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2015 OPERATING BUDGET BRIEFING NOTE

Impact of City Policies Enhancing Industrial Competitiveness

Background:

- Budget Committee, at its meeting of February 4, 2015, during consideration of the 2015 Rate Supported Budgets - Toronto Water and 2015 Water and Wastewater Rates and Service Fees, requested a briefing note on:
 - a) the history of savings to the Water Rate Block developed expressly for industrial large volume consumers,
 - b) how the savings accommodations were created, and
 - c) provide a history of property tax rate advantages provided to the industrial class during the same period."

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.BU4.1>

Issue:

- In response to the significant loss of jobs in the City between 1990 and 2004, City Council approved in June 2004 a public consultation process with regard to City and Provincial property tax policies. The consultation resulted in a comprehensive action plan for 2005 and beyond consisting of incentives and initiatives intended to enhance the City's competitiveness over the long term.
- Furthermore, in 2007 City Council approved in principal the use of water pricing as an economic development tool, supporting the growth of businesses using water for processing purposes and approved a two block rate water pricing structure, with a second lower block rate for eligible industrial properties applicable on volumes above 6,000 cubic metre a year. The Block 2 rate was initially set at a rate reflecting 20% reduction from Block 1 rate.

Key Points:

Industrial Tax Reduction

- Industrial Tax Reduction initiatives included:

- a) A phased plan for the reduction in industrial tax ratios from the then existing ratio of 4.3 times the residential rate, to 3.0 times by 2015 and 2.5 by 2020, and
- b) Limiting industrial tax rate increases to one-third of any residential tax rate increase.
- Over the past seven years these Industrial Tax Reduction initiatives have resulted in the total tax savings of approximately \$30 million for industrial properties.

Table 1: Property Tax Policy Impact on Industrial Tax Class

Million, \$	2008	2009	2010	2011	2012	2013	2014	2008 - 14
Savings from 1/3 Rate Increase Limit	\$3.03	\$3.51	\$2.55	\$0.00	\$2.16	\$1.69	\$1.83	\$14.77
Savings from Tax Ratio Policy	\$5.78	\$2.79	\$3.12	\$4.67	\$0.31	-\$0.37	-\$0.56	\$15.74
Total Savings	\$8.81	\$6.30	\$5.68	\$4.67	\$2.47	\$1.32	\$1.27	\$30.51

Industrial Block 2 Water Rate

- City Council adopted a 2 block water rate structure, effective January 2008, with Block 2 rate starting at a 20% discount over Block 1 Rate, and further reductions phased-in at a rate of one-third of any increase on Block 1 rate until a targeted 30% reduction in Block 2 rate is achieved.
- As a result of this industrial water rate initiative, the total savings for eligible industries over the 2008 - 2014 period is approximately \$86 million.

Table 2: Block 2 Water Rate Savings

	2008	2009	2010	2011	2012	2013	2014	2008-14
Block 1 Rate, \$/m3	\$1.74	\$1.89	\$2.06	\$2.28	\$2.49	\$2.71	\$2.96	
Block 2 Rate, \$/m3	\$1.39	\$1.43	\$1.47	\$1.60	\$1.74	\$1.90	\$2.07	
Differential Block 1-Block 2, \$/m3	\$0.35	\$0.46	\$0.59	\$0.69	\$0.75	\$0.81	\$0.89	
Block 2 discount, %	20%	24%	29%	30%	30%	30%	30%	
Total Savings, \$	\$8.27	\$8.07	\$10.14	\$15.41	\$13.50	\$14.64	\$15.79	\$85.83

- Between 2008 and 2014, the property tax policies and water rate structure initiatives adopted by Council to make Toronto's industries more competitive resulted in total savings of approximately \$116 million for the eligible industrial properties.

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