

Appendix B: Shifting the Access Fee to the Tax Base

Executive Summary

The water utility currently operates on a full cost recovery basis, meaning all costs are identified and recovered through user fees. Transferring some costs to the tax base would depart from this policy. Though full cost recovery is considered a best practice, there is precedent in Canada, the United States, Europe and elsewhere to use taxes instead of user fees to achieve public health or safety goals which provide community or nation-wide benefit rather than individual benefits.

The access fee is a transfer from the utility fund to the general operating fund to pay for the right to use civic assets. It is paid in lieu of property taxes and other service fees that the utility would pay to the City if it were a private owned utility. Transferring the fee would allow water rates to be reduced but require increasing mill rates or alternate revenue generation. Analysis indicates that the increase in property taxes mitigates most of the affordability improvements for water customers. Most lower-value properties will save less than one per cent overall whereas higher-value properties will experience overall cost increases over two per cent.

This paper explores the impacts of moving away from funding water services on a full cost-recovery, user-pay basis and instead funding water access with property taxes.

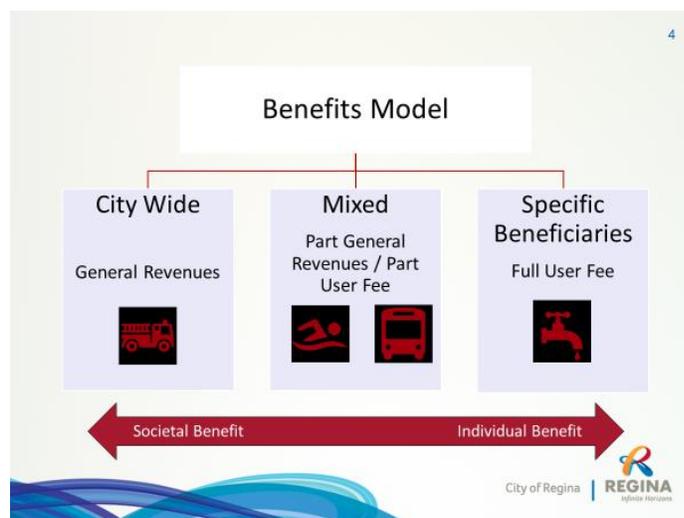
The paper is structured as follows:

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Current State

The City of Regina charges utility customers fees for water, wastewater and drainage services on a full cost recovery basis, meaning the utility is self-funded through user fees. All revenue collected is used to fund the services provided and the water, wastewater and drainage systems that support service delivery. This reflects the benefits model set out in *Design Regina: Official Community Plan Bylaw No. 2013-48 (OCP)* (Figure 1). The model is based on the notion that services that benefit the entire community should be funded by general revenues, while services that benefit specific individuals should be funded by user fees. Services that provide benefits to both the entire community and specific individuals should be funded by a blend of general revenues and user fees.

Figure 1: Benefits Model



Water, wastewater, and storm drainage services (“water services”) are considered to provide benefits to specific beneficiaries and so are funded through user fees. This is consistent with international best practices for water utilities which emphasize the need for full cost recovery financed through user fees to avoid wasteful water use and ensure utility systems are financially sustainable.¹ To fully fund the water infrastructure, all customers pay a daily fixed charge for water, wastewater and drainage, plus a charge for actual water consumption. The daily fixed charge for water and wastewater is dependent on the size of the meter installed on the property while the drainage charge is dependent on the type of property and size of the property for non-residential properties.

Transferring some costs to the tax base would depart from the full cost recovery model. Though full cost recovery approaches are considered best practice, there is precedent for partially funding water services through the tax base. There are jurisdictions in Canada, the United States, Europe, and elsewhere that do this on the basis that there are many benefits and costs – usually health, environmental or public safety related – that cannot be directly attributed to individual customers. The United States, for example, finances water environmental protection programs through the tax base. In Japan flood prevention and sewage infrastructure are subsidized on the basis that the public benefits exceed the individual benefits.² Based on this logic, this analysis examines the impacts of transferring the access fee to the tax base.

Impact of Access Fee Transfer

The access fee is an annual fee transferred from the utility fund to the general operating fund to pay for the right to use or access civic assets. It applies to any utility provider, public or private, operating in the City. The fee is equal to 7.5 per cent of the previous year’s budgeted utility revenues from water services and a proportionate share of the Goods and Services Tax (GST) rebate. The 2021 access fee is budgeted at \$11.1 million.

¹ OECD (2006, 2016), American Water Works Association (2017)

² OECD (2010)

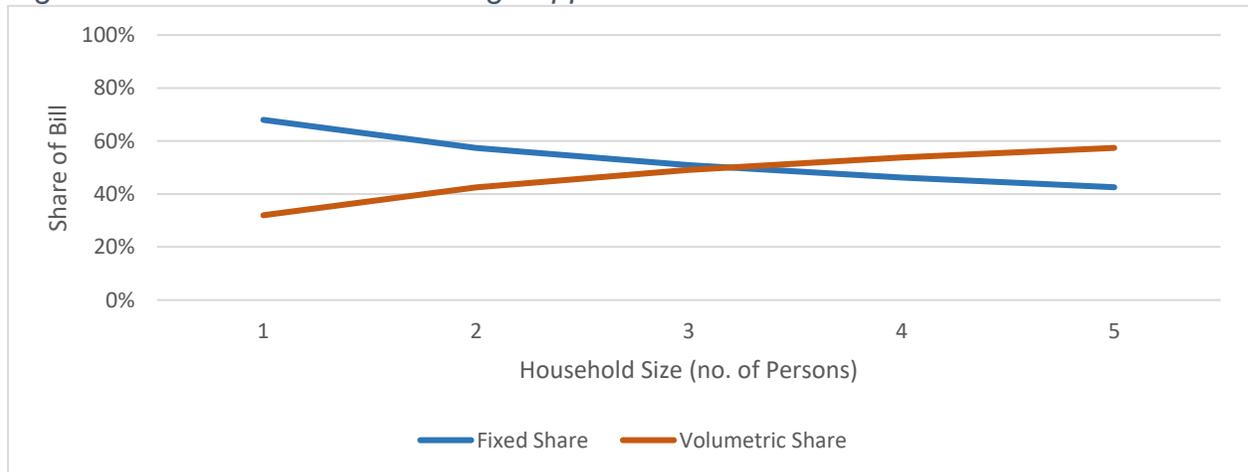
Paying a fee to access civic assets is common practice among municipalities. Table 1 shows the access fee charged by the City of Regina and four other prairie municipalities.

Table 1: Access Fee Policies in Prairie Cities

City	Policy
Regina	7.5% of previous year's budgeted water, wastewater and storm drainage revenues and a proportionate share of the GST rebate.
Saskatoon	10% of revenue
Moose Jaw	5% of revenue
Calgary	10% of revenue plus 10% return on equity
Winnipeg	10% of revenue with dividends paid

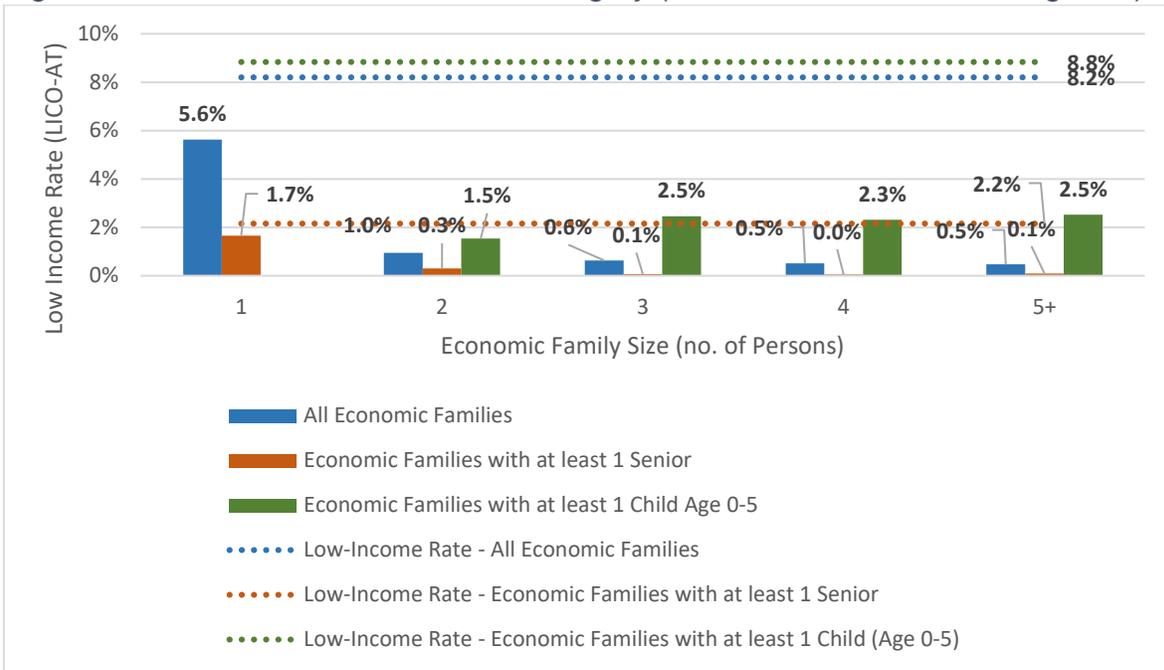
Shifting the access fee from the utility fund to the tax base would mean that water services would no longer be wholly funded by user fees, but rather by a blend of general taxes and user fees. The benefits model would interpret this decision as an acknowledgement that water services provide benefits to both the entire community and specific individuals. The result would increase property taxes and reduce the fixed charges for water services. Reducing the fixed charges would improve water affordability more than reducing consumption charges because the fixed charges comprise a larger portion of the water bill for smaller households which are more likely to experience water unaffordability (see Figure 2 and Figure 3).

Figure 2: Fixed and Variable Charge Approximate Share of Total Bill



Estimates based on Warren (2019), DeOreo and Mayer (2014)

Figure 3: Rate of Low Income within Category (All/with Senior/with Child age 0-5)



Source: Statistics Canada (2019)

Table 2 summarizes the change in water service rates and the corresponding changes in mill rates if the access fee is financed with property taxes. Assuming the changes were implemented in the 2022 budget³, the water and wastewater fixed charges for a typical household would decrease by 24.4 per cent, respectively, while the mill rate would increase by 4.1 per cent. The change is concentrated in the fixed charges to maximize the affordability benefits.

Table 2: Impact of Moving Access Fee to Tax Base

	2022 Projected Rate	Rate with Access Fee Transferred	Change	% Change
Water Service Charges				
Water Base Charge (5/8" water meter)	\$0.90/day	\$0.68/day	-\$0.22/day	-24.4%
Wastewater Base Charge (5/8" water meter)	\$0.70/day	\$0.53/day	-\$0.17/day	-24.4%
Drainage Infrastructure Levy (0-1000 m2 property)	\$0.60/day	\$0.60/day	\$0.00/day	0.0%
Water Volume Rate	\$2.16/m3	\$2.16/m3	\$0.00/m3	0.0%
Wastewater Volume Rate	\$1.92/m3	\$1.92/m3	\$0.00/m3	0.0%
Mill Rate	9.8010 ⁴	10.1987	0.3977	4.1%

³ Access fees for 2022 are projected to be \$11,422,900.

⁴ The values for the Residential and Commercial mill rates are estimated for the year 2022 (9.8010) by applying a 3.7 per cent increase to the current mill rate (9.4513 for 2021) and multiplying by the residential and commercial mill rate factors (0.91034 and 1.2495, respectively). 3.7 per cent is the average mill rate increases across the 2018 to 2021 budgets.

Table 3 and

Table 4 present the changes for several sample properties based on actual data. As the fixed rates are reduced, the change is similar for most sample properties. Residential customers would save approximately \$12.05 on their monthly water bill. Larger properties would save more because they have larger meters. Base charges are applied based on meter size and so properties with larger meters save more. The per cent change varies due to differences in total bill size and ranges from a decrease of 8.3 per cent to 0.7 per cent. The cost savings are offset by the increases in property taxes which range from \$4.60 per month for smaller properties to \$1,404.79 per month for large commercial properties.

Table 5 presents the net impacts of the access fee transfer on monthly payments. The net benefits amount to less than one per cent monthly savings for most properties, though higher-value properties are likely to experience net increases of over two per cent.

Table 3: Change to Water Bills with Access Fee Transfer

Sample Property	Average Water Consumption (m ³ /month)	Average Wastewater Consumption (m ³ /month)	2022 Projected Monthly Charges	2022 Monthly Charges Without Access Fee	\$ Change	% Change
Grocery Store	398.96	390.98	\$2355.99	\$2322.27	-\$33.72	-1.4%
Bottled Water Supplier	774.82	759.32	\$3310.30	\$3286.04	-\$24.26	-0.7%
Restaurant	115.61	113.30	\$536.17	\$524.12	-\$12.05	-2.2%
Average House	18.63	15.28	\$145.81	\$133.76	-\$12.05	-8.3%
Large House	35.24	28.90	\$207.91	\$195.86	-\$12.05	-5.8%
Non-Profit Organization	129.71	106.36	\$561.12	\$549.07	-\$12.05	-2.1%
Townhouse Condo	31.20	25.58	\$185.06	\$173.00	-\$12.06	-6.5%

Table 4: Change to Property Tax with Access Fee Transfer

Sample Property	2022 Projected Annual Tax	Annual Tax With Transfer	Annual Change	Monthly Change	% Change
Grocery Store	\$415,439.04	\$432,296.51	\$16,857.47	\$1,404.79	4.1%
Bottled Water Supplier	\$24,634.76	\$25,634.37	\$999.62	\$83.30	4.1%
Restaurant	\$6,239.52	\$6,492.70	\$253.18	\$21.10	4.1%
Average House	\$3,219.15	\$3,349.77	\$130.62	\$10.89	4.1%
Large House	\$9,886.74	\$10,287.92	\$401.18	\$33.43	4.1%
Non-Profit Organization	\$3,493.88	\$3,635.66	\$141.77	\$11.81	4.1%
Townhouse Condo	\$1,360.64	\$1,415.85	\$55.21	\$4.60	4.1%

Table 5: Net Impact of Access Fee Transfer

Sample Property	2022 Projected Monthly Tax and Utility Payments	2022 Monthly Tax and Utility Payments with Transfer	Net Change in Monthly Payments	% Change
Grocery Store	\$36,975.91	\$38,346.98	\$1,371.07	3.7%
Bottled Water Supplier	\$5,363.20	\$5,338.94	-\$24.26	-0.4%
Restaurant	\$1,056.13	\$1,083.16	\$27.03	2.6%
Average House	\$414.07	\$412.91	-\$1.16	-0.3%
Large House	\$1,031.81	\$1,053.19	\$21.38	2.1%
Non-Profit Organization	\$852.28	\$852.04	-\$0.24	0.0%
Townhouse Condo	\$298.45	\$290.99	-\$7.46	-2.5%

These results indicate that transferring the access fee would not significantly improve water affordability and may reduce overall affordability for higher-value commercial properties. The results assume the property owner and the utility customer are the same person. Renters may benefit from reduced utility rates but these are likely to be mitigated as landlords attempt to recoup increased tax costs by increasing rent. Renters in multi-residential complexes are likely to experience a net loss of affordability as multi-residential properties are higher-value and so will experience a greater tax increase than water savings.

Sources

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