



## STAFF REPORT ACTION REQUIRED

### 2016 Water and Wastewater Consumption Rates and Service Fees

<b>Date:</b>	November 6, 2015
<b>To:</b>	Budget Committee Executive Committee
<b>From:</b>	Deputy City Manager & Chief Financial Officer General Manager, Toronto Water
<b>Wards:</b>	All Wards
<b>Reference Number:</b>	P:\2015\Internal Services\Cf\Bc15021Cf (AFS #21972)

#### SUMMARY

This report presents the recommended 2016 water and wastewater consumption rates and service fees arising from concurrent adoption of the recommended 2016 Toronto Water Operating and Capital Budgets.

Council, as part of last year's budget process, endorsed that the capital plan prepared for the 2016 budget process be premised on 8% water and wastewater consumption rate increases for 2016, followed by successive 5% increases in 2017 and 2018 in order to reinstate approximately \$1 billion in capital funding lost from a systematic decline in consumption and to fund emerging projects.

Accordingly, this report recommends an 8% water and wastewater consumption rate increase for all metered and flat rate consumers, effective January 1, 2016. In addition, this report recommends inflationary fee increases for certain water and wastewater services, as well as higher increases for some fees in order to reflect full cost recovery for the provided services.

This report also recommends reducing the eligibility consumption threshold for the industrial Block 2 consumers to 5,000 m<sup>3</sup> (from 6,000 m<sup>3</sup>) to allow for smaller industrial process users to benefit from the reduced rate.

## RECOMMENDATIONS

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

1. Council consider this report concurrently with the 2016-2025 Toronto Water Capital Plan and the 2016 Toronto Water Operating Budget.
2. Council adopt:
  - a. Effective January 1, 2016, the combined water and wastewater consumption rates charged to metered consumers as shown below and in Appendix B attached to this report;

Annual Consumption	Paid on or before the due date, \$/m3	Paid after the due date, \$/m3
Block 1 - All consumers of water, including the first 5,000 cubic metres per year consumed by Industrial users ("Block 1 rate")	3.4500	3.6316
Block 2 - Industrial process – use water consumption over 5,000 cubic metres per year, representing a 30% reduction from the Block 1 Rate ("Block 2 rate")	2.4149	2.5419

- b. Effective January 1, 2016, an increase of 8% to the water and wastewater consumption rates charged to flat rate consumers, as set out in Appendix B attached to this report;
- c. Effective January 1, 2016, the water and wastewater service fees, as set out in Appendix C attached to this report;
- d. Effective April 1, 2016, wastewater services fees Ref. No 1.1, 1.2, 1.3 and 1.4 as shown below and in Appendix C attached to this report;

Ref. No.	Fee Description	Fee basis	Proposed 2016 fee
1.1	Industrial Waste Surcharge - Biochemical Oxygen Demand (BOD) or Phenolics (4AAP)	Per Kilogram	\$0.64
1.2	Industrial Waste Surcharge - Total Suspended Solids (TSS)	Per Kilogram	\$0.70
1.3	Industrial Waste Surcharge - Total Phosphorus (TP)	Per Kilogram	\$2.24
1.4	Industrial Waste Surcharge - Total Kjeldahl Nitrogen (TKN)	Per Kilogram	\$1.43

- e. Effective January 1, 2016, the water rebate for eligible low-income seniors and low-income disabled persons be set at a rate of \$1.035 /m<sup>3</sup>, representing a 30% reduction from the Block 1 rate (paid on or before the due date).
3. Council authorize that effective January 1, 2016 the Block 2 process use rate for eligible properties in the industrial property tax class be applicable to volume of water consumed over 5,000 cubic metres per year (m<sup>3</sup>/year), and as such, that the eligibility criteria for the Block 2 rate be changed to require that an eligible customer must have an annual consumption of over 5,000 m<sup>3</sup>/year instead of 6,000 m<sup>3</sup>/year.
4. Council authorize that the necessary amendments be made to Municipal Code Chapter 441 - Fees and Charges, Municipal Code, Chapter 849 - Water and Sewage Services and Utility Bill, and Municipal Code Chapter 681- Sewers, and any other necessary Municipal Code Chapters as may be required, to give effect to these Recommendations.
5. Council grant authority 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.
6. 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 currently fully funded on a ‘pay-as-you-go’ basis through a combined water and wastewater rate without any reliance on property taxes or borrowing/debenture financing. The property tax supported budget is not impacted by adoption of the recommendations contained in this report.

Based on the recommended 2016 Toronto Water Operating and Capital Budgets, the updated water consumption forecast, and Council’s direction that the Capital Plan be predicated on 8% rate increase in 2016 for planning purposes, a rate increase of 8% for 2016 is recommended for Block 1 consumers, and Block 2 industrial process-use consumers. An 8% increase in 2016 will raise additional \$80 million revenue for the Toronto Water Program.

As shown in Chart 1 below, the recommended rate increase impact on an average home consuming 280 m<sup>3</sup>/year, billed at the Block 1 Rate, will be 8% or \$72 over the calendar

year (from \$894 in 2015 to \$966 in 2016). The impact of the 8% increase on a commercial consumer at the Block 1 rate and an industrial consumer at the Block 2 rate with annual consumption of 100,000 m<sup>3</sup> will be \$25,556 and \$18,349 respectively, the latter reflecting a 30% discount over Block 1 rates for eligible industrial consumers. The rate increase impact on a large industrial consumer of 1,000,000 m<sup>3</sup> eligible for the Block 2 rate will be \$179,351.

**Chart 1- Impact of Recommended 8% Rate Increase Implemented January 1, 2016**

Type of Property	Typical Consumption	2015 Annualized Cost	2016 Projected cost	2016 Rate Increase Impact	
<b>Residential</b>	280	\$894	\$966	\$72	8.0%
<b>Commercial</b>	100,000	\$319,453	\$345,009	\$25,556	8.0%
<b>Industrial</b>	100,000	\$229,364	\$247,714	\$18,349	8.0%
<b>Large Industrial</b>	1,000,000	\$2,241,890	\$2,421,242	\$179,351	8.0%

The recommended inflationary increases to certain water and wastewater service fees set out in Appendix C are expected to generate additional revenue of approximately \$242,880 in 2016, which is intended to offset the cost increases associated with delivering these services.

This report also recommends reducing the eligibility consumption threshold for the industrial Block 2 consumers to 5,000 m<sup>3</sup> (from 6,000 m<sup>3</sup>) to allow for smaller industrial process users to benefit from the reduced rate. The potential impact of such change would be in the range of \$190,000 revenue reduction in 2016, which has been reflected in the rate model and recommended rates.

## **DECISION HISTORY**

At its meeting on March 10 and 11, 2015, City Council adopted the water and wastewater consumption rates and service fees to be charged to metered and flat rate consumers for 2015. The 2015 Water and Wastewater Rates and Service Fees report, adopted by Council as amended, can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX3.1>

## **ISSUE BACKGROUND**

The City adopts annually a by-law to establish its water and wastewater consumption rates and service fees. Adoption of the concurrent recommended Toronto Water 2016 Operating and 2016-2025 Capital Budgets, will necessitate an increase in the 2016 water and wastewater rates as outlined in this report.

The Program also provides water and wastewater services directly to customers for which it charges a fee generally based on cost recovery. Most water and wastewater service fees are recommended to be increased by the applicable rate of inflation for 2016, except for those that are based on contracts for procured services, and which increase, therefore, reflects the actual contract price.

In 2006, City Council adopted a 10 year capital plan (2006-2015) based on 9 years of 9% rate increases to address the backlog of state of good repair projects and rapidly changing priorities related to wet weather flow management. The intention was to bring the water rate increases to the rate of inflation in 2015. However, the systematic decline in water consumption has resulted in a \$1 billion shortfall in capital funding. In order to address this shortfall, during the 2014 budget approval process, City Council adopted a motion to amend the Capital Plan for planning purposes, to reflect an 8% rate increase in 2015-2017, which would allow for the unfunded \$1 billion of capital projects to be included in the 10 year Capital Plan. In March 2015, City Council adopted with amendments the '2015 Water and Wastewater Rates and Service Fees' Report, recommending an 8% increase for 2015-2016, and 5% for 2017-2018.

## **COMMENTS**

### **Financial Model**

The financial model used to forecast water and wastewater rates is premised upon the objective that the Program remains fully self-funded and financially stable, with both operating and capital needs being met without excessive year-over-year fluctuations over the long term.

During the 2016 budget review process, staff updated the 10 year Capital Plan that will allow Toronto Water to deliver on key priorities, while also addressing emerging service improvement projects. In order to provide the necessary revenue stream for the recommended 2016-2025 Capital Plan in accordance with its project delivery schedule, staff are recommending 8% rate increases in 2016, followed by two years of 5% rate increases in 2017 and 2018 and inflationary rate increase of 3% in the remaining years of the ten year plan.

#### **Recommended Water and Wastewater Service Rate Increases**

<u>Year</u>	<u>Rate Increase</u>
2016	8%
2017	5%
2018	5%
2019+	3%

Toronto Water's recommended 2016 Operating and Capital Budgets, and ten-year plans, are considered together with the projected water consumption to generate the water and wastewater rates which will self-finance the Program over the ten-year planning period,

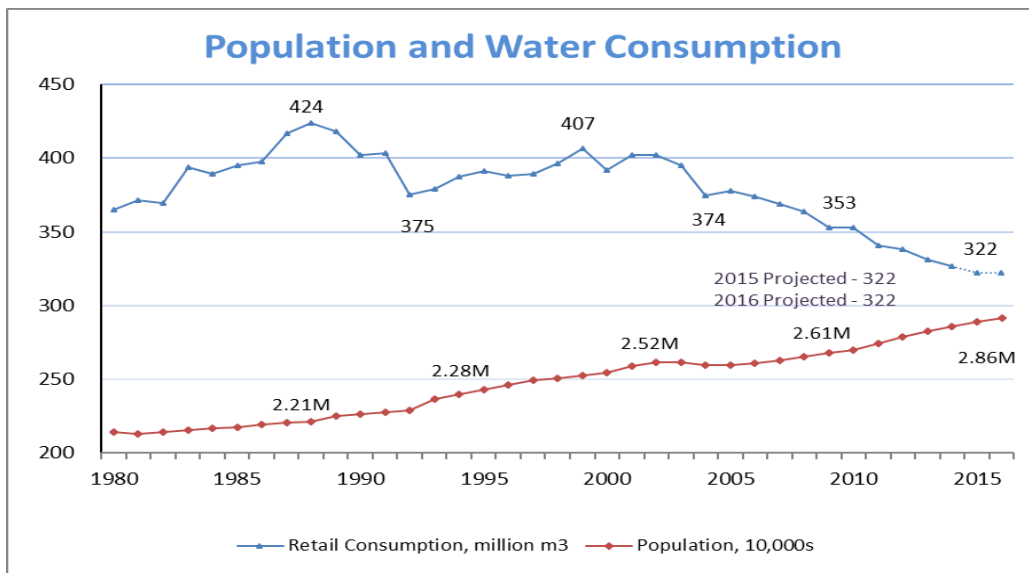
including reserve contributions. The current financing model does not rely on any debt issuance.

The 2016 financial model also assumes that 85% of the net Capital Budget (after grants, subsidies and other capital contributions) will be drawn from Toronto Water's Capital Reserve, based on the current capital completion level experienced by the Program, so as not to overstate actual projected funding requirements.

### Water Consumption Forecast

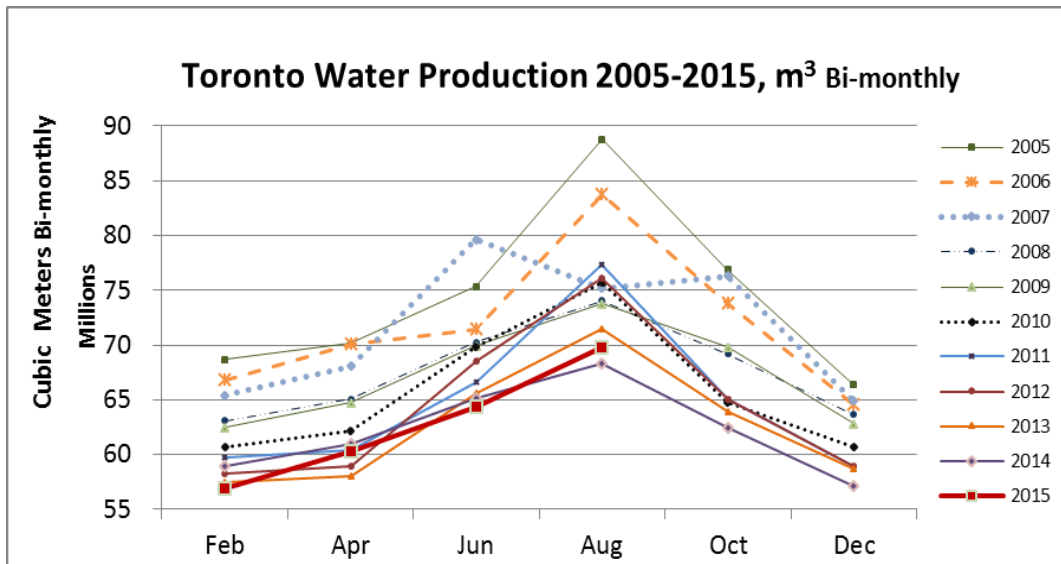
Over the last decade, despite the increase in population, there has been a trend towards reduced consumption, as shown in Chart 2 below. Toronto’s water consumption projected to 2015 year-end is estimated at 322 million cubic metres, which represents a substantial drop from 374 million cubic meters in 2005. Although weather conditions can have an effect on consumption, the observed systematic decline in water consumption is predominantly attributed to water efficiency measures and other economic factors.

**Chart 2 - Toronto Retail Water Consumption**



Analysis confirms that there has been a systematic and permanent reduction in base consumption, demonstrated by consumption in the shoulder seasons from October to April (excluding summer months). Chart 3 shows that over the last 10 years, base water consumption has fallen 15.1%, or 1.5% annually on average. Summer consumption, although more weather dependent, also shows a reduction over the same period of over 18.3%, or 1.8% annually.

**Chart 3 –Water Production (2005 to 2015)**



In 2015 the summer consumption was 0.5% higher than in 2014, but the base consumption, during the first 4 months was 2.2% lower than 2014, and staff project 2015 total consumption to be 1.5% lower than 2014 actual consumption, based on the billing data to the end of August 2015.

The 2.2% decline in consumption in the first 4 months of 2015 compared to the same period of the previous year, suggest a continuous decline in base consumption, which is expected to be partially offset by population growth. Staff are projecting a 0.5% decline per annum for the 10 year planning period.

### **2016 Operating Budget and 2016 - 2025 Capital Plan**

The concurrent Toronto Water 2016 Operating and Capital Budget Notes provide details on Toronto Water’s proposed 2016 Operating and Capital Budgets. A summary of the 2016 Operating Budget and Forecast, the 2016-2025 Capital Plan, and the resulting rate requirements is presented in Appendix A, attached to this report, together with the sources of capital financing and corresponding reserve balances.

### **2016 Operating Budget**

The 2016 Recommended Operating Budget gross expenditure of \$439.488 million is outlined in detail in the concurrent Toronto Water 2016 Operating Budget Notes. The 2016 net expenditures inclusive of capital financing to be funded by the water rate is \$1.080 billion. A further \$78.212 million is expected to be generated from the sale of water to the Region of York (\$23.178 million) and user service fees (\$55.034 million), for a total program expenditure and revenue of \$1.158 billion. The recommended capital contribution from operations for 2016 is \$718.989 million.

## 2016 Recommended Operating Budget

	<u>\$ Millions</u>
Gross Operating Cost	\$439.488
Capital from Current	<u>\$718.989</u>
	\$1,158.478
Other Revenues	<u>(\$78.212)</u>
<b>Net Expenditure to be Financed from Water Rates</b>	<b>\$1,080.266</b>

### 2016 - 2025 Capital Plan

Toronto Water's Capital Program continues to be 100% self-sustaining, largely through water revenues, with no debenture financing and no impact on the municipal property tax levy. However, declining water consumption and a number of competing infrastructure priorities have placed significant pressure on the long term capital program.

The 2016–2025 Recommended Capital Plan of \$11.155 billion is based on the available funding provided by the current capital financing plan that is based on 8% water rate increases in 2016, followed by 5% increases in 2017 and 2018 and inflationary-related water rate increases in 2019 and beyond.

The concurrent Toronto Water 2016 Capital Budget Notes provide details on Toronto Water's proposed 2016-2025 Capital Plan.

Toronto Water's Capital Program has a number of emerging pressures, and stormwater management is an area Council has identified as a growing concern and priority. Stormwater management initiatives include Basement Flooding Protection Plan projects that reduce the risk of basement flooding during extreme storm events, and water quality and stream restoration projects to improve the City's environment and protect vulnerable City sewer infrastructure.

The concurrent staff report "Funding Options for Paying for the Toronto Water's Stormwater Management Capital Program", highlights the growing needs of the stormwater management capital program, which portion of the total capital program is projected to grow from 18% in 2015 to 40% in 2025. The report recommends development of an implementation plan for a separate funding structure for stormwater management based on alternative parameters including per lot charges and impervious area.

The recommended 2016-2025 Capital Plan is based on the current consumption based water rate funding and all necessary revenues for the Capital Plan are to be generated by the recommended rate increases in this report until such time that Council approves a new funding structure.

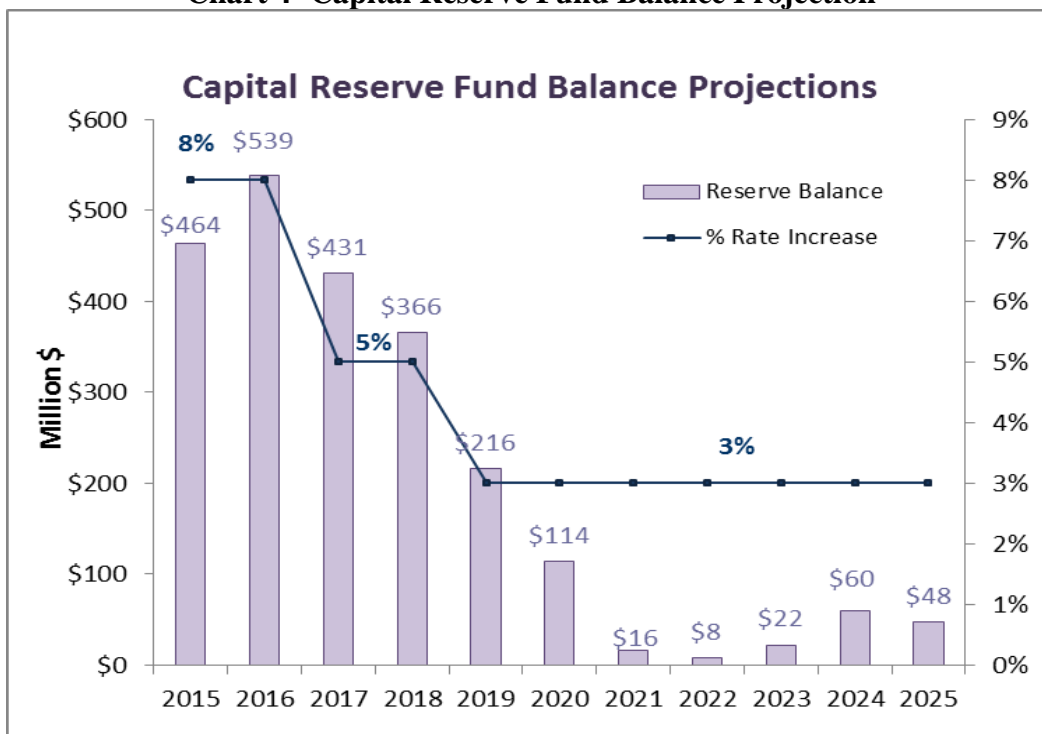


## Capital Reserve Funds

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

Chart 4 below shows the capital reserve fund balance for the period 2015-2025 and the projected annual rate increases outlined in this report. The capital reserve is being replenished to above \$500 million during the second year of recommended 8% rate increase in 2016, and slowly decreasing over the following years. The Capital reserve is expected to drop to about \$8-20 million during 2021-23 period. Toronto Water manages and maintains assets valued at \$28 billion and a reserve of \$8 million representing only 0.028% of the infrastructure asset is considered insufficient in case of emergencies and increasing cost of maintaining aging infrastructure.

**Chart 4 -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 that result in water consumption below projected levels. Circumstances giving rise to lower than forecasted consumption can include loss of major water consumers, and unusually wet summers.

At its meeting on December, 2007, Toronto City Council directed that 1% of budgeted water user revenue, be contributed to the Water & Wastewater Stabilization reserves, apportioned as 43% to Water and 57% to Wastewater, until such time that a minimum combined balance of \$30 million be reached between them. Any excess amounts are transferred to the Capital Reserves in order to use those additional funds for capital projects.

The rate model is based on the assumption that the combined Stabilization Reserve balance is at \$30 million over the 10 year planning period and any balance above \$30 million is transferred to Capital Reserve.

### **Tree Canopy Reserve**

During the 2015 Budget Process, City Council authorized the creation of a Tree Canopy Reserve Fund to help achieve City's forest canopy targets, and directed that funding in the amount of \$1.0 million be provided from the Stabilization Reserve. A separate Administrative Report on Reserve and Reserve Funds will address this direction.

### **Industrial Rate Competitiveness**

As of September 2015, there were 141 industrial accounts at the Block 2 rate, which receive a 30% discount compared to the Block 1 rate.

At its meeting on February 20, 2015, Budget Committee requested a report on all costs levied locally on manufactures by the City of Toronto and its agencies, including an assessment of how competitive these charges are with respect to other jurisdictions in North America. The concurrent report "Competitiveness – Municipal User Rates Study Findings – Costs and Levies Charged to Manufacturing" addresses industrial competitiveness in the City, and includes analysis of the current water cost, as well as impact assessment of alternative pricing for Water Services, provided by Watson and Associates.

In addition, the concurrent staff report "Funding Options for Paying for the Toronto Water's Stormwater Management Capital Program" gives consideration to a stormwater charge for possible implementation as early as 2018.

The implementation of a stormwater charge will enhance business competitiveness for large water users. The preliminary impact analysis of the potential stormwater charge, conducted by staff and independently confirmed by Watson and Associates, indicates that properties with large water consumption and relatively small impervious area contribute disproportionately towards the cost of stormwater management, and a stormwater charge based on impervious area rather than consumption will decrease their total water bill and improve fairness.

The competitiveness study results, show that although the City of Toronto is in the lower end for cost for large industries and near the average for medium size industries, the small industries seem to be at disadvantage. In order to address the competitiveness

issues for small industries, staff are recommending the reduced Block 2 rate annual water consumption threshold to be decreased from over 6,000 cubic metres per year (m<sup>3</sup>/year) to over 5,000 m<sup>3</sup>/year to allow for smaller industrial process users to benefit from the reduced rate. The potential impact of such change would be in the range of \$190,000 revenue reduction in 2016, which has been reflected in the rate model and recommended rates.

### **Flat-rate Accounts**

As of September 2015, there were approximately 1,000 remaining flat-rate accounts compared to 72,000 flat-rate accounts in 2007. Most of these are single-family residential homes with obstructed access. This report recommends a 8% increase to the water and wastewater rates charged to flat-rate consumers, as is the case with metered customers.

The City's Water Meter Program which includes City-wide water meter replacement coupled with the concurrent installation of an automated meter reading technology is now 99% complete. The remaining flat-rate accounts represent less than 1% of the total number of accounts, most of which have refused the installation of an automated water meter and have been subject to a flat rate legacy fee of \$1,100 per year, since July, 2014

### **Assistance for Eligible Low-Income Seniors and Low-Income Disabled Persons**

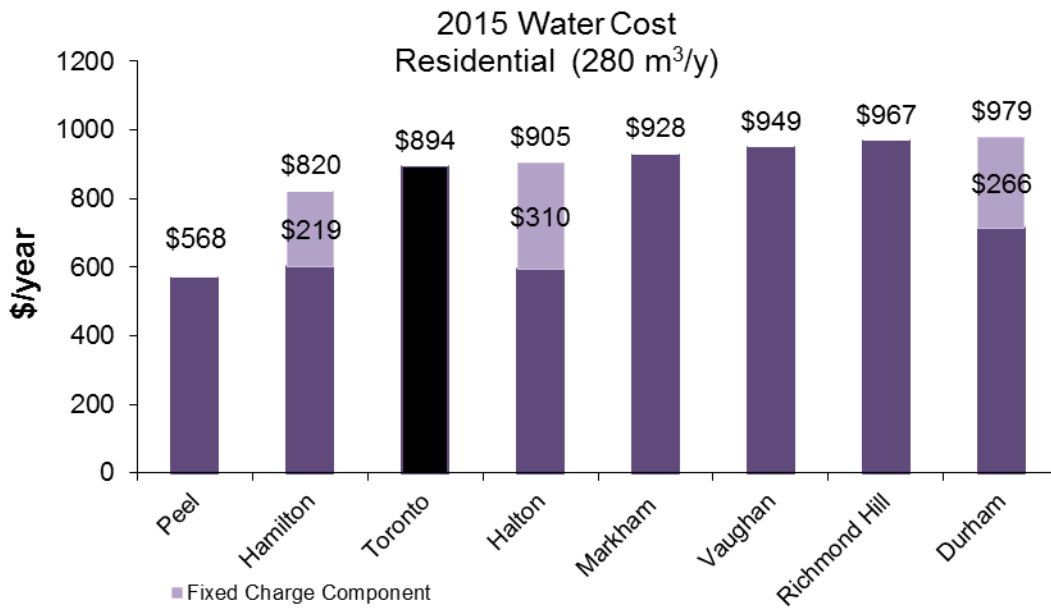
As part of the City's water rate structure, since January 1, 2008, Council has approved a water rebate program for low-income seniors and low-income persons with disabilities who meet the eligibility criteria as prescribed in the Municipal Code, Chapter 849. This rebate is set at the difference between the Block 1 and Block 2 rates, which represents a 30% reduction in their billing (based on the paid on or before due date rate). The rebate is only applicable if the household annual consumption is less than 400 cubic meters per year, to provide assistance to those most in need.

In 2015, the City processed 4,840 low income water rebate applications for a total rebate amount of \$740,000.

### **Comparison of Water Rates in GTA Municipalities**

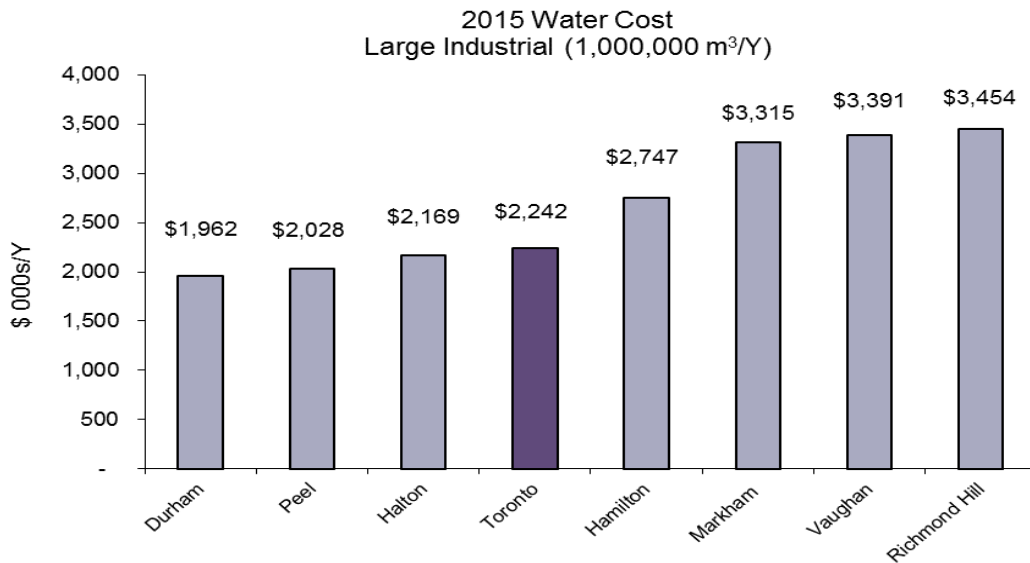
Toronto's 2015 water rate for residential consumers, in comparison to surrounding municipalities, is shown in Chart 5 (2016 rates for surrounding municipalities are not yet available). Toronto is amongst the lowest water cost jurisdictions for residential consumers in southern Ontario, based on the average household consumption of 280 cubic metres. It should be noted that in Peel Region, storm water related projects were still funded from property taxes in 2015, and that the City of Mississauga is implementing a stormwater charge to be added to their water bill in 2016. Chart 6 provides a similar comparison for large industrial users, and shows that Toronto offers a reasonably low water cost amongst GTA municipalities.

**Chart 5 – GTA Residential Water Cost**



*\*Note: Peel stormwater funded from property tax*

**Chart 6 - GTA Industrial Water Cost**



## **Water and Wastewater Services Fees**

As noted earlier, while most of the Program's revenue is generated through the sale of water, other revenues are also accrued through user fees charged for various specific water and wastewater services. These fees, along with the proposed fee increases, are identified in Appendix C attached to this report.

In order to comply with the City's full cost recovery policy, it is recommended that certain water and wastewater service fees be increased to recover the cost of services provided. Most fees are recommended to be increased by the applicable rate of inflation for 2016, except for those that are based on contracts for procured services, and which increase, therefore, reflects the actual contract price.

### **Recommended Increases to Existing Water Fees**

In 2016, inflationary increases are being recommended to 19 water service fees. Eleven of those fees, (Reference Numbers: 11, 12, 13, 15, 15.1, 17, 21, 25, 32, 40 and 44 in the attached Appendix C – 2016 Water Services Fees) are recommended to be increased by 2.41%, intended to reflect the market conditions and current costs of labour, energy, utilities and materials involved in providing those services by Toronto Water. In addition, 8 Revenue Services and Operational Support Fees (Ref. No. 33 to 37, 39 and 43 in the attached Appendix C – 2016 Water Services Fees) are recommended to be increased by 2% which is the inflationary factor for the Revenue Services Division, mainly reflecting labour cost increase.

Water service connection and disconnection fees, Ref No. 1, 2 and 5 are recommended for increases based on actual cost determined by increased tender prices for construction work and permanent repairs.

Chart 10 below summarizes the proposed changes, comparing the 2015 fee and the recommended 2016 fee, as well as the rationale for the increase and expected annual revenue change.

Chart 10

Ref. No.	Fee Description	2015 fee	Proposed 2016 fee	% increase	Rationale
1	Installing 19 mm New Residential Water Service and meter	\$2,848.00	\$4,400.00	54.5%	Increase in contracted costs; permanent restoration costs passed on to TW by Transportation Services
2	Installing 25 mm New Residential Water Service and Meter	\$3,281.00	\$5,100.00	55.4%	Increase in contracted costs; permanent restoration costs passed on to TW by Transportation Services
5	Disconnection Fee for any residential water service less than or equal to 25 mm	\$464.00	\$1,300.00	180.2%	Increase in contracted costs; permanent restoration costs passed on to TW by Transportation Services
11	Fire hydrant Permit	\$160.90	\$164.77	2.4%	2.41% Toronto Water Inflation
12	Water meter accuracy test ; Meter less than or equal to 50mm - No Chamber - applied if meter does not over-register	\$160.90	\$164.77	2.4%	2.41% Toronto Water Inflation
13	Water turn off fee for demolition; (disconnection of old water service not included)	\$80.40	\$82.33	2.4%	2.41% Toronto Water Inflation
15	Water Turn-off or Turn-on	\$80.40	\$82.33	2.4%	2.41% Toronto Water Inflation
15.1	Single Service call Turn-off and Turn-on within 30 min	\$80.40	\$82.33	2.4%	2.41% Toronto Water Inflation
17	Conduct fire hydrant flow test	\$268.20	\$274.66	2.4%	2.41% Toronto Water Inflation
21	Unregistered water each day order not complied	\$53.60	\$54.89	2.4%	2.41% Toronto Water Inflation
25	Annual Seasonal Meter Activation Fee : includes replacement, removal of water meter; 1 turn on, 1 turn off	\$206.30	\$211.27	2.4%	2.41% Toronto Water Inflation
32	Reuse of residential water service 19 mm to 25 mm	\$268.00	\$274.40	2.4%	2.41% Toronto Water Inflation
33	Administrative fee to reflect a change in ownership on an existing utility account	\$36.40	\$37.12	2.0%	2.0 % Revenue Services Inflation
35	Water Special/Final Reading	\$15.60	\$15.91	2.0%	2.0 % Revenue Services Inflation
36	Water Consumption Statements	\$41.60	\$42.43	2.0%	2.0 % Revenue Services Inflation
37	Water Consumption Statements	\$26.00	\$26.52	2.0%	2.0 % Revenue Services Inflation
39	Water Collection Field Visit	\$26.00	\$26.52	2.0%	2.0 % Revenue Services Inflation
40	Administration of MOECC Municipal drinking Water Licensing Program	\$2,425.80	\$2,484.26	2.4%	2.41% Toronto Water Inflation
41	Fee for lost or damaged automated meter reading transmitter	\$75.00	\$76.50	2.0%	2.0 % Revenue Services Inflation
42	Manual water meter reading fee for consumers with water meters refusing installation of a new automatic water meter and associated meter reading equipment	\$82.55	\$84.20	2.0%	2.0 % Revenue Services Inflation
43	Flat rate legacy fee, in addition to any existing water and wastewater flat rates charged, for residential flat rate consumers who refuse the installation of an automatic water meter and associated meter reading equipment	\$1,101.00	\$1,123.02	2.0%	2.0 % Revenue Services Inflation
44	Processing annual water supply backflow prevention device testing reports	\$50.00	\$51.20	2.4%	2.41% Toronto Water Inflation

### **Recommended Increases to Existing Wastewater Fees**

There are 6 wastewater service fees in connection with inspection, technical reviews by staff and establishment of new industrial surcharge agreements, which are recommended for inflationary increase of 2.41% in 2016 (Reference Numbers: 15, 16, 17, 18, 19 and 20 in the attached Appendix C – 2016 Wastewater Services Fees). The increases in these fees are intended to reflect the market conditions and current costs to Toronto Water for providing these services.

In addition, increased fees are recommended for the treatment of certain treatable parameters in sewage (Reference Numbers: 1.1, 1.2, 1.3 and 1.4 in the attached Appendix C – 2016 Wastewater Services Fees) received from industrial facilities. The current fee schedule has not changed since 2013 and the recommended fees are based on the current operational, capital and administrative costs for treatment. The process for establishing an agreement for treatment of sewage that exceeds one or more parameters set out in the Sewers By-law and the formula for calculating costs is set out below.

The General Manager may authorize an industry to discharge or deposit sewage into a municipal sanitary or combined sewer, otherwise prohibited by Chapter 681 of the Municipal Code (the Sewer's By-law), where authorized by and only to the permitted extent of an industrial waste surcharge agreement or permit (IWSA); subject to certain restrictions, terms and conditions, and payment of the related operational, capital and administrative costs of treatment and the IWSA.

An IWSA may only be entered into with respect to the discharge of the following treatable parameters in sewage: biochemical oxygen demand, phenolics (4AAP), total kjeldahl nitrogen (TKN), total phosphorus or total suspended solids. The fee for an IWSA is based on the parameter that has the highest exceedance over the parameters limits set out in Chapter 681, regardless of the number of permitted parameters discharged.

### **Also recommended for increase are the following wastewater fees:**

- Fee No. 24 - *Record search for Sewers by-law compliance violation* is recommended for increase from \$50 to \$100 to reflect the actual staff time and administrative costs required to process each request
- Sewer and storm service connection and disconnection fees Reference Numbers 4, 5 and 6 are recommended for increases based on actual cost determined by increased tender prices for construction work and permanent repairs.

Chart 11 below summarizes the proposed changes, comparing the 2015 fee and the recommended 2016 fee, as well as the percentage increase and expected annual revenue increase.

## CHART11

Ref. No.	Fee Description	2015 fee	Proposed 2016 fee	% Increase	Rationale
1.1	Industrial Waste Surcharge - Biochemical Oxygen Demand (BOD) or Phenolics (4AAP)	\$0.62	\$0.64 (effective April 1, 2016)	3.2%	Review of capital costs, O & M costs, Admin costs
1.2	Industrial Waste Surcharge - Total Suspended Solids (TSS)	\$0.60	\$0.70 (effective April 1, 2016)	16.7%	Review of capital costs, O & M costs, Admin costs
1.3	Industrial Waste Surcharge - Total Phosphorus (TP)	\$1.69	\$2.24 (effective April 1, 2016)	32.5%	Review of capital costs, O & M costs, Admin costs
1.4	Industrial Waste Surcharge - Total Kjeldahl Nitrogen (TKN)	\$1.18	\$1.43 (effective April 1, 2016)	21.2%	Review of capital costs, O & M costs, Admin costs
2	Sewer Surcharge on private water	57% of Block 1 Water Rate	57% of Block 1 Water Rate		Reflected in annual water rate charge
3	Industrial Waste Surcharge Agreement or Permit where the anticipated total fees for one year or lesser term are \$ 500 or less calculated in accord with Ref. No.1.1 -1.4 & 2 above, as applicable	Calculated in accord with Ref. No. 1.1 - 1.4 above, as applicable - \$500.00 minimum	Calculated in accord with Ref. No. 1.1 - 1.4 above as applicable - \$500.00 minimum		Stated in Sewers By-law
3.1	Sanitary Discharge Agreement or Permit where the anticipated total fees for one year or lesser term are \$20,000 or less calculated in accordance with Ref. No. 2 above	Calculated in accord with Ref. No. 2 above - \$500.00 minimum	Calculated in accord with Ref. No. 2 above - \$500.00 minimum		Stated in Sewers By-law
4	To install new residential sanitary sewer service connection in road allowance	\$7,693.00	\$11,000	43.0%	Increase in contracted costs; permanent restoration costs passed on to TW by Transportation Services
5	To install new residential storm sewer service connection in road allowance	\$7,693.00	\$11,000	43.0%	Increase in contracted costs; permanent restoration costs passed on to TW by Transportation Services
6	To disconnect residential sanitary sewer service connection in road allowance	\$806.90	\$1,360	68.5%	Increase in contracted costs; permanent restoration costs passed on to TW by Transportation Services
15	Inspection fee for the reuse of residential City sewer connection up to 150 mm in diameter	\$537.60	\$550	2.3%	2.41% Toronto Water Inflation
16	Technical Review by Toronto Water staff - Application to Toronto Water for exemption to permit the construction of a driveway sloped downwards towards a residential building.	\$1,610.00	\$1,648.50	2.4%	2.41% Toronto Water Inflation
17	Technical Review by Toronto Water staff - Application to Toronto Water for new connection or change or alteration to the existing storm connection, sanitary or water supply connection	\$322 minimum fee; additional \$79.4/hour for each hour after 4 hours to a maximum of \$1,610	\$329.5 minimum fee; additional \$81.3 for each hour after 4 hours to a maximum of \$1,648.5	2.4%	2.41% Toronto Water Inflation
18	Technical Review by Toronto Water staff - Application to Toronto Water for request to encroach within a City permanent or temporary easement (related to City water and sewer infrastructure)	\$322 minimum fee; additional \$79.4/hour for each hour after 4 hours to a maximum of \$1,610	\$329.5 minimum fee; additional \$81.3 for each hour after 4 hours to a maximum of \$1,648.5	2.4%	2.41% Toronto Water Inflation
19	Technical Review by Toronto Water staff - Application to Toronto Water for request to release from title a City easement (related to City water and sewer infrastructure)	\$322 minimum fee; additional \$79.4/hour for each hour after 4 hours to a maximum of \$1,610	\$329.5 minimum fee; additional \$81.3 for each hour after 4 hours to a maximum of \$1,648.5	2.4%	2.41% Toronto Water Inflation
20	Initial fee for establishment of new industrial waste surcharge agreement	\$825.50	\$845.30	2.4%	2.41% Toronto Water Inflation
24	Record search for Sewers by-law compliance violation	\$50.00	\$100.00	100.0%	Increased to reflect the actual staff time and administrative costs required to process each request



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## SIGNATURES

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Roberto Rossini  
Deputy City Manager  
& Chief Financial Officer

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Lou Di Gironimo  
General Manager, Toronto Water

## ATTACHMENTS

Appendix A – Summary of 2016 Operating and Capital Budget and Forecast,  
Corresponding Rate Increase and Capital Financing  
Appendix B – 2016 Water and Wastewater Consumption Rates  
Appendix C – 2016 Water and Wastewater Service Fees

**Appendix A – Summary of 2016 Operating and Capital budget and 2016-2025 Capital Plan and Operating Forecast,  
Corresponding Rate Increases, and Capital Financing, \$ Million**

	2015 Budget	2015 Projected Actual	2016 - 2025 Plan									
			2016	2017	2018	2019*	2020	2021	2022	2023*	2024	2025
<b>TORONTO WATER</b>												
Gross Operating Budget	438.45	430.80	439.49	453.78	465.13	476.76	488.67	500.89	513.41	526.25	539.41	552.89
Capital from Current Net Expenditure to be Financed by Water Rate	642.69	633.13	718.99	753.84	794.62	813.96	841.05	861.53	882.51	904.00	934.07	956.83
	1,003.80	987.17	1,080.27	1,127.46	1,177.57	1,206.49	1,243.39	1,273.93	1,305.22	1,337.28	1,378.19	1,412.04
<b>WATER RATE INCREASE</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>5%</b>	<b>5%</b>	<b>4%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>4%</b>	<b>3%</b>	<b>3%</b>
Other Revenues	77.34	76.77	78.21	80.17	82.17	84.23	86.33	88.49	90.70	92.97	95.29	97.68
Total Revenues	1,081.14	1,063.94	1,158.48	1,207.62	1,259.75	1,290.72	1,329.72	1,362.42	1,395.92	1,430.25	1,473.48	1,509.72
<b>CAPITAL FINANCING</b>												
Gross Capital Budget	756.64	756.64	849.08	1,090.24	1,086.50	1,208.05	1,164.16	1,189.89	1,106.96	1,114.97	1,129.84	1,215.39
Net Capital Budget Capital Reserve Funding Level	723.94	708.48	756.07	1,014.97	1,009.95	1,135.24	1,110.50	1,129.41	1,047.92	1,046.51	1,054.41	1,136.82
	85%	81%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Net Capital Spending	615.35	576.43	642.66	862.73	858.45	964.95	943.93	959.99	890.73	889.53	896.25	966.29
<b>CAPITAL RESERVE CLOSING BALANCE</b>	<b>513.05</b>	<b>463.71</b>	<b>538.82</b>	<b>430.94</b>	<b>365.97</b>	<b>216.14</b>	<b>113.93</b>	<b>15.72</b>	<b>7.55</b>	<b>22.07</b>	<b>60.06</b>	<b>47.70</b>