

This report and all of its attachments were approved and signed as outlined below:

**Gigi Li - Nov 30, 2023 - 8:40 AM**

**Sherry Adams - Nov 30, 2023 - 9:56 AM**

**Tracey Steele on behalf of Darlene Joslin - Nov 30, 2023 – 10:50 AM**