



## STAFF REPORT ACTION REQUIRED

### 2011 Water and Wastewater Rates

<b>Date:</b>	January 5, 2011
<b>To:</b>	Budget Committee
<b>From:</b>	Deputy City Manager and Chief Financial Officer General Manager, Toronto Water
<b>Wards:</b>	All Wards
<b>Reference Number:</b>	P:\2011\Internal Services\Cf\Bc11003cf - AFS #13099

#### SUMMARY

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This report presents the recommended 2011 water and wastewater rates supporting the 2011 Toronto Water Recommended Operating and Capital Budgets. It is recommended that the Block 1 rate for all customers be increased by 10.8% effective March 1, 2011, which translates to a 9% effective annual rate increase. In accordance with Council's previously adopted rate structure, to promote the City's competitiveness, the Block 2 rate for eligible industries represents a 30% reduction over the Block 1 rate, and results in an 8.6% increase effective March 1, which translates to a 7.2% effective annual increase.

#### RECOMMENDATIONS

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

1. This report be considered concurrently with the 2011-2020 Capital Plan and the 2011 Operating Budget, and that:
  - a. Effective March 1, 2011, the combined water and wastewater rates charged to metered consumers shall be as shown below and in Appendix A 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 <sup>3</sup>	\$2.2842	\$2.4045
Block 2 - Industrial tax class, volumes consumed over 6,000 m <sup>3</sup> , representing 30% reduction from the Block 1 Rate	\$1.5989	\$1.6831

- b. The water and wastewater rates charged to flat rate consumers be increased by 10.8%, effective March 1, 2011, to the rates shown in Appendix A attached to this report;
  - c. Effective March 1, 2011, the water and wastewater service fees shall be as shown in Appendix B attached to this report;
  - d. Effective March 1, 2011, an administrative fee be charged to reflect a change in ownership on an existing utility account, with the fee to be set at \$35.00 per ownership change per utility account, as set out in Appendix B - Water Services, Ref. No. 33.
2. With respect to assistance for low-income seniors and low-income disabled persons:
  - a. The rebate for eligible low-income seniors and low-income disabled persons be set at a rate of \$0.6853 /m<sup>3</sup>, effective March 1, 2011, representing a 30% reduction from the Block 1 Rate.
3. 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, and any other necessary Municipal Code Chapters as may be required, to give effect to Recommendations (1) and (2) above.
4. 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.
5. 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 supported budget is not impacted by adoption of the recommendations contained in this report.

Based on the recommended 2011 Toronto Water Operating and Capital Budgets, the updated consumption forecast, and Council's adopted water rate structure, a rate increase of 10.8% for 2011 is required for Block 1 domestic-use consumers, and a rate increase of 8.6% is required for Block 2 process-use industrial users, both effective March 1, 2011.

The water rates for 2011 will be effective March 1, and applied over 10 months rather than the usual 12 months. In order to have the necessary annual revenue increase of 9%, the Block 1 rate must increase by 10.8% and the Block 2 rate by 8.6% on March 1. There will be a compounding effect of the higher rate increase (10.8% vs. 9%) in the next and future years, however, this will be taken into consideration during next year's budget and 2012 rate setting process

Although the recommended rate increase is 10.8% effective March 1, the average home consuming 300 m<sup>3</sup>/year, billed at the Block 1 Rate, will see an increase of 9% or \$56 over the calendar year in their water bill (from \$618 in 2010 to \$674 for 2011 ) as shown in Chart 1 below.

**Chart 1 – 2011 Water Rate Impact**

Type of property	Consumption	2010 Cost	Projected 2011 cost	2011 Impact	
	m <sup>3</sup> /y	\$/y	\$/y	\$/y	%
<b>Residential</b>	300	\$618	\$674	\$56	9.00%
<b>Industrial</b>	100,000	\$150,797	\$162,219	\$11,422	7.57%
	1,000,000	\$1,476,169	\$1,581,930	\$105,761	7.16%

Pursuant to Council's previously approved industrial water user competitive strategy, the targeted 30% differential between Block 1 and Block 2 rates will be reached in 2011, after 3 years of phase-in. An eligible industrial consumer who, for example, consumes 1,000,000 m<sup>3</sup>/year, will see an effective increase in their water bill of 7.16% in 2011.

## **DECISION HISTORY**

Last year's report authorizing the 2010 water and sewer service rates can be viewed at: <http://www.toronto.ca/budget2010/pdf/staffreport2010water.pdf>

The 2011 interim water rates were approved by Council at its meeting of August 25, 26 and 27, 2010, and the report can be viewed at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.EX46.41>

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 adopts annually a by-law to establish its water and sewer service rates. Adoption of the concurrent recommended Toronto Water 2011 Operating and 2011-2020 Capital Budget, together with the water rate structure plan, will necessitate the 2011 water and wastewater service rates outlined in this report.

The Program also provides services directly to customers for which it charges a fee generally based on cost recovery. This report updates some of these fees for 2011, as well as consolidates all Toronto Water service fees in Municipal Code Chapter 441, Fees and Charges, as part of a broader City initiative to consolidate all fees in one chapter.

## **COMMENTS**

### **Financial Model:**

The financial model used to forecast water and wastewater rates is premised upon the objective that the Program remain fully self funded and financially stable, while both operating and capital needs are met and excessive year-to-year fluctuations are avoided over the long term.

Toronto Water's 2011 Recommended Operating and Capital Budgets, together with their ten-year plan, are considered together with the projected water consumption to generate the water and sewer rates which will self-finance the Toronto Water program over the ten-year planning period, including reserve contributions. The financing model does not rely on any debt issuance.

The model also assumes that 80% of the Net Capital budget (after grants, subsidies and other Capital contributions) will actually be spent, which is based on recent levels of capital spending.

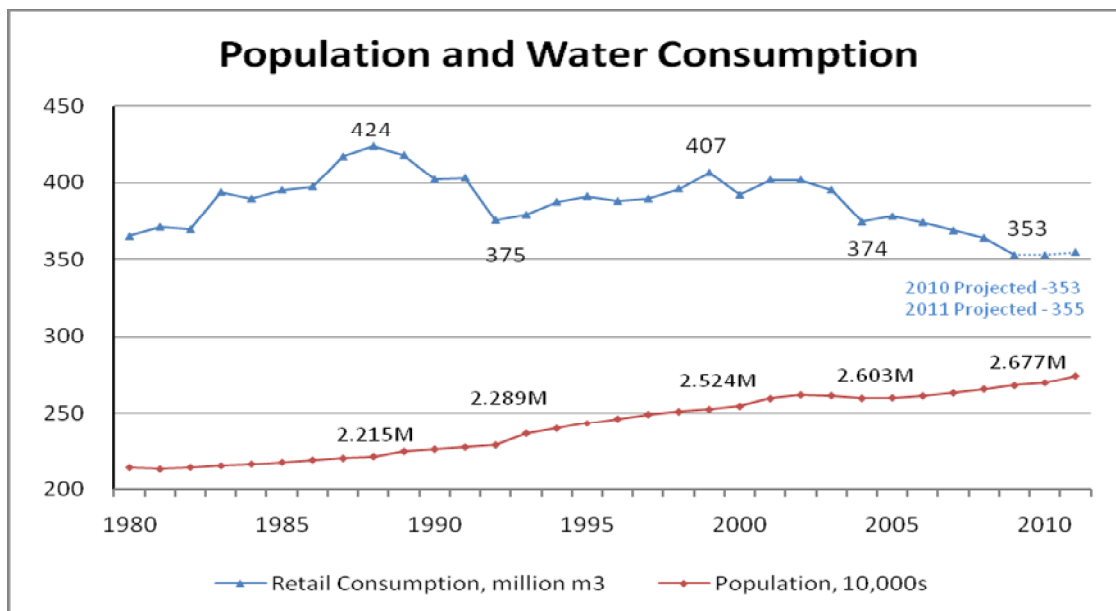
### **Water Consumption Forecast:**

Over the last decade, despite the increase in population, there has been a trend towards reduced consumption, and therefore production, as shown in Chart 2 and 3. Toronto's water consumption projected to 2010 year-end is estimated at 353 million cubic metres, which represents a drop from 374 million cubic meters in 2005. While the effectiveness of the City's Water Efficiency Plan, directed at reducing water consumption to achieve "in-system" capacity to service new growth is recognized, the wetter than normal summers over the past three years (2008 to 2010) have also reduced the demands for summer lawn watering and contributed to the lower annual consumption.

The base forecasted consumption utilized in the rate modelling for 2011 and future years has been set at 353 million cubic metres - the same as the 2009 actual water consumption. In addition to the base consumption, the model also takes into consideration the impact of the implementation of the City's new Water Metering Program, which is expected to

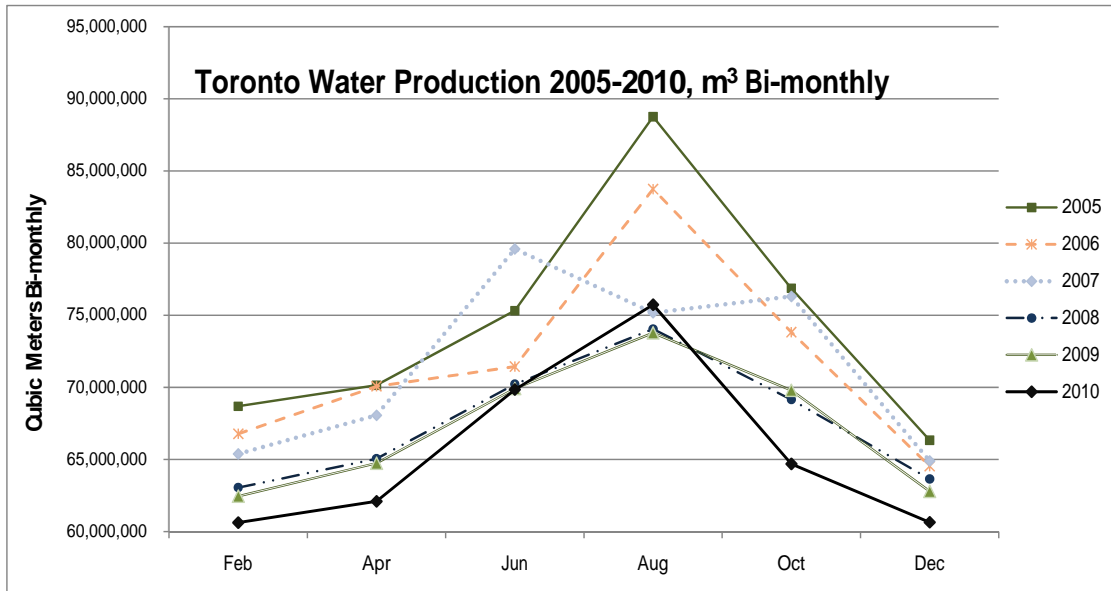
realize higher metered consumption volumes of approximately two million cubic meters as older large volume meters are replaced.

**Chart 2 - Toronto Retail Water Consumption**



As shown in Chart 3, while base consumption (shown during the non-summer periods) has decreased over the last 5 year period, the most significant drop is observed during the summer, indicating a marked reduction in summer lawn watering. On average over the last 5 years, the additional water consumption for outdoor water use during the four summer months (May - August) represents about 36% of the overall annual consumption. The Program has a Rate Stabilization Reserve which is used to moderate the impact of any significant variances in consumption due to uncontrollable factors such as an unusually wet season.

**Chart 3 - Water Production (2005 to 2010)**



**2011 Operating Budget and 2011-2020 Capital Plan:**

The Toronto Water 2011 Operating and Capital Budget Analyst Notes provide details on Toronto Water’s proposed 2011 Operating and Capital Budgets. The budgets are funded predominantly through the sale of water, based on the water and wastewater rate, with some contributions accrued through water and wastewater service fees, the Region of York water sale revenues and Development Charges.

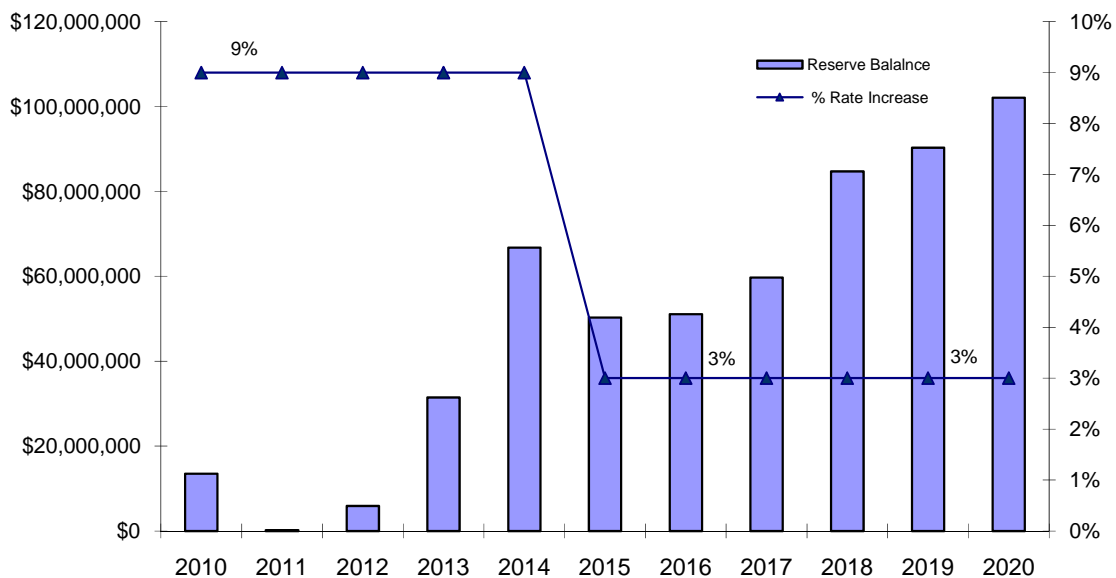
A summary of the 2011 Operating Budget and Forecast, the 2011-2020 Capital Plan, and the resulting rate requirements is presented in Appendix C together with the sources of capital financing and corresponding reserve balances.

**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 model is predicated on replenishment through annual funding from the 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 2011-2020 and the projected effective annual rate increases. Due to substantial infrastructure renewal pressures, the Capital Reserve Balance is expected to be at minimal levels during the period 2011-2013, after which it is projected to reach levels of about \$50 to \$90 million for the period 2014-2020. These amounts represent approximately 6% to 9% of the Capital Budget and are considered reasonable to address unforeseen circumstances.

**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 driving water consumption below projected levels. Circumstances giving rise to lower than forecasted consumption include loss of major water consumers, and unusually wet summers.

As of January 1, 2010 the Rate Stabilization Reserves Balance was at the approved target balance of \$30 million and no further contributions are envisaged at this point.

### Rate Restructuring

In June 2007, City Council adopted a new water rate structure for the City of Toronto commencing on January 1, 2008. This new rate structure provides for a single domestic-use Block 1 rate for all users, with a second Block 2 for industrial/manufacturing process-use for consumption volumes greater than 6,000 m<sup>3</sup>, subject to certain conditions, such as compliance with the City's sewer by-law and implementation of a water conservation plan. The Block 2 process-use rate was initially set at a rate reduction of 20% from Block 1 rate in 2008, to be phased-in over time, increasing by one-third of the rate increase on Block 1, until a differential of 30% between Block 1 and Block 2 was reached.

In adopting the rate restructuring, Council also approved a rebate program 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 5 below shows projected Block 1 and Block 2 rates for the period 2011-2015. The Block 2 rate will reach the targeted 30% reduction from the Block 1 rate in 2011. Staff will give consideration to further issues respecting the rate structure and industry

competitiveness, and report on any recommended changes as part of the 2012 water and wastewater rate setting process.

Currently there are 67 eligible industrial consumer accounts that comply with all requirements and are billed at the Block 2 rate.

**Chart 5 – Projected Rates**

<b>2011 Projections</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Increase - Block 1 and Flat Rate	9.0%	10.8%	9.0%	9.0%	9.0%	3.0%
Increase - Block 2	3.0%	8.6%	9.0%	9.0%	9.0%	3.0%
<i>Effective Rate Revenue Increase</i>	<i>8.68%</i>	<i>8.9%</i>	<i>9.0%</i>	<i>9.0%</i>	<i>9.0%</i>	<i>3.0%</i>
Block 1 Rate	2.0616	2.2842	2.4898	2.7139	2.9582	3.0469
Block 2 Rate	1.4726	1.5990	1.7429	1.8997	2.0707	2.1328
<i>Reduction in Block 3 Rate as a % of Block 1 Rate</i>	<i>-28.6%</i>	<i>-30%</i>	<i>-30%</i>	<i>-30%</i>	<i>-30%</i>	<i>-30%</i>

### **Flat-rate Accounts**

Currently, there are approximately 66,000 flat-rate accounts remaining. Most of these are single-family residential homes. For 2011, given the effective 9% annual rate increase for domestic use, this report recommends a similar 9% increase on the water rates imposed on flat-rate accounts, to be applied as a 10.8% increase as of March 1.

Council at its meeting of June 23 and 24, 2008, approved the Automated Meter Reading System. The AMR System (now referred to as the Water Metering Program) which includes a systematic, conversion of flat rate customers (to metered customers) and a 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. Within a three year period all flat-rate accounts should be metered. Studies have shown that once metered, a typical household consumption falls by 15-20%, and this has been taken into consideration in the water rate modeling and forecast.

### **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, which has been recommended at 30% in 2011. The rebate is only applicable if the household annual consumption is less than 400 cubic meters, to provide eligibility to those most in need.

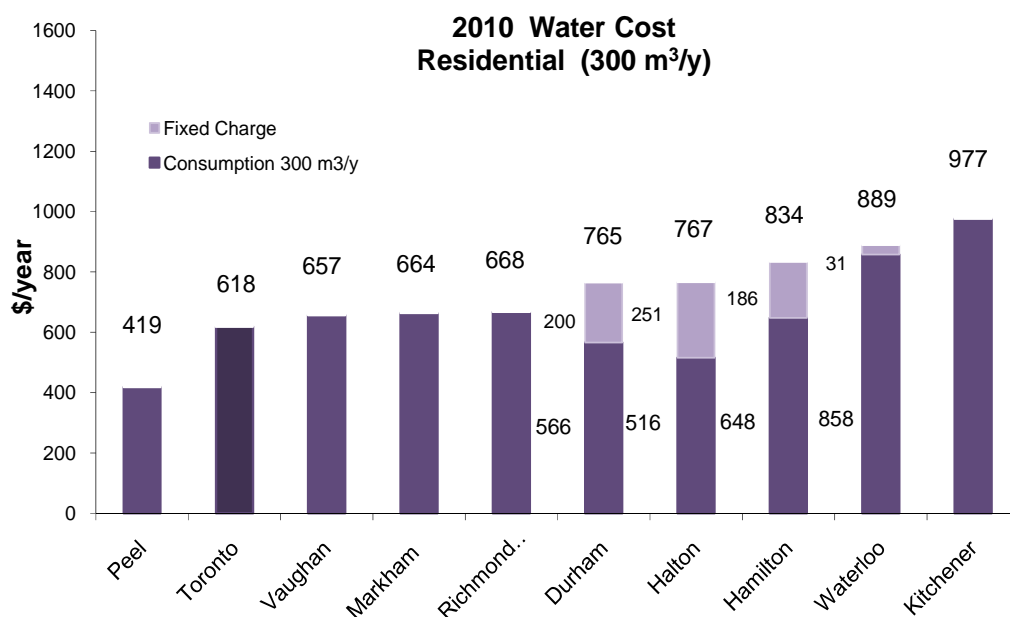
In 2010 the City approved 3,235 applications for low income water rebates for the total amount of \$234,213 in such rebates.



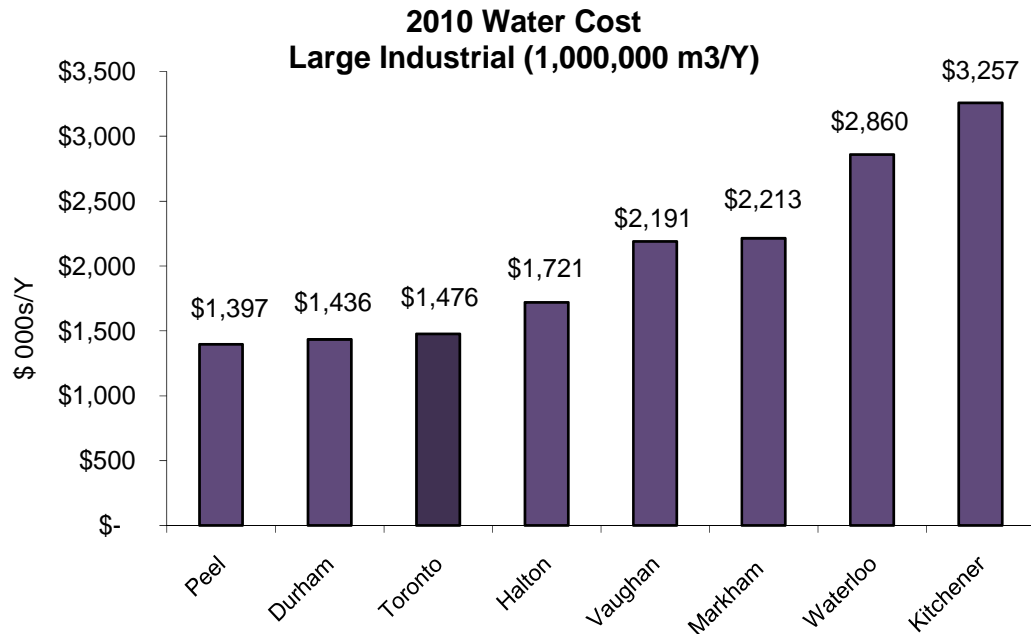
## Comparison of Water Rates in GTA Municipalities:

Toronto's 2010 water rate for residential consumers, in comparison to surrounding municipalities, is shown in Chart 6 (2011 rates for surrounding municipalities are not yet available). With the exception of Peel Region, where storm water related projects are funded from property taxes, based on the average household consumption of 300 cubic metres, Toronto is amongst the lowest water cost jurisdictions for residential consumers in southern Ontario. Chart 7 provides a similar comparison for large industrial users.

**Chart 6 – GTA Residential Water cost**



**Chart 7 - GTA Industrial Water Cost**



### **Water and Wastewater Service Fees:**

As noted earlier, while most of the Program's revenue is generated through the sale of water, other revenues are also accrued through fees charged for some services provided. The Water Service and Wastewater Service Fees and proposed changes are summarized in Appendix B, respectively. While it is recommended that most fees remain unchanged in 2011, an increase in some fees is proposed to cover the additional costs incurred in providing the service. The changes are described briefly in the following.

#### **Water Service Fees**

##### ***New Fee Recommended:***

Effective March 1, 2011, an administrative fee is proposed to be charged where there is a change in ownership on an existing utility account, with the fee to be set at \$35.00 per ownership change per utility account. The fee will be applied at the time the utility account is updated to reflect the new owner. The fee will impact property owners/utility customers where a property has changed hands, and is similar to ownership update on accounts or account activation fees charged by other utility providers, such as cable, telephone and electricity. Revenue generated from user fees for ownership updates will be used to reduce the total overall costs of utility billing that are currently charged to Toronto Water and Solid Waste Management for utility billing services through an interdivisional recovery (IDR) from Revenue Services Division.

The process of updating ownership on utility accounts involves receiving requests for such updates from the property owner, verifying the accuracy of information provided,

finalizing the application and printing and mailing automated statements to new owners. Currently, this service is performed with no charge to the utility account, with the direct costs being absorbed within existing operating budgets as funded by all other customers. It is estimated that a fee of \$35 for ownership updates for existing utility accounts would generate approximately \$875,000 annually in revenue, based on annual average of 25,000 ownership updates typically processed. Currently, the City of Ottawa charges \$62.00 and Peel Region charges \$40.00 for a similar service.

***Increases to Existing Fees:***

There are five water service fees that are recommended for increase in 2011 (i.e. Reference Numbers: 11, 12, 13, 15, and 17 in the attached Appendix B - Water Services), summarized in Chart 8. The increases in these fees are intended to better reflect the actual cost of providing these services. A comparison of the existing and proposed fees is also presented in Chart 8.

**Chart 8 – Water Service Fee recommended for increase in 2011**

<b>Ref. No.</b>	<b>Fee Description</b>	<b>2010 Fee</b>	<b>Proposed 2011 Fee</b>
11	Fire Hydrant Permit	\$100	\$150
12	Water Meter Accuracy Test	\$60	\$350
13	Water Turn off Fee for Demolition	\$15	\$75
15	Water Turn on – Turn off	\$15	\$75
17	Fire Hydrant Flow Test	\$100	\$250

***Fees Authorized under the City’s Water By-law to be added to Chapter 441 of the Municipal Code:***

Chapter 441 of the Municipal Code contains a list of water and wastewater related service fees. However, several fees authorized under Chapter 851 of the Municipal Code have not been captured in Chapter 441. The fees identified are shown in Reference Numbers 28 to 32 in the attached Appendix B - Water Services, and it is proposed that they be transferred to Chapter 441 as part of a broader initiative to consolidate user fees of the City in one location.

The fees identified for Reference Numbers 28 to 31 are based on actual costs, and it is proposed that they be maintained as such in 2011. The re-use of residential water service fee (ie. Reference Number 32) was approved by Council on August, 2010 (By-law No. 869) and the fee amount of \$250 reflects 2011 costs.

**Wastewater Service Fees**

***Fees Authorized under the Sewer By-law to be added to Chapter 441 of the Municipal Code:***

There are also two fees authorized under Chapter 681 of the Municipal Code which haven't been captured in Chapter 441 (i.e. Reference Numbers 13 and 14 of Appendix B - Wastewater Services). The closed circuit TV (CCTV) inspection of a residential sewer service connection fee (i.e. Reference Number 13) had been added to the Sewer By-law in

2010 and the \$500 fee reflects the cost of providing this service in 2011. The hauled service discharge fee (i.e. Reference Number 14) of \$27.86 per cubic metre remains unchanged for 2011.

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## **SIGNATURES:**

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Cam Weldon  
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Lou Di Gironimo  
General Manager, Toronto Water

## **ATTACHMENTS**

Appendix A – Proposed Municipal Code Fees, Appendix D – Schedule 1, Water and Wastewater Consumption Rates for Metered and Flat Rate Customers  
Appendix B – Proposed Municipal Code Fees, Appendix D, Schedules 2 and 3, Water and Wastewater Service Fees  
Appendix C – Summary of 2011 Operating and Capital Budget and Forecast, Corresponding Rate Increase and Capital Financing