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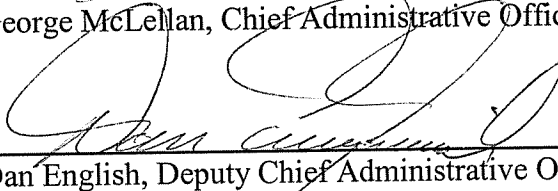
Halifax Regional Council
February 3, 2004

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



George McLellan, Chief Administrative Officer



Dan English, Deputy Chief Administrative Officer

DATE: January 19, 2004

SUBJECT: Proposed Rate Increase to Wastewater Management Levy

ORIGIN

This report originates from Halifax Regional Council Report, Item 10.1.8 - "Proposed Adjustments - Wastewater/Stormwater Management (Funds Reserve - Q106), dated July 15, 2003 and the subsequent discussion with Council on October 21, 2003.

RECOMMENDATION

It is recommended that Halifax Regional Council approve an increase in the Wastewater Management Levy component of the Pollution Control Charge of 9.62 cents (\$.0962) per cubic metre of water effective April 1, 2004.

BACKGROUND

The Wastewater Management Rate has been presented to Regional Council for approval of increases on two separate occasions in 2003/2004. On both occasions the proposal to increase rates or amend existing policy was deferred through requests for additional information.

DISCUSSION

The current rate of \$0.2324 was set by Regional Council in 1999.

The revenue generated from the \$0.2324 cent rate is no longer sufficient to cover the increasing cost base due to the following factors:

- Growth in the overall scope of the sanitary and storm sewer systems, pumping stations and overall operations due to infrastructure expansion
- Increased maintenance and management activities required for older, aging infrastructure
- change in Sewer Lateral policy (1999) whereby HRM became responsible for the replacement of deficient sewer laterals within the street right-of way, resulting in expenditure growth from \$350,100 to \$2,500,000 annually, an increase of 615% over the past four year period. This has had the single most significant financial impact on the reserve.
- Increased costs of fuel and electricity and other cost of living components.

This situation was outlined to Council by staff in various budget status reports and on page 374 of the 2003/04 Operating Budget Document.

Since the last submissions to Council in October of 2003, management has had to redeploy resources for sewer maintenance due to the clean up of Hurricane Juan. This, coupled with stringent cost controls in response to the projected deficit in the reserve, has reduced the projected deficit from \$3.2 million down to \$1.6 million. However, the fact that there has been no rate increase in 2003/04 has reduced the amount of the projected deficit which could be eliminated in 2003/04 by necessary rate adjustments. The current situation cannot continue. Either the rate must be adjusted to reflect the approved spending levels or there must be a combination of change to existing policies and rate adjustment.

Given the proximity to the start of the next fiscal year and the next planned Halifax Regional Water Commission rate increase, (April 1, 2004), staff is recommending that this proposed increase coincide with the water rate increase and be effective April 1, 2004 to avoid two rate changes in as many months.

Council endorsement of the recommended rate would place the Wastewater rate at a level which will support annual expenditures equal to the 2003/04 budgeted costs and will provide for the repayment of the projected deficit of \$1,604,000 over two years.

The recommended rate for the Wastewater/Stormwater levy will result in an increased cost of approximately \$24.65/year for an average household (based on an average family of two adults and two children using 64 cubic metres of water per quarter.) The current rate per billable cubic metre of water is \$.2324. The recommended increase will result in a rate of \$.3287 effective April 1, 2004.

Cost Summary	Corresponding Required Rates	
Budgeted 03/04 expenditures	\$12,344,991	\$0.3086
Less: expenditure reductions	(1,444,991)	
Revenue Projections for Q106 at \$.2324	<u>(9,296,300)</u>	
Projected Shortfall	\$ 1,603,700	
Revenue from Increased Levy	<u>1,603,700</u>	\$0.0201 over 2 years
Balance Remaining	\$ 0	\$0.3287 total

Management and staff continue to aggressively review avenues that will streamline operations with a goal to curtail the level of maintenance expenditures as much as possible without compromising service standards in place to support healthy, sustainable and vibrant communities. However, the present situation is not sustainable.

It must be noted that the recommended rate adjustment only relates to expenditure levels as approved in the 2003/04 budget and that the continuation of the cost pressures outlined earlier, along with capital additions necessary to support the municipality's overall sewer system, will require a planned series of rate increases over the next 5-10 years. The Wastewater management Levy (Q106) is just one component of the water bill. Environmental Protection charges (Q105) are also included as a levy, with an approved rate increase of .05 cents for the Harbour Solutions Project scheduled in 2004. The graph in attachment A shows the expected pressures on both the Wastewater and Environmental protection rates over the next few years. As these relate to future operating and capital budgets, staff will be providing Council a complete analysis of these expenditure and rate requirements during Program and Service Review to allow full debate during the upcoming Business Planning and Budget discussions.

Funding Through the Tax Rate

Staff has also been asked to consider the use of the assessment base as a means to raise additional monies for the Wastewater Management Reserve Q106. Assuming the use of the entire assessment base of approximately \$ 25 billion, a one cent addition to the tax rate would raise an additional \$ 2.5 million annually in revenue for this account.

There are a number of issues to be considered relative to this approach to fund the shortfall of the Wastewater Management Reserve. While it is often said that there is only one taxpayer, we are all aware that some costs are best funded from certain sources of revenue, or more specifically, not all

revenue sources are appropriate for every project. A recent example of this was the attempt to cover provincial equalization costs through the municipal tax base. HRM and other municipalities argued (successfully) that the property tax base was not the appropriate base from which to fund Provincial programs. Instead, it was argued that provincial income taxes were a more fair and appropriate base from which these costs be covered.

Over the next 10-15 years, addressing capital budget pressures related to services for roads, fire, transit, police, etc., will require a careful balancing act. Every available appropriate funding source must be examined in order to meet the needs of HRM's citizens, while recognizing our obligation to ensure citizens receive good value for their taxes. The use of any financial capacity which might exist in the property tax base, for the Ww. Mgmt Reserve, leaves all other municipal services with few options to address capital service gaps in the foreseeable future.

Not all of the total assessment base represents property which is serviced by the municipal sewer system. Those not serviced, maintain their own private septic systems. It is unlikely that these taxpayers will feel that they are receiving value for their taxes if a portion of those taxes is used for the Wastewater Management Reserve.

If the property tax base were used but the impact were to be restricted to urban taxpayers through an area rate, the problems associated with use of the property tax base are still not eliminated. There is no way through the assessment system to ensure that only taxpayers who are connected to the HRM sewer system would pay. There are taxpayers in the urban area who are not on the sewer system. In addition, the current assessment system uses market values to determine the proportion that each taxpayer should pay to support local services. We hear every day that taxpayers do not feel that this is the best means of determining their fair proportion of municipal services, since market value is often not closely correlated to services received, particularly in a time of strong market growth in some areas of the municipality. The Wastewater Management Charge is based on water consumption and is a far more appropriate base in determining each resident's fair share of the costs of the Wastewater Management Reserve than would the market value of their home. In addition, commercial taxpayers pay a multiplier which would compound this affect if assessment were used as a base.

Therefore, raising funds through the tax base is not recommended for the reasons outlined above.

BUDGET IMPLICATIONS

The approved Operating Budget for 2003/04 presently contains a funding shortfall as relates to reserve fund Q106 and as outlined above must be resolved. Councils' approval of this rate increase will place the Wastewater rate at a level which supports the 2003/04 approved budgeted expenditures and will allow the projected deficit to be repaid over a two year period. A loan to the reserve will be required to fund the projected deficit at the year-end for \$1,604,000. The loan will be repaid over two years through a portion of the proposed rate increase.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

Staff have reviewed three additional options:

- 1) **Combination of change in Sewer Lateral Policy and Rate increase:**(Not recommended at this time)

Reduce level of service activity through changes to the Sewer Lateral Policy as a partial means of reducing the rate increase required. While Council provided direction to staff to investigate this option in July 2003, a subsequent report outlining that route was not approved. As it relates to the 2003/04 approved budget and projected deficit this is no longer a viable option given the fact that we are in the 10th month of the operating period. Staff will bring this back to Council as part of the options to consider when reviewing the longer term rate pressures on the reserve.

- 2) **Funding Through the Tax Rate: (not recommended)**

See rationale outlined in the discussion section of this report.

The user pay system has been the established practice of recovering these maintenance costs. It is based on water consumption and is a far more appropriate base in determining each resident's fair share of the costs of the Wastewater Management Reserve than would the market value of their home. In addition, commercial taxpayers pay a multiplier which would compound this affect, and the assessment system does not ensure that only taxpayers who are connected to the HRM sewer system would pay.

- 3) **Funding Through Increased Wastewater Management Rate Increase of \$0.1163 cents**

The proposed rate increase recommended in this report provides for a two year repayment of the projected deficit in the reserve at March 31, 2004. An alternative to repayment over two years would be to set the rate at a level which would allow the projected deficit to be fully repaid in 2004/05. This alternative would result in a new total Wastewater rate of \$.3487. The annual increase to an average household (based on an average family of two adults and two children using 64 cubic metres of water per quarter) would be \$29.77 compared to the \$24.65 increase from the recommended rate. This is an alternative that staff would support.

ATTACHMENTS

Environmental Protection Rates - Graph

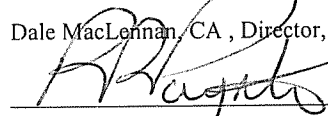
Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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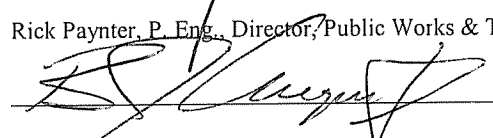
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