



**STAFF REPORT
ACTION REQUIRED**

2010 Water and Wastewater Service Rate

Date:	October 13, 2009
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer General Manager, Toronto Water
Wards:	All Wards
Reference Number:	P:\2009\Internal Services\CF\Bc09028cf - AFS #8879

SUMMARY

This report recommends the 2010 water and wastewater service rates arising from concurrent adoption of the 2010 Toronto Water Recommended Operating and Capital Budgets. The 2010 Block 1 rate is recommended to increase by 9%, and in accordance with previously adopted Enhancing Toronto’s industrial competitiveness initiatives, Block 2 rate is to be one third of Block 1 rate, resulting in a 3% increase.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and the General Manager, Toronto Water, recommend that:

1. This report be considered concurrently with the 2010-2019 Capital Plan and the 2010 Operating Budget, and that:
 - a. Effective January 1, 2010, the water and wastewater rates charged to metered consumers shall be as shown below and in Appendix A (Schedule 1) attached to this report;

Annual Consumption	Paid on or before the due date, \$/m3	Paid after the due date, \$/m3
Block 1 - All consumers, including Industrial consumption of first 6,000 m ³	\$2.0616	\$2.1701
Block 2 - Industrial tax class, volumes consumed over 6,000 m ³ , representing 28.6% reduction from the Block 1 Rate	\$1.4726	\$1.5501

- b. the water and wastewater rates charged to flat rate consumers be, effective January 1, 2010, increased by 9.0%, to the rates shown in Appendix A (Schedule 2) attached to this report; and,
 - c. the necessary amendments be made to Municipal Code Chapter 441, Fees and Charges and Municipal Code Chapter 849, Water and Sewage Services and Utility Bill, to give effect to (a) and (b) above.
2. With respect to assistance for low-income seniors and low-income disabled persons:
 - a. The 2010 rebate for eligible low-income seniors and low-income disabled persons be set at a rate of \$0.5890 /m³, representing a 28.6% reduction from the Block 1 Rate; and,
 - b. The due date for submitting an actual meter reading to the City and/or allowing access to City staff to obtain an actual meter reading as required under Municipal Code Chapter 849-14.3 be extended from December 31st, of the year for which the rebate is sought, to January 31st of the following year; and,
 - c. The necessary amendments be made to Municipal Code Chapter 849, Water and Sewage Services and Utility Bill, to give effect to (a) and (b) above.
3. Authority be granted to the City Solicitor to introduce any necessary Bills required to implement these recommendations, subject to any necessary refinements, including stylistic, format and organization, as may be identified by the City Solicitor, the Deputy City Manager & Chief Financial Officer and General Manager, Toronto Water.
4. The appropriate City officials be authorized and directed to take the necessary actions to give effect thereto.

FINANCIAL IMPACT

The City of Toronto Water and Wastewater Program (the “Program”) is fully funded on a ‘pay-as-you-go’ basis through a combined water and wastewater rate without any reliance on borrowing/debenture financing. The property tax budget is not impacted by adoption of the recommendations contained in this report.

Based on the recommended 2010 Toronto Water Operating and Capital Budgets, and updated consumption forecast, a rate increase of 9.0% for 2010 is necessitated in the Block 1 domestic-use rate for all consumers (the “Block 1 Rate”) to the rate of \$2.0616 per cubic meter, and a rate increase of 3% is necessitated in the Block 2 process-use rate for eligible industrial users on their volumes over 6,000 m³/year (the “Block 2 Rate”) to the rate of \$1.4726 per cubic meter. The effective increase from the combined blocks is

8.6% in rate supported revenue and necessary to support the Program’s recommended 2010 Operating Budget and 2010-2019 Capital Budget requirements.

The average home consuming 300 m3/year, being a Block 1 Rate consumer, will see an increase of 9% or \$51 in their water bill (from \$567 in 2009 to \$618 for 2010), which is in the range of annual increases previously forecasted and widely publicized. The average impact for typical consumers is shown in Chart 1 below.

Chart 1 – 2010 Water Rate Impact

Type of property	Projected 2010			2010 Impact	
	Consumption m3/y	2009 cost \$/y	cost \$/y	\$/y	%
Residential	300	\$567	\$618	\$51	9.00%
Industrial	100,000	\$145,744	\$150,797	\$5,053	3.47%
	1,000,000	\$1,432,513	\$1,476,169	\$43,656	3.05%

Pursuant to Council’s previously approved industrial water user competitive strategy, to phase-in their water rate to the target of a 30% reduction over domestic consumers, for 2010, the City’s Block 2 Rate differential below the Block 1 will increase from 24.4% to 28.6%, and this reduced rate increase will continue over the next year when the target of 30% differential below the Block 1 Rate will be achieved. An eligible industrial consumer who, for example, consumes 1,000,000 m3/year, will see an effective increase in their water bill of 3.05% in 2010. The policy also provides for a rebate equivalent to the difference between the Block 1 and Block 2 Rates to assist eligible low-income seniors and low-income disabled persons.

DECISION HISTORY

Last year’s report authorizing the 2009 water and sewer service rates can be viewed at: <http://www.toronto.ca/legdocs/mmis/2008/ex/bgrd/backgroundfile-16568.pdf>

At its meeting of June 19, 20 and 22, 2007, City of Toronto Council approved a new water rate structure for the City of Toronto to commence January 1, 2008, which provided a more competitive rate for industrial consumers. The report authorizing this water rate structure can be viewed at: <http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-3800.pdf>

ISSUE BACKGROUND

The City must adopt annually a by-law to establish its water and sewer service rates. Adoption of the concurrent Toronto Water recommended 2010 Operating and 2010-2019 Capital Budget, together with the water rate restructuring plan, will necessitate the 2010 water and wastewater service rates outlined in this report.

COMMENTS

Financial Model:

The financial model used to forecast water and wastewater rates is premised upon the objective that Toronto Water program remain fully self funding with financial stability for both operating and capital needs over the long term, and that any rate changes required should be phased in a planned manner to avoid excessive year-to-year fluctuations.

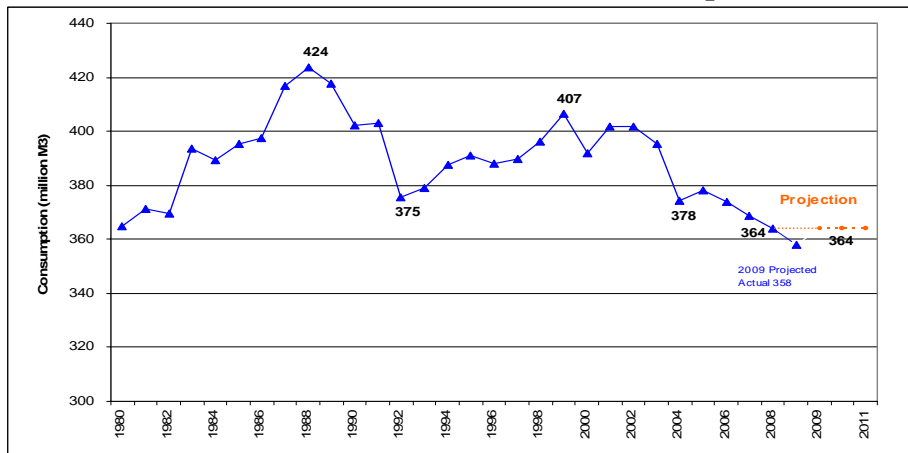
Inputs from Toronto Water's 2010 Recommended Operating and Capital Budget, together with their 10-year Capital Plan and operating projections, are utilized to estimate current and future funding requirements. The capital and operating funding requirements are considered together with projected water consumption to generate the water and sewer rates which will self-finance the Toronto Water program over the 10-year planning period, including reserve contributions. The City retired the last debt related to Toronto Water in 2007, and no new debt issuance is forecasted.

Water Consumption Forecast:

Over the last decade, there has been a trend towards reduced consumption, as shown in Chart 2. Toronto's consumption projected to 2009 year-end is estimated at 358 million cubic metres, which is slightly above the budgeted figure of 357 million cubic metres. The year-end water consumption for 2008 was 364 million cubic meters. Both 2008 and 2009 had some of the wettest summers for Toronto in recorded history.

The forecasted consumption utilized in the rate modelling for 2010 and future years has been set to 364 million cubic metres - the same as 2008 water consumption. Since weather can have a profound effect on annual water consumption, the Rate Stabilization Reserve is used to absorb and moderate normal variances from the consumption forecast due to factors such as the effects of weather or lawn watering.

Chart 2 - Toronto Retail Water Consumption



2010 Operating Budget and 2010-2019 Capital Plan:

The concurrent Toronto Water 2010 Operating and Capital Budget Analyst Notes provides details on the 2010 Recommended Operating Budget and the 10-year Recommended Capital Plan.

The Toronto Water 2010 Operating Budget requires a combined water and wastewater expenditure level of \$767.708 million (including capital contributions from current). Expenditures are predominantly funded through the sale of water to Toronto consumers with \$733.678 million budgeted to be recovered from the water and wastewater rate. Other user charges for the balance of the revenue requirement include revenues from: (i) the sale of water to the Region of York (\$18.769 million); and (ii) industrial waste surcharge, sewage, and private water agreements, service charges, and sundry revenues (\$15.261 million).

The 2010 Recommended Operating Budget reflects a decrease of 0.5% compared to the 2009 Approved Operating Budget, as a result of cost saving initiatives proposed by Toronto Water. As a consequence, the 2010 recommended water rate increase will be dedicated to funding Toronto Water's 2010 Recommended Capital Budget, which has suffered a significant infrastructure rehabilitation backlog in the last few years.

Year end expenditures for Toronto Water's 2009 Capital Budget are projected to be at 76.4% of the 2009 Approved Gross Capital Budget, which would be only 1.7% below the projected net capital cash flow that was used in setting the 2009 water rate. The projected net expenditure level for Toronto Water's Capital Budget is 78% in 2010, followed by 80% until the end of the 10 year Capital Plan. The net capital expenditures (after grants, subsidies and other revenues) are financed through capital-from-current, and by drawing down existing Capital Reserves.

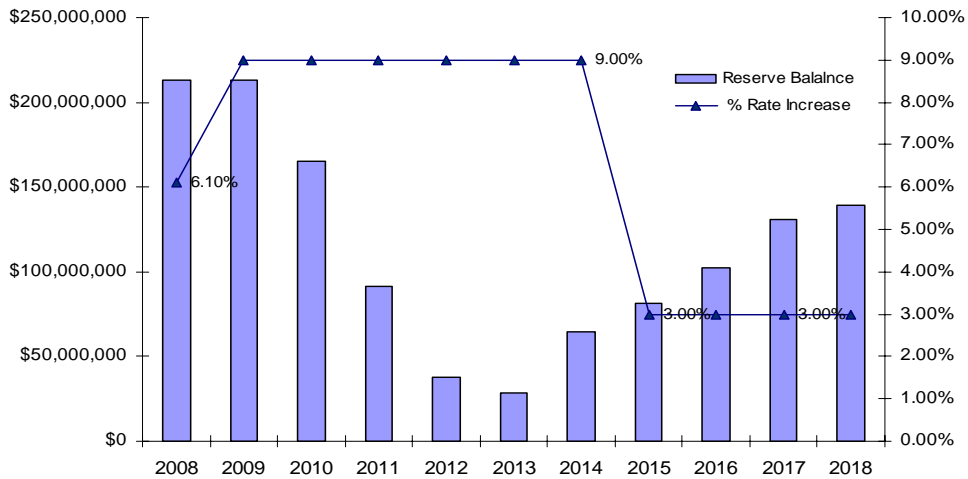
Appendix B presents a summary of the 2010 Operating Budget and Forecast, and the 2010 -2019 Capital Plan, and the resulting rate requirements. The chart also shows the sources of capital financing and corresponding reserve balances.

Capital Reserve Funds

The purpose of the Capital Reserve Funds (Water and Wastewater) is to provide funding for the capital needs of the Program. The rate modelling is predicated on replenishment through capital-from-current sufficient to ensure that an adequate balance is maintained in these reserve funds.

Chart 3 below shows the capital reserve fund balance for the period 2010-2019 and the applied rate increases. Except for 2012 - 2013 when the reserve is falling to about \$30 million, due to substantial infrastructure renewal pressures, the Capital Reserve Balance projections for the rest of the 2010-2019 period are above \$60 million, which is approximately 10% of the Capital Budget and is considered a reasonable amount in case of unforeseen circumstances. The emergency repair to the Coxwell Sanitary Trunk Sewer is an example of unforeseen expenditures.

Chart 3 -Capital Reserve Fund Balance Projection



Rate Stabilization Reserves

The purpose of the Rate Stabilization Reserves (Water and Wastewater) is to provide funding to offset unanticipated operating budget variances, primarily arising from revenue shortfalls due to uncontrollable circumstances driving water consumption below budgeted levels and emergency capital. Circumstances giving rise to lower than forecasted consumption include loss of major water consumers, and unusually wet summers.

As of January 1, 2009 the Rate Stabilization Reserves Balance was \$45.18 million, which is above the target balance of \$30 million and no further contributions at this point are envisaged.

Rate Restructuring

In June 2007, City Council adopted a new water rate structure for the City of Toronto to commence January 1, 2008. This new rate structure provides for a single domestic-use rate for all users, with a second available block for industrial/manufacturing process-use on the volumes above 6,000 m³, subject to certain conditions. The second block process-use rate was initially set at a rate reduction of 20% from the first block domestic-use rate in 2008, to be phased-in with the rate being increased by one-third of the rate increase on Block 1 until a differential of 30% between Block 1 and Block 2 was reached. The policy also provides for a rebate equivalent to the difference between the Block 1 and Block 2 Rates to provide assistance to eligible low-income seniors and low-income disabled persons.

Chart 4 below shows projected Block 1 and Block 2 rates for the period 2010-2014. In 2010 Block 2 rate will reach 28.6% reduction form Block 1 rate, and the targeted 30% reduction will be achieved in 2011. Block 1 rates are projected to increase by 9% annually over the 5 year period, while Block 2 rates will be subject to 3% increase in

2010, 6.81% in 2011, followed by the same rate increase as Block 1 from 2012 and forward.

Chart 4 – Projected Rates

2010 Projections	2009	2010	2011	2012	2013	2014
Increase - Block 1 and Flat Rate	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
Increase - Block 2	3.00%	3.00%	6.81%	9.00%	9.00%	9.00%
<i>Effective rate revenue increase</i>	<i>8.59%</i>	<i>8.60%</i>	<i>8.86%</i>	<i>9.00%</i>	<i>9.00%</i>	<i>9.00%</i>
Block 1 Rate	1.8914	2.0616	2.2471	2.4494	2.6698	2.9101
Block 2 Rate	1.4297	1.4726	1.5730	1.7146	1.8689	2.0371
<i>Reduction over Block 1 Rate</i>	<i>-24%</i>	<i>-29%</i>	<i>-30%</i>	<i>-30%</i>	<i>-30%</i>	<i>-30%</i>

As of January 2008, there were 349 properties automatically considered eligible for the industrial Block 2 rate that were billed at that rate. As one of the conditions for continued eligibility, the industries were to submit a water conservation plan in order to continue to be charged at Block 2 rate past June 2008. The City has received about 90 water conservation plans so far, of which currently there are 65 industrial consumers that comply with all requirements and are billed at Block 2 rate.

Once the targeted 30% differential between Block 1 and Block 2 rate is achieved, the City will review the water rate structure and consider other options if appropriate.

Flat-rate Accounts: Currently, there are approximately 69,000 flat-rate accounts remaining in the City of Toronto. Most of these are single-family residential homes. For 2010, given the effective 9% rate increase for domestic use, this report recommends a similar 9% increase on the water rates imposed on flat-rate accounts.

Council at its meeting of June 23 and 24, 2008, approved the Automated Meter Reading System. The AMR System includes a systematic, City-wide water meter replacement program coupled with the concurrent installation of an automated meter reading technology over a 6 year period, starting in 2010. At the end of the 6-year period all flat-rate accounts will be metered.

Assistance for Low-Income Seniors and Low-Income Disabled Persons

As part of the water rate restructuring policy, Council approved a water rate rebate program for low-income seniors and low-income disabled persons who meet the eligibility criteria as prescribed in the Municipal Code, Chapter 849. This rebate is set at the difference between Block 1 and Block 2 rate – the same as for industrial process consumption. The rebate is only applicable if the household annual consumption is less than 300 m³, to limit eligibility to those most in need. This report recommends an extension of the deadline for submitting a meter reading to the City from December 31st, of the year for which a rebate is sought, to January 31st of the following year to better accommodate applicants.

In 2008 the City has received 2,797 applications for low income water rebates, of which 1,843 were approved for about \$100,000 in rebates.

Comparison of Water Rates in GTA Municipalities:

Toronto’s 2009 water rate for residential consumers, in comparison to surrounding municipalities, is shown in Chart 5 (2010 rates for surrounding municipalities are not yet available). With the exception of Peel Region, where storm water related projects are funded from property taxes, Toronto is amongst the lowest water cost jurisdictions for residential consumers in southern Ontario. Chart 6 provides a similar comparison for large industrial users.

Chart 5 – GTA Residential Water cost

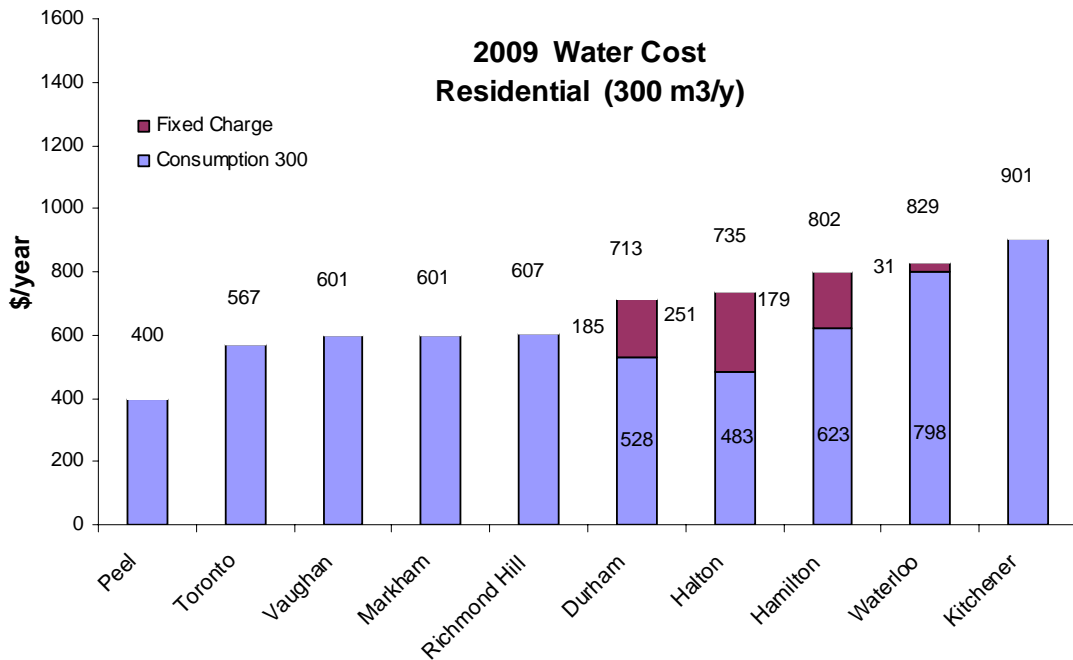
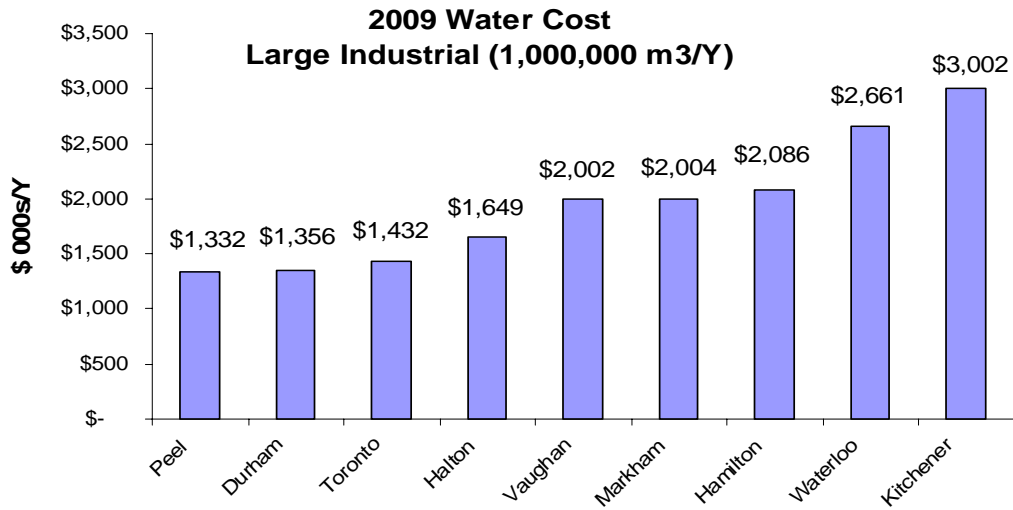


Chart 6 - GTA Industrial Water cost



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ATTACHMENTS

Appendix A – Water Rates for Metered and Flat Customers

Appendix B – Summary of 2010 Operating and Capital Budget and Forecast,
Corresponding Rate Increase and Capital Financing

APPENDIX A

SCHEDULE 1, WATER - METERED CONSUMERS

COMBINED WATER AND SEWER SERVICE RATES FOR METERED CONSUMERS EFFECTIVE JANUARY 1, 2010

	I	II	III	
			Fee	
			Paid after the due date	Paid on or before the due date
Activity	Fee Basis			
1	Block 1 Domestic-Use General Water Service Rate- Applicable to all consumers of water, including the first 6,000 cubic metres per year (m ³ /per year) consumed by industrial users	\$/m3	\$2.1701	\$2.0616
2	Block 2 Industrial Process -Use Service Rate- Applicable to industrial process use for eligible property or portions of property assessed on the annual returned assessment roll in the industrial property tax class and is applicable to volume of water consumed over 6,000 cubic metres per year (m ³ /per year) of such use	\$/m3	\$1.5501	\$1.4726

SCHEDULE 2, WATER - FLAT RATE CONSUMERS

**ANNUAL COMBINED WATER AND SEWER SERVICE RATES FOR FLAT RATE CONSUMERS IN DWELLING HOUSES AND ROOMING HOUSES IN THE FORMER CITY OF TORONTO
EFFECTIVE JANUARY 1, 2010**

	I	II	III	
			Fee	
			Paid after the due date	Paid on or before the due date
Activity	Fee Basis			
3	Dwelling houses rate: Annual combined water and sewer service rates for flat rate consumers.	Per Room Per Annum	\$32.26	\$30.65
		Subject to a minimum annual charge	\$194.20	\$184.49
4	Rooming houses rate: Annual combined water and sewer service rates for flat rate consumers.	Per Room Per Annum	\$56.60	\$53.77

THE FOLLOWING RATES ARE IN ADDITION TO APPENDIX A • SCHEDULE 2 ROWS 3 & 4:

5	Flat Rate - Basins	Each	\$62.35	\$59.23
6	Flat Rate - Baths	Each	\$62.35	\$59.23
7	Flat Rate - Bidets	Each	\$62.35	\$59.23
8	Flat Rate – Saunas connected to water or drains	Each	\$62.35	\$59.23
9	Flat Rate – Shower baths	Not attached to bath tub – Each	\$62.35	\$59.23
10	Flat Rate - Sinks	Sinks – Each	\$62.35	\$59.23
11	Flat Rate - Urinals	Self-acting – Each	\$74.08	\$70.38
12	Flat Rate – Water closets	Self Acting – Each	\$99.55	\$94.57
13	Flat Rate – Laundry tubs	For pair of tubs (in one fixture)	\$62.35	\$59.23
14	Flat Rate – Laundry tubs	For single or additional tub - Each	\$37.06	\$35.21
15	Flat Rates – Washing Machine	Washing Machines, Each	\$62.35	\$59.23

**ANNUAL COMBINED WATER AND SEWER SERVICE RATES FOR FLAT RATE CONSUMERS IN
THE FORMER CITY OF TORONTO, EFFECTIVE JANUARY 1, 2010**

	I	II	III	
			Fee	
			Paid after the due date	Paid on or before the due date
Activity	Fee Basis			
16	Factories, office buildings, stores, garages, warehouses and similar places of business	Per Flat Per Annum	\$99.48	\$94.51
17	Private hospitals, rest homes, schools, fraternity houses, clubs, hotels and similar places	Per Room Per Annum	\$56.60	\$53.77

THE FOLLOWING RATES ARE IN ADDITION TO APPENDIX A • SCHEDULE 2 ROWS 16 & 17:

18	Flat Rate - Basins	Each	\$123.81	\$117.62
19	Flat Rate - Baths	Each	\$123.81	\$117.62
20	Flat Rate - Bidets	Each	\$123.81	\$117.62
21	Flat Rate – Saunas connected to water or drains	Each	\$123.81	\$117.62
22	Flat Rate – Shower baths	Not attached to bath tub – Each	\$123.81	\$117.62
23	Flat Rate - Sinks	Sinks – Each	\$123.81	\$117.62
24	Flat Rate - Urinals	Self-acting – Each	\$148.00	\$140.60
25	Flat Rate – Water closets	Self Acting – Each	\$197.98	\$188.08
26	Flat Rate – Laundry tubs	For pair of tubs (in one fixture)	\$123.81	\$117.62
27	Flat Rate – Laundry tubs	For single or additional tub - each	\$62.35	\$59.23
28	Flat Rates – Washing Machine	Washing Machines, Each	\$123.81	\$117.62

**ANNUAL COMBINED WATER AND SEWER SERVICE RATES FOR FLAT RATE CONSUMERS IN
THE FORMER CITY OF TORONTO, EFFECTIVE JANUARY 1, 2010
THE FOLLOWING RATES ARE IN ADDITION TO THE AMOUNTS SET FORTH IN
APPENDIX A • SCHEDULE 2 ROWS 3 – 28:**

	I	II	III	
			Fee	
			Paid after the due date	Paid on or before the due
Activity	Fee Basis			
29	Baptistries	Each	\$41.85	\$39.76
30	Barber shop or beauty parlour	Each	\$123.81	\$117.62
31	Church buildings used as a place of worship	Each for fixture any such building so used coming within rows 21 - 33	1/3 of the rates in APPENDIX A • SCHEDULE 2 Rows 16 – 28	
32	Dental Fountains	Each	\$307.07	\$291.72
33	Commercial dish washers	Each	\$246.67	\$234.34
34	Drinking fountains	Each	\$123.81	\$117.62
35		For 1.6 mm orifice or less, each per season	\$197.98	\$188.08
36	Fountains	All others, each per person	\$787.49	\$748.12
37		Bricks, per 1,000	\$2.14	\$2.03
38	Materials used in buildings or in alterations or repairs to buildings and other construction work	Other masonry, including concrete blocks, tiles, and similar materials, on basis of equivalent number of bricks to replace same, per 1,000 bricks	\$2.14	\$2.03
39		Plastering per 1,000 sq. yd	\$74.48	\$70.76
40		Concrete, per cubic yd	\$5.19	\$4.93
41		Minimum rate for each building or for repairs or alterations, where any of the above material is used	\$24.88	\$23.64
42	Photographic washing tanks	Each	\$123.81	\$117.62
43	Wash racks	Each	\$614.98	\$584.23

**COMBINED WATER AND SEWER SERVICE RATES FOR UNMETERED CONSUMERS IN THE
FORMER CITY OF ETOBICOKE, EFFECTIVE JANUARY 1, 2010**

	I	II	III	
			Fee	
			Paid after the due date	Paid on or before the due date
Activity	Fee Basis			
44	Residential and commercial rates, tri-annual billing; Flat rate, single family	Tri-annual	\$203.36	\$193.19
45	Hydro substations, tri-annual billing	Tri-annual	\$146.29	\$138.98
46	Building water and sewer service rates; not metered up to three months not refundable	Each	\$432.58	\$410.95

Appendix B – Summary of 2010 Operating and Capital Budget and 2011- 2019 Capital Plan and Operating Forecast, Corresponding Rate Increase, and Capital Financing

				2011 - 2019 Plan								
	2009 Budget	2009 Projected Actual	2010 Budget	2011	2012	2013	2014	2015	2016	2017	2018	2019
TORONTO WATER												
Gross Operating Budget	386.32	370.32	384.52	389.93	397.24	409.15	421.43	434.07	447.09	460.51	474.32	488.55
Net Operating Budget	347.92	335.48	350.49	355.52	362.26	373.22	384.51	396.14	408.12	420.46	433.18	446.28
Capital from Current	312.38	314.38	383.19	452.42	517.90	582.65	656.63	673.82	690.85	705.12	719.62	741.10
Net expenditure to be financed by water rate	660.30	649.86	733.68	807.94	880.15	955.87	1,041.14	1,069.96	1,098.97	1,125.58	1,152.80	1,187.38
WATER RATE REVENUE INCREASE	8.59%	8.59%	8.60%	8.86%	9.00%	9.00%	9.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other Revenues	38.40	34.84	34.03	34.41	34.98	35.94	36.92	37.93	38.97	40.04	41.14	42.27
Total Revenues	698.70	684.70	767.71	842.35	915.13	991.81	1,078.06	1,107.89	1,137.95	1,165.62	1,193.94	1,229.65
Gross CAPITAL Budget	488.44	504.24	720.67	791.86	827.70	835.07	873.15	907.11	918.50	913.51	959.18	989.93
Net Capital Budget	429.39	459.38	558.60	664.37	724.41	741.77	791.61	825.04	842.37	851.46	896.64	938.89
CAPITAL FINANCING												
Capital Spending Level	76%	72%	78%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Net Capital Spending	326.34	331.77	435.71	531.50	579.53	593.42	633.29	660.03	673.89	681.17	717.32	751.11
Capital from Current	312.38	314.38	383.19	452.42	517.90	582.65	656.63	673.82	690.85	705.12	719.62	741.10
Capital from (to) Reserve	13.96	17.39	52.52	79.08	61.63	10.76	(23.35)	(13.79)	(16.96)	(23.95)	(2.30)	10.01
RESERVE closing balance	213.18	204.15	164.88	91.24	37.76	28.40	64.54	81.43	102.29	131.20	139.25	135.07