



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: November 25, 2024

Report Number: SRCFS.24.059

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.24.059- 2025 Draft Rate Supported
Operating Budgets**

Purpose:

To present staff's recommended 2025 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, 2025 Rate Supported Operating Budgets that propose:
 - i. A Water and Wastewater Budget, with a total expenditures budget of \$104,151,300, as summarized in Appendix 'A' of Staff Report SRCFS.24.059:
 - ii. A Stormwater Management Services Budget, with a total expenditures budget of \$8,038,300, as summarized in Appendix 'B' of Staff Report SRCFS.24.059: and
 - iii. The Water, Wastewater and Stormwater Management Rates, as identified in Appendix 'C' of Staff Report SRCFS.24.059.

Contact Persons:

- Jennifer Concepcion, Financial Management Advisor, Extension 2499
- Lisa Chen, Manager, Fiscal Planning & Analysis, Extension 6311
- Gigi Li, Director Financial Services and Treasurer, Extension 6435
- Sherry Adams, Commissioners Corporate and Financial Services, Extension 2521

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Report Approval:

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 report's approval are attached.

Key Messages:

- The 2025 Draft Rate Supported Operating Budgets highlight the anticipated costs offset against available funding sources needed to support ongoing City operations and provides the greatest balance between affordability, and risk mitigations to ensure the long-term financial sustainability of water, wastewater and stormwater infrastructure and associated services.
- The Water, Wastewater and Stormwater Management Financial Plans presented to Council in 2024, outlined future rate increases based on forecasted costs and revenues, and accounting for the timing of infrastructure repairs and replacements.
- Following to the Water and Wastewater Financial Plan:
 - The 2025 rate increase is 6.8% (6% weighted average using three months of 2024 rate and nine months of the 2025 rate effective April 1)
 - Wastewater operations will show increased annual transfers to the stabilization reserve from 2025 to 2027, while water operations will be receiving annual contributions over the same timeframe, to help support the higher concentration of water infrastructure requirements via transfers to the Watermain Repair and Replacement Reserve Fund.
 - Net transfers to reserve funds are increasing annually over the life of the operating forecast, with greater transfers to the Watermain Repair and Replacement Reserve Fund in the first half, followed by greater transfers to the Sanitary Sewer Repair and Replacement Reserve Fund in the second half.
 - Overall, transfers to the various reserve and reserve funds represent the second largest expenditure in the Water and Wastewater Fund.
- Following to the Stormwater Management Financial Plan:
 - Over the years, stormwater management rate increases, and funding have not kept pace with the growing needs of stormwater infrastructure.
 - The large amount of capital infrastructure needs (2025 to 2034) will be funded by a combination of user fee increases, \$3 million annual funding from the Canada Community Building Fund for the next five years, and \$22 million debt issuance to smooth rate increases.
 - The 2025 rate increase is 50%.
 - The annual stormwater management user fees for an average residential property (7027 square feet) is expected to increase from \$77.44 in 2024 to \$116.16 in 2025.

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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 2025 Operating Budget, presented through staff report (SRCFS.24.058) on the City’s webpage, was tax-supported.

The Stormwater Management Financial Plan was tabled for Committee of the Whole consideration on November 6, 2024. For the November 5, 2024, Budget Committee of the Whole meeting, the 2025 Budget Book was prepared using the approved Water and Wastewater Financial Plan recommendations while keeping the 2025 Stormwater Management Budget status quo using the 2024 Budget as a placeholder. At the time of writing of this report, the Stormwater Management Financial Plan recommendations are pending Council ratification on November 13, 2024. The figures in this report have been updated with the same assumptions.

The City’s rate-supported budgets are separately maintained from tax-supported budgets and are comprised of the Water and Wastewater Services Budget and the Stormwater Management Budget. The Water and Wastewater Services 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 management network and is funded primarily through stormwater management fees.

Category	Budgets	Description	Main Funding Sources
Operating Budget – Rate-Supported Total: \$112,189,600			
Water and Wastewater Rate	Water and Wastewater - \$104,151,300	Expenses and revenues that support the day-to-day operations necessary to deliver waterworks operations	<ul style="list-style-type: none"> Water and Wastewater rates User Fees and Fines
Stormwater Management Rate	Stormwater Management (SWM) - \$8,038,300	Reflects the expenses and revenues that support the day-to-day operations necessary to deliver SWM	<ul style="list-style-type: none"> Stormwater Management Fee Reserves and Reserve Funds

Discussion:

Consolidated Operating Budget Strategy

The 2025 Draft Rate-Supported Operating Budgets align with the budget strategy approved by Council during the Budget Committee of the Whole (BCW) meeting on June 11, 2024. The approved 2025 Draft Capital and Operating Budget Strategy staff report (SRCFS.24.025) guides the development of operating budgets to support Council

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priorities, and incorporate the Region of York's wholesale rate increase for water and wastewater, and ensures the Stormwater Management Budget meets long-term needs. The proposed budgets reflect these objectives and directives.

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 areas 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.

Water usage is dependent on weather conditions, especially as climate change becomes an increasing factor. When Richmond Hill experiences increased hotter and dryer summers, this 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 management 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 2025 Capital Budget request of \$86.6 million approximately 16%, or \$14.1 million are related to Water and Wastewater and 2% or \$1.4 million is related to Storm Water Management. Looking ahead, the 9-Year capital forecast (2026-2034) projects approximately 10% or \$177.4 million is related to Water and Wastewater infrastructure while approximately 11% or \$ 118.6 million relates to Stormwater Management infrastructure projects. The full details of capital requests are outlined in the 2025 Draft Capital Budget and Forecast staff report (SRCFS.24.056 – 2025 Draft Capital Budget and 9-Year Forecast, from the November 19, 2024, Budget Committee of the Whole meeting).

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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. Council approved the Water and Wastewater Financial Plan on June 5, 2024 (SRCFS.24.026) and the Stormwater Management Financial Plan on November 13, 2024, (SRCFS.24.050) which outlined forecasted costs and revenues, and account for the timing of infrastructure repairs and replacements. A fulsome review of all such costs and recoveries, factoring them all into overall rate projections for Water, Wastewater and Stormwater will assist in achieving long-term fiscal sustainability.

The updated 2025 Rate-Supported Operating Budget incorporates the recommendations of those plans.

Water and Wastewater Financial Plan Impact to the 2025 Operating Budget

The 2025 rate increase is 6.8% (6% weighted average using three months of 2024 rate and nine months of the 2025 rate effective April 1). Wastewater operations will show increased annual transfers to the stabilization reserve from 2025 to 2027, while water operations will be receiving annual contributions over the same timeframe, to help support the higher concentration of water infrastructure requirements via transfers to the Watermain Repair and Replacement Reserve Fund.

Net transfers to reserve funds are increasing annually over the life of the operating forecast, with greater transfers to the Watermain Repair and Replacement Reserve Fund in the first half of the forecast, followed by greater transfers to the Sanitary Sewer Repair and Replacement Reserve Fund in the second half of the forecast.

Overall, transfers to the various reserve and reserve funds represent the second largest expenditure in the Water and Wastewater Fund.

Stormwater Management Financial Plan Impact to the 2025 Operating Budget

Over the years, stormwater management rate increases, and funding have not kept pace with the growing needs of stormwater infrastructures. The large amount of capital infrastructure needs (2025 to 2034) will be funded by a combination of user fee increases, \$3 million annual funding from the Canada Community Building Fund for the next five years, and \$22 million debt issuance to smooth rate increases. The 2025 rate increase is 50%.

The annual stormwater management user fees for an average residential property, with an area of 5,398 square feet, is expected to increase from \$59.49 in 2024 to \$89.23 in 2025.

As part of the 2025 Rate Supported Operating Budgets, the City proposes the implementation of rate increases, outlined in Appendix 'C', effective April 1, 2025. The City's Water and Wastewater Budget, as outlined in Appendix 'A', incorporates a water

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and wastewater services retail rate increase of 6.8%. The City's Stormwater Management Budget, as outlined in Appendix 'B', incorporates a stormwater management rate increase of 50%.

Operating Budget Process

The City's 2025 operating budget process is ongoing and involves senior management reviews to align with Council objectives. The Budget Committee of the Whole will discuss the 2025 Draft Operating Budgets, covering Water, Wastewater, Stormwater, Library, and Business Improvement Area services, on November 25 and 26, 2024. Under the Strong Mayor Powers, effective in Richmond Hill, the Committee recommends that the Mayor submit the budget to Council, which then has 30 days to propose amendments. The Mayor can veto any amendments, which Council can override with a 2/3 majority. The budget is automatically adopted after 55 days unless this period is shortened. Staff will recommend a shorter amendment period on December 11, 2024.

Staff will recommend the shortening of the 30-calendar day amendment period at the December 11, 2024, Council meeting as amendments will have been proposed during Budget Committee of the Whole meetings.

Financial Implications:

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

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 residential property uses approximately 170 cubic metres of water and wastewater annually. At this level of usage, the proposed rate increase of 6.8% would have an annual billing impact of \$54.32.

Stormwater billings are used to fund the infrastructure (e.g. stormwater management ponds, 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 average residential property has a billable area of 7,027 square feet and the proposed stormwater management rate increase of 50.0% would have an annual billing impact of \$38.72.

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, legislation and annualization impacts. Pressures from growth and service level enhancements are incremental costs from

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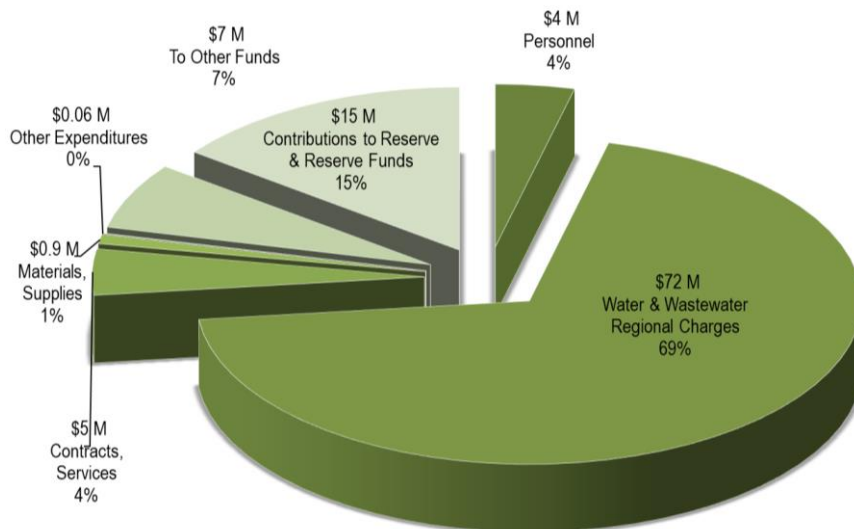
providing the same/enhanced levels of service to a growing community. A high level breakdown of the operating budget by the various budget pressures is presented below.

2025 Draft Water and Wastewater Budget

Operating Expenditures

The total expenses included in the 2025 Water and Wastewater Operating Budget is \$104.2 million. The major operating expenditures are comprised of:

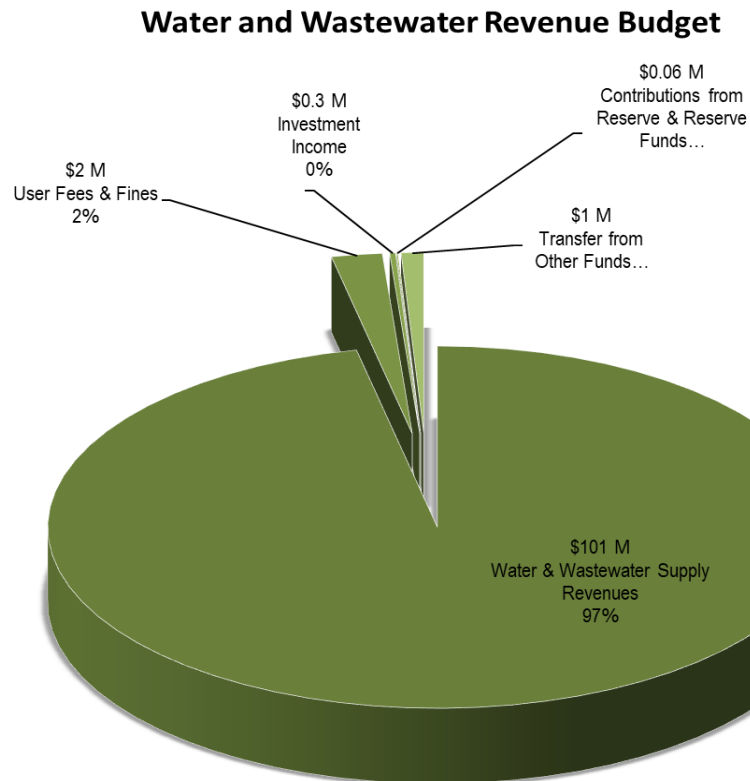
Water and Wastewater Expenditure Budget



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Operating Revenues

The main sources of Water and Wastewater revenues are:



Base Pressures

For 2025 water and wastewater Base Budget increased by \$ 3.7 million.

Base Expenditure Pressures

Base expenditure pressures resulted in a total budget increase of \$3.7 million as detailed in Appendix 'A'. Full-time personnel expenditures reflect an increase of \$174,100 and includes cost of living adjustments, benefits and grade/step-rate increases.

The base increase for non-personnel expenditures is \$3.6 million and is mainly due to the cost of water purchased from the Region (\$1.1 million). The increase in cost is due to the increase in wholesale rates, 3.3% increase from the Region (effective April 1, 2025), while factoring volume of 20.742 million cubic metres. Increased transfers to Reserve and Reserve Funds rose by \$2.8 million to support future infrastructure requirements. Also transfers to the Operating Fund were included at \$340k to reflect cost escalations and resource alignment allocations offset by a decrease in contracts costs of (\$743k) to mainly right size the insurance premiums recoverable from the Water & Wastewater fund.

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Base Revenue Pressures

The majority of base revenue increases related to water supply revenues, and the proposed retail rate increase of 6.8%, effective April 1, 2025. The rate increase, factoring anticipated volumes, generated an additional \$4.5 million in water billing revenues. Other revenue increases in investment income of \$190k for water and wastewater proportionate share of the short-term investment income revenues to align with the new interest environment and related to recoveries from the operating fund for splash pads and recoveries from stormwater amounted to \$952k for costs expended on behalf of stormwater related activities.

In summary, the 2025 Draft Water and Wastewater Budget provides for:

- A combined 6.8% Water & Wastewater retail rate increase, this includes:
 - 3.3% wholesale rate increase for provision of water and wastewater treatment services from the Region of York
 - Increased contributions to Repair & Replacement reserve funds to continue to provide for full replacement funding of Water & Wastewater assets
 - Greater Transfers to the Operating Fund to reflect increased workflow activity toward Water & Wastewater functions

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The combined retail rate is \$5.6215/m³, and a water service only rate is \$2.4590/m³. 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 m³/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 Water and Wastewater Financial Plan completed by staff in 2024.

2025 Draft Stormwater Management Budget

The 2025 Draft Stormwater Management Budget includes a proposed Stormwater Management Rate increase of 50% (effective April 1, 2025).

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 variations in individual lots occur, but from a statistical viewpoint, this does not affect the overall average imperviousness within a property type. The use of the average allows for ease of calculation, equity and lessens the administrative burden.

Budget Pressures

Staff have completed the Stormwater Management Financial Plan and Council approved the increases in rates to full costs recovery and also to ensure the City has the required funding for the stormwater infrastructure capital requirements for 2025-2032. The 2025 Draft Stormwater Management Budget reflects the approved full cost recovery rates (See Appendix 'C') Stormwater Management Rate increase of 50.0% (effective April 1, 2025), generating additional revenues of \$2.4 million.

The budget includes increased transfers of \$1.2 million to the Operating Fund to account for escalating operating costs and resource alignment allocations on behalf of stormwater operations, additional transfers of \$2.1 million to reserve and reserve funds to fund future infrastructure requirements offset against a decrease transfer to Water and Wastewater fund of (\$1.1 million) budget for stormwater reduced portion of insurance costs and lower percentage of water and wastewater Operators, infill service connections and water/sewer contract costs incurred in the Water and Wastewater Fund.

The 2025 Stormwater Management Budget includes a 50.0% rate increase as per the Stormwater Management Financial Plan. This allows for additional contributions to Repair & Replacement reserve funds to continue to provide for full replacement funding of Stormwater Management assets. The stormwater management system has been underfunded as a result of unimplemented recommended rate increases since the

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implementation of the 2013 Stormwater Management fee. This postponement has led to substantial capital needs accumulating over time, heightening the risk of system failures, escalating maintenance costs, and creating additional pressures for sharp rate increases in the future. Deferrals, inflation, updated asset assessments and climate change have further exacerbated capital needs.

On November 13, 2024, Council approved to fund the City's ten-year stormwater management program, where \$3 million in Canada Community Building Fund will be used annually for the first five years and \$22 million of debt will be issued to smooth the rate increases. This funding option provides the greatest balance between affordability, financial sustainability, maintaining service levels and providing protection from stormwater management related risks.

Relationship to Strategic Plan 2024-2027:

The presentation of the 2025 Draft Rate Supported Operating Budgets relates to Pillar 3, Strengthening our Foundations, specifically Priority 1, Make decisions that are evidence-based and data-driven to enable the City's long term financial sustainability, as well as social, environmental and economic sustainability.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. All attachments have been reviewed and made accessible. If you require an alternative format please call the contact person listed in this document.

- Appendix A: 2025 Draft Rate-Supported Operating Budget
- Appendix B: 2025 Water and Wastewater Services Rates and Stormwater Management Rates

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Report Approval Details

Document Title:	SRCFS.24.059 2025 Draft Rate-Suported Operating Budget.docx
Attachments:	- SRCFS.24.059 Appendix A - 2025 Draft Rate-Supported Operating Budget.docx - SRCFS.24.059 Appendix B -2025 Water, Wastewater and Stormwater Rates.pdf
Final Approval Date:	Nov 14, 2024

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

Gigi Li - Nov 13, 2024 - 3:40 PM

Sherry Adams - Nov 13, 2024 - 4:22 PM

Darlene Joslin - Nov 14, 2024 - 8:29 AM