



STAFF REPORT ACTION REQUIRED

2012 Water and Wastewater Rates and Service Fees

Date:	November 9, 2011
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer General Manager, Toronto Water
Wards:	All Wards
Reference Number:	P:\2011\Internal Services\Cf\Bc11036cf (AFS #14825)

SUMMARY

This report presents the recommended 2012 water and wastewater consumption rates and service fees arising from concurrent adoption of the recommended 2012 Toronto Water Operating and Capital Budgets. It is recommended that the Block 1 and Block 2 rates for all users and flat rate accounts be increased by 9% effective January 1st, 2012. In addition, the report recommends: fee increases for seven services, reflecting market conditions and current costs to Toronto Water; the introduction of five new service fees reflecting costs incurred for technical reviews of property development specific matters; and amendments to the eligibility criteria for Block 2 rates, to improve customer service and enhance the economic competitiveness of industrial water consumers in the City of Toronto.

RECOMMENDATIONS

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 2012-2021 Capital Plan and the 2012 Operating Budget, and that:
 - a. Effective January 1, 2012, the combined water and wastewater rates charged to metered consumers shall be 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, including Industrial consumption of first 6,000 m ³	\$ 2.4897	\$2.6209
Block 2 - Industrial tax class, volumes consumed over 6,000 m ³ , representing 30% reduction from the Block 1 Rate	\$1.7428	\$1.8345

- b. The water and wastewater rates charged to flat rate consumers be increased by 9%, effective January 1, 2012, to the rates shown in Appendix B attached to this report;
- c. Effective January 1, 2012, the water and wastewater service fees shall be as shown in Appendix C attached to this report;
- d. Effective January 1, 2012, an inspection fee be charged for the reuse of residential City sewer connection up to 150 mm with the fee to be set at \$500.00 per service to be reused, as set out in Appendix C - Schedule 3, Wastewater Services, Ref. No. 15.
- e. Effective January 1, 2012, a fee be charged for 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 with the fee to be set at \$1,500.00 per application, as set out in Appendix C - Schedule 3, Wastewater Services, Ref. No. 16.
- f. Effective January 1, 2012, a fee be charged for Technical Review by Toronto Water staff – Application to Toronto Water for new connection or relocation of storm, sanitary or water supply connection with the fee to be set at \$300 minimum fee; additional \$74/hour for each hour after 4 hours to a maximum fee of \$1,500 per application, as set out in Appendix C - Schedule 3, Wastewater Services, Ref. No. 17.
- g. Effective January 1, 2012, a fee be charged for 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) with the fee to be set at \$300 minimum fee; additional \$74/hour for each hour after 4 hours to a maximum fee of \$1,500 per application, as set out in Appendix C - Schedule 3, Wastewater Services, Ref. No. 18.
- h. Effective January 1, 2012, a fee be charged for Technical Review by Toronto Water staff – Application to Toronto Water for request to release from title a City easement (related to City water and/or sewer infrastructure) with the fee to be set at \$300 minimum fee; additional

\$74/hour for each hour after 4 hours to a maximum fee of \$1,500 per application, as set out in Appendix C – Schedule 3, Wastewater Services, Ref. No. 19.

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 \$0.7469 /m³, effective January 1, 2012, representing a 30% reduction from the Block 1 Rate (paid on or before the due date).
3. Effective January 1, 2012, City Council authorize amendments to Municipal Code Chapter 849 – 18 "Eligibility for Block 2 Rate" by way of removing the eligibility criteria for Block 2 rate customers contained in sections 849 - 18 (C), (D) and (E) pertaining to
 - a. compliance with the City's Sewers By-law;
 - b. installing effluent monitoring equipment accessible to City staff on a twenty-four hour basis; and
 - c. providing a comprehensive water conservation plan.
4. Staff be authorized to consult with the City's major water stakeholders on funding options to address the capital funding deficiencies of the Program, including potential changes to the water rate pricing structure, and report back through the appropriate Committee in June 2012 so that any approved changes can be incorporated into the 2013 Toronto Water Budget and Rate Setting Process.
5. 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), (2) and (3) above.
6. 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.
7. 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 2012 Toronto Water Operating and Capital Budgets, the updated consumption forecast, and Council’s adopted water rate structure, a rate increase of 9% for 2012 in the paid-on-or-before due date (which represents a 5% discount from the paid-after-due-date rate) is required for Block 1 domestic-use consumers, and Block 2 process-use industrial users, both effective January 1st, 2012.

The 2012 Recommended Operating Budget for Toronto Water includes service change savings of \$21.832 million that result in overall 2012 gross expenditure reductions of \$8.439 million and \$4.227 million in increased non water rate revenues. As a result of the 2012 recommended operating reductions, the additional 2012 water rate revenues of \$48.352 million generated by the recommended 9% water rate increase is fully available for capital funding requirements.

The recommended rate increase impact on an average home consuming 300 m³/year, billed at the Block 1 Rate, will be 9% or \$62 over the calendar year (from \$685 in 2011 to \$747 for 2012) as shown in Chart 1 below.

Chart 1 – 2012 Water Rate Impact

Type of Property	Consumption	2011 Full Annualized Cost *	Projected 2012 Cost	2012 Rate Increase Impact	
	m ³ /y	\$/y	\$/y	\$/y	%
Residential	300	\$685	\$747	\$62	9.00%
Industrial	100,000	\$164,009	\$178,769	\$14,761	9.00%
	1,000,000	\$1,603,082	\$1,747,359	\$144,277	9.00%

**Rate increase implemented March 1, 2011, represents full 12 months annualized cost*

Pursuant to Council’s previously approved industrial water user competitive strategy, the targeted 30% differential between Block 1 and Block 2 rates has been reached in 2011, and as of January 2012, Block 2 rate customers are subject to the same annual rate increase as residential Block 1 rate customers. As shown in Chart 1, an eligible industrial customer who, for example, consumes 100,000 m³/year, will see an 9% or \$14,761 increase over the calendar year (from \$164,009 in 2011 to \$178,769 for 2012).

DECISION HISTORY

Last year’s report authorizing the 2011 water and sewer service rates can be viewed at:

<http://www.toronto.ca/legdocs/mmis/2011/bu/bgrd/backgroundfile-35085.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 adopts annually a by-law to establish its water and wastewater rates and service fees. Adoption of the concurrent recommended Toronto Water 2012 Operating and 2012-2021 Capital Budget, together with the water rate structure plan, will necessitate an increase in the 2012 water and wastewater 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 recommends increases to seven service fees, reflecting market conditions and current costs to Toronto Water, and the introduction of five new service fees reflecting costs incurred for technical reviews of property development specific matters.

Since the implementation of the two blocks rate structure in 2008, the eligibility criteria for Block 2 rate have been the subject of ongoing discussions and amendments, and this report recommends further amendments to these criteria to improve customer service and enhance the economic competitiveness of industrial water consumers in the City of Toronto.

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 without excessive year-over-year fluctuations over the long term.

Toronto Water's recommended 2012 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 Toronto Water program over the ten-year planning period, including reserve contributions. The financing model does not rely on any debt issuance.

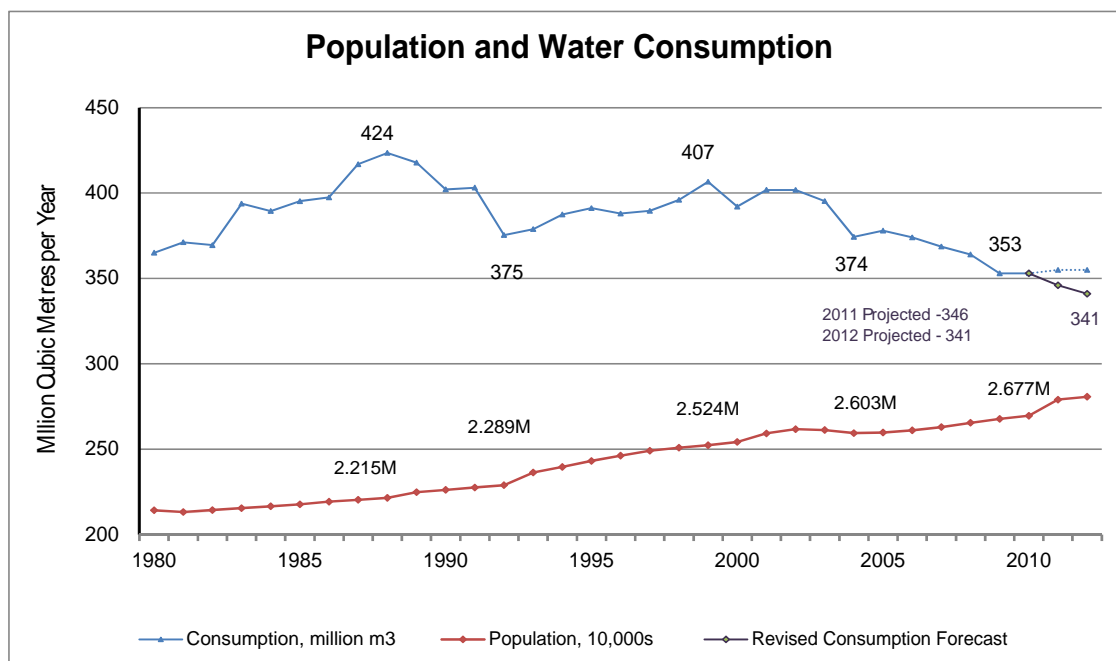
The 2012 model also assumes that 85% of the Net Capital budget (after grants, subsidies and other Capital contributions) will actually be drawn from Toronto Water's Capital Reserve, based on the current capital completion level experienced by the program.

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 and 5. Toronto's water consumption projected to 2011 year-end is estimated at 346 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 systemic decline in water consumption is predominantly attributed to water efficiency measures and economic factors.

The base 2011 consumption is expected to be about 1.5% lower than 2010 actual consumption. The base forecasted consumption utilized in the rate modelling for the following years is estimated to drop by 1.5% a year for the period 2012-2015 after which the decline is expected to be offset by population growth and anticipated to level out. 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 assumed to register higher consumption volumes as older large volume meters are replaced with more accurate ones.

Chart 2 - Toronto Retail Water Consumption



Base Consumption Demand

The average daily base consumption from October to April (i.e. winter demand), representing the base year round demand condition is present in Chart 3. The Figure shows a steady drop in consumption from 1155 ML/d in 2001 to an estimate of 1015 ML/d in 2010, representing a 12 % decrease, or approximately 1.2% annually over the 10-year period.

Chart 3 - Average Daily Base Consumption (October to April) 2001 – 2010 (ML/d)

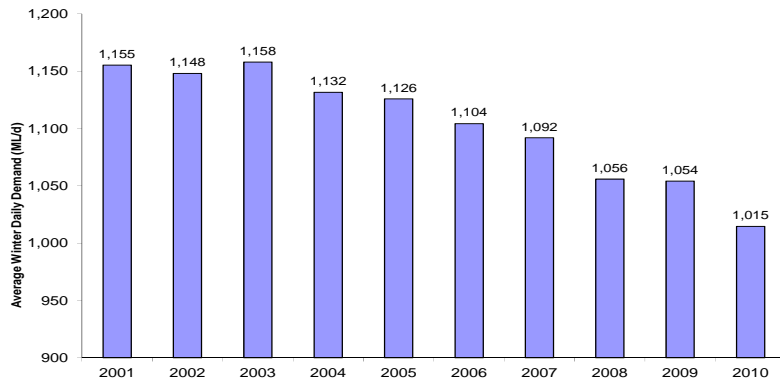
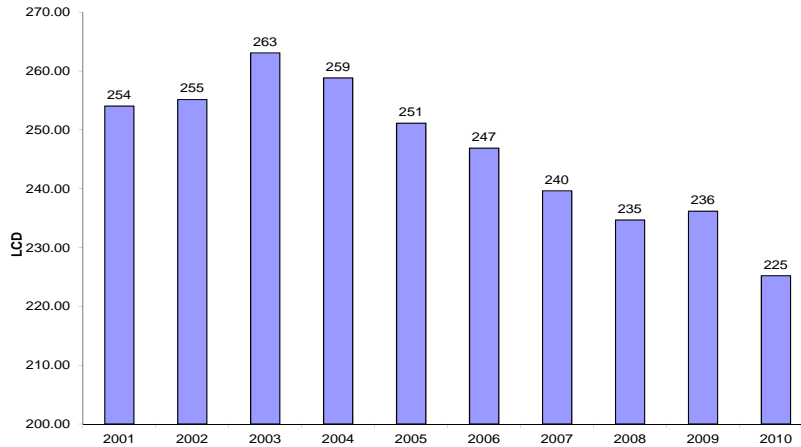


Chart 4 presents the average daily base (October to April) residential per capita consumption which best represents the effects of water conservation within the City's base population. Chart 4 shows that residential consumption has steadily decreased from a high of 263 litres per capita per day (LCD) in 2003 to an estimated 225 LCD in 2010, representing an estimated 14.5% decrease in average consumption – or a reduction of 2% per year.

A recent analysis completed for Toronto Water has projected that, based on the "natural" rate of fixture and toilet replacement, and the continued market trends towards the manufacturing and sale of increased water efficient fixtures (e.g. 4 litre flush volume toilets are currently entering the market) and appliances, Toronto's average per capita consumption could drop to 150 LCD by 2025. This reduction in per capita consumption, and corresponding reduction in water usage, if not compensated by an equivalent level of increased population growth, could adversely impact Toronto Water's forecasted revenues, and is the subject of ongoing monitoring by the program.

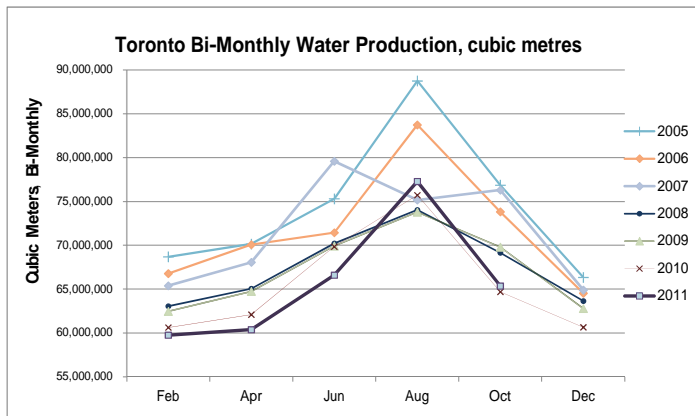
**Chart 4 - Average Residential Per Capita Base Demand (October to April)
2001 – 2010 (LCD)**



Seasonal Consumption Demand

Further to the base consumption analysis, a summary of bi-monthly water consumption for the period 2005 to 2011 is shown in Chart 5 to illustrate changes in seasonal consumption. Seasonal demand arises mainly from irrigation and watering activities during the summer months (May-August). On average, over the last 6 years, the water consumption during the four summer months has represented about 36% of the overall annual consumption. From Chart 5, summer consumption has fallen 12.2% since 2005, or 2% annually on average, indicating a marked reduction in summer lawn watering.

Chart 5 –Water Production (2005 to 2011)



The compounded effect of the reduction in both base consumption and summer consumption has resulted significant revenue decline for the Program, estimated at \$687 million over the ten year planning period, limiting funding available for capital priorities. The impact on revenue, and the Programs response in addressing these pressures is summarized in the following section.

2012 Operating Budget and 2012-2021 Capital Plan

The concurrent Toronto Water 2012 Operating and Capital Budget Analyst Notes provide details on Toronto Water's proposed 2012 Operating and Capital Budgets, 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 2012 Operating Budget and Forecast, the 2012-2021 Capital Plan, and the resulting rate requirements is presented in Appendix A together with the sources of capital financing and corresponding reserve balances.

2012 Operating Budget

The 2012 Recommended Operating Budget gross expenditures of \$381.553 million reflect a budget reduction target of 5.6% as outlined in the 2012 Recommended Service Change, as detail in the concurrent Toronto Water Operating Budget Analyst Notes. The 2012 net expenditures to be financed by the water rate is \$829.771 million. A further \$63.562 million is expected to be generated from the sale of water to the Region of York (\$25.339 million) and User Fees (\$38.223 million), for a total program revenue of \$893.332 million. The recommended capital contribution from operations for 2012 is \$511.780 million.

The 2012 Recommended Base Budget also includes a decrease of 47 positions that will be reduced through recommended service changes. The 2012 Recommended Base Budget includes 59 recommended service changes that result in savings of \$21.832 million in 2012 and incremental savings in 2013 of \$1.060 million and \$0.050 million in 2014. These savings, together with the recommended 9% rate increase, will go towards increasing the capital contribution in 2012 by \$80.621 million or 18.7% from 2011 Approved Capital Contribution, to help address priority projects, and maintain a positive capital reserve balance.

2012-2021 Capital Budget

The 2012–2021 Recommended Capital Plan totals \$7.876 billion, of which \$3.544 billion or 45% is projected for the first 5 years, with the final 5 years requiring funding of \$4.332 billion or 55%.

The 10 Year Recommended Capital Plan reflects a decrease of \$1.132 billion or 14% from the 2011-2020 Approved Capital Plan due to a decrease in available capital financing arising from:

- A forecasted decrease in water consumption from the 2011 rate model results in a decrease in anticipated water rate revenues of \$686.8 million over the 10-Year planning period;

- \$60 million in reduced available capital financing required to re-establish a sufficient Water Capital Financing Reserves balance, which has been depleted as a result of accelerated capital spending from 2009 to 2011 beyond Toronto Water's spending rate targets (established for rate and budget setting purposes); and
- A reduction of \$445 million in available capital financing over the 10-year planning period to reflect the Program's increased spending capacity, which has been aligned to actual spend rates experienced from 2009 onward.

State of Good Repair (SOGR) projects continue to drive Toronto Water's capital program, and represent 60% of total recommended funding for Toronto Water's 10-Year Recommended Capital Plan. Service Improvement projects represent approximately 24%, Legislated projects 9%, Growth projects 8% and Health and Safety projects approximately 1%.

The state of good repair projects focuses on on-going renewal of the City's infrastructure ensuring the replacement or rehabilitation of aging watermains and sewers and investment in the City's aging wastewater treatment facilities, to address Toronto Water's SOGR backlog, which is currently estimated at \$1.555 billion by the end of 2012 and projected to be virtually eliminated by year-end 2021.

Service Improvement projects include:

- an updated Basement Flooding Relief Work Plan;
- the Don & Waterfront Trunk Sanitary Sewer and Combined Sewer Overflow Control Strategy to improve the water quality along the waterfront;
- the Water Metering Program, including the installation of meters for the remaining flat rate customers, coupled with the concurrent installation of automated meter reading technology;
- the Highland Creek Wastewater Treatment Plant Biosolids Master Plan Implementation; and,
- funding for Storm Water Management End of Pipe Facilities projects, which also address the Wet Weather Flow Master Plan to manage the discharge of pollutants into waterways and Lake Ontario.

The 2012-2021 Capital Plan however does not address emerging capital priorities. The Initial estimates of the costs for unfunded emerging capital priorities are identified in Chart 6 below:

Chart 6 – Unfunded Emerging Capital Projects

Description	\$000s
Lawrence Heights Redevelopment (Initial Phase)	15,000
Lawrence Heights Redevelopment (Future Phases)	45,000
Island Tunnel (Future Costs)	6,000
Ashbridges Bay Streetcar Maintenance & Storage Facility	31,000
Waterfront Master Service Plan	70,000
UV Treatment (Ashbridges Bay) Life Cycle Costs	34,200
Net Other	30,000
Eglinton Crosstown	TBD
Estimated Unbudgeted Emerging Priorities	231,200 +

To address these emerging priorities, it is recommended that the General Manager of Toronto Water in consultation with the Deputy City Manager and Chief Financial Officer report to Budget Committee in June 2012 on strategies to maximize funding capacity and/or provide reductions in current project costs to address existing and emerging unfunded capital priorities for consideration prior to the 2013 Capital Budget process.

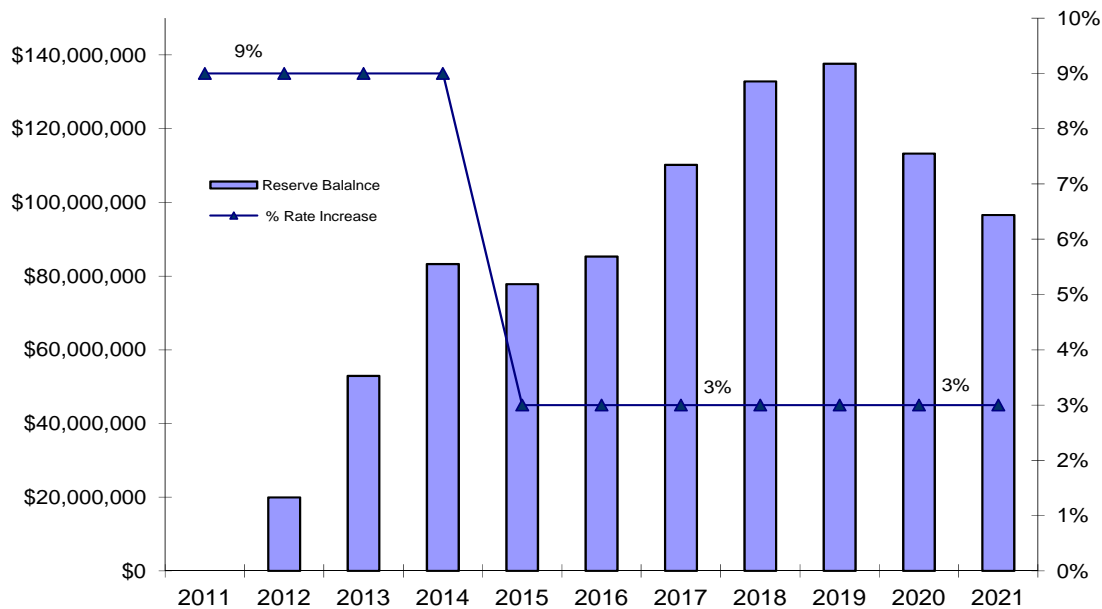
Capital Reserve Funds

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 7 below shows the capital reserve fund balance for the period 2010-2021 and the projected effective annual rate increases. Due to lower than projected water consumption and higher than projected capital completion rates, a draw from the Rate Stabilization Reserve, estimated at \$10 million will be required to balance the Capital Reserve at 2011 year-end. Correspondingly, the Rate Stabilization Reserve will have to be replenished by this amount in 2012, and is reflected in the rate projections.

Due to substantial Capital Program pressures presented in Toronto Water's 2012 Capital Budget and 2013 to 2021 Capital Plan, the Capital Reserve Balance is projected to be low for the next few years, and only reaches a projected level estimated at \$110 million in 2017, which represents only 0.4% of the water and wastewater program infrastructure asset base, but should be sufficient for funding in the event of an unforeseen circumstance and/or emergency.

Chart 7 -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 October, 2011 the Rate Stabilization Reserves Balance was at the approved target balance of \$30 million and no further contributions are envisaged in 2011. However, as shown in Appendix A, the forecasted overdraw of the Capital reserve in 2011 is expected to require transfer of an estimated \$10 million from the Stabilization reserve, which than will be replenished back to \$30 million in 2012.

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 rate for industrial/manufacturing process-use volumes greater than 6,000 m³, subject to certain conditions. The Block 2 process-use rate reached the targeted 30% reduction from Block 1 Rate in 2011 and in the absence of any further changes to the pricing structure, the industrial Block 2 rate will experience annual rate increases in step with the general Block 1 rate, projected to increase by 9% per annum through to 2014 as shown in Chart 8 below.

Chart 8 – Projected Rates

2012 Projections	2011	2012	2013	2014	2015	2016
Increase - Block 1 and Flat Rate	*10.8%	9.0%	9.0%	9.0%	3.0%	3.0%
Increase - Block 2	8.6%	9.0%	9.0%	9.0%	3.0%	3.0%
Block 1 Rate	2.2842	2.4897	2.7138	2.9580	3.0468	3.1382
Block 2 Rate	1.5990	1.7428	1.8996	2.0706	2.1327	2.1967
<i>Reduction over Block 1 Rate</i>	-30%	-30%	-30%	-30%	-30%	-30%

**Part year – 10.8% effective March 1, annualized impact of 9%*

As part of the 2007 rate restructuring consultation, stakeholders had asked for consideration of a fixed-charge component to the volume-based rate structure. As a result, Council, at its meeting of June 19, 20 and 22, 2007, directed staff to further consult with stakeholders for the purpose of identifying fixed-cost elements of the Water and Wastewater program that would be appropriate to charge as a fixed-charge on the water rate bill, and to report back to Council on any modifications necessary should it be decided to implement such a charge.

Staff's intention was to re-evaluate the water rate structure and consider fixed cost component once the targeted 30% reduction between the two block rates was achieved. The need for revisiting Toronto Water funding and water rate structure is further defined by Council's direction on September 21 and 22, 2011 to the Chief Financial Officer to report back, through the 2013 Capital Budget process, on an implementation schedule and a long term funding model for the remaining elements of the Wet Weather Flow Plan. This may include the consideration of a property specific stormwater charge, similar to that implemented by many cities across Canada and the United states.

As an example, the cost of meter reading and billing for a large user account versus a small user's account should be the same, however, a large user bears a greater burden in this cost component due to the volume based pricing structure. Durham and Halton Regions, as well as the Cities of Hamilton and Waterloo all break-out an administrative component in their water bill. In addition wet weather flow management cost is not related to a customer's water consumption and some clients might be charged disproportionately to their actual share of wet weather flow management.

Furthermore, Toronto Water program revenues are expected to continue to decline as a result of systemic reductions in base consumption and summer consumption, the cumulative revenue loss estimated at \$687 million over the next ten years, as previously noted.

In response to these concerns and funding pressures, this report recommends that staff undertake a public consultation process on funding options to address the capital funding deficiencies of the Program, including potential changes to the water rate pricing

structure, and report back through the appropriate Committee(s) to the July 11-12, 2012 meeting of Council so that any approved changes can be incorporated into the 2013 Toronto Water Budget and Rate Setting Process.

Industrial Block 2 Rate Efficiency and Implementation

The intention of the Block 2 rate was to assist as many industrial and manufacturing employers as possible. In January 2008, 349 industrial properties were identified as being eligible for the Block 2 process-use water rate. By August 2011, 64 industrial clients remained at the Block 2 rate. This indicates that only 19% of the industrial water users consuming more than 6,000 cubic metres per year were able to benefit from the reduced water rate due to the eligibility criteria for the Block 2 rate.

Since 2008, members of the Toronto Industry Network ("TIN") have expressed concern that the Block 2 rate eligibility requirements related to the submission of water conservation plan and compliance with the Sewers By-law are putting extra burden on the City's major industries and are considered very punitive. TIN's view is that the Sewers By-law contains enough provisions for compliance monitoring and penalties for violations, and therefore compliance with the Sewers By-law shouldn't be linked to receiving the Block 2 rate. TIN also advocates that since it is in the industry's interest to consume less water, industries are already implementing various water conservation measures. TIN suggests that the Block 2 rate eligibility requirement for submission to the City of water conservation plans and progress reports is adding extra and unnecessary administrative cost to the industries and the City.

Staff have reviewed the concerns expressed by the Toronto Industry Network and the processes used over the past three years to administer the new rate structure and conclude that the current enforcement process has made it excessively onerous for industrial water users to benefit from the Block 2 rates.

Current provisions in the Municipal Code Chapter 849, Water and Sewer Services and Utility Bill, provides for removal from the Block 2 rate in the case where there are three instances of non-compliance with the Sewers By-law within the same billing year. Originally, when the condition of compliance with the Sewers By-law was adopted, it was interpreted by the City's Auditor General that, in circumstances where there is noncompliance, immediate action be taken including the retroactive billing of previously reduced rates. As a result, amendments to Municipal Code Chapter 849 were adopted by Council to allow for up to three Notices of Violations (NOV) to be received within a year before a company was removed from the Block 2 rate for at least a year.

Specifically, the amendments allowed a company which had been removed from the Block 2 rate to be returned to the Block 2 water rate on the date that sampling proved compliance again with the Sewers By-law. This scenario could repeat itself a second time. If the company were found to be in non-compliance a third time, the company would be removed from the Block 2 rate for a year, and only after it demonstrated compliance for a full year, could it be returned to the favourable Block 2 water rate. This

process has resulted in a significant administrative burden on City staff and significant confusion on the part of industry as they attempt to reconcile their water bills.

Given that: (i) the original intent of the Block 2 rate was to promote economic competitiveness for industrial water users; (ii) the current enforcement policy has made it difficult for industrial users to benefit from the reduced water rates and has resulted in significant administrative burden on City staff; and (iii) the existing penalties for offences under the Sewers By-law are already significant, it is recommended that Council amend the eligibility criteria for the Block 2 water rate by removing the additional requirements for customers to:

- Be in compliance with the City's Sewers By-law;
- Install and maintain effluent monitoring equipment accessible to City staff on a twenty-four hour basis; and
- Submit a comprehensive water conservation plan.

Flat-rate Accounts

Currently, there are approximately 55,000 flat-rate accounts remaining. Most of these are single-family residential homes. For 2012, this report recommends a 9% increase on the water rates imposed on flat-rate accounts, as is the case with metered customers.

Council at its meeting of June 23 and 24, 2008, approved the Automated Meter Reading System, now referred to as the Water Metering Program. The Program 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, which began in 2010. The installation of meters to flat-rate account customers is a first priority and is expected to be completed within the next two years. However, studies have shown that once metered, a typical residential household account billing drops approximately 15 to 20%. This loss in revenue 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, 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, to provide eligibility to those most in need.

In 2011 to date, the City has approved 3,820 applications for low income water rebates for the total amount of \$375,000 in such rebates.

Comparison of Water Rates in GTA Municipalities

Toronto's 2011 water rate for residential consumers, in comparison to surrounding municipalities, is shown in Chart 9 (2012 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 10 provides a similar comparison for large industrial users, and shows that Toronto is amongst the lowest water cost jurisdictions.

Chart 9 – GTA Residential Water cost

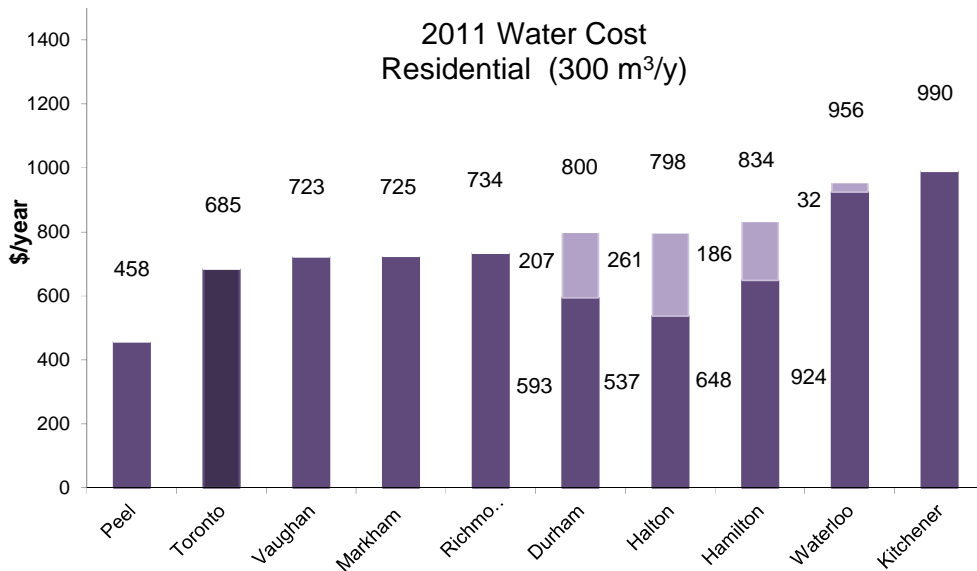
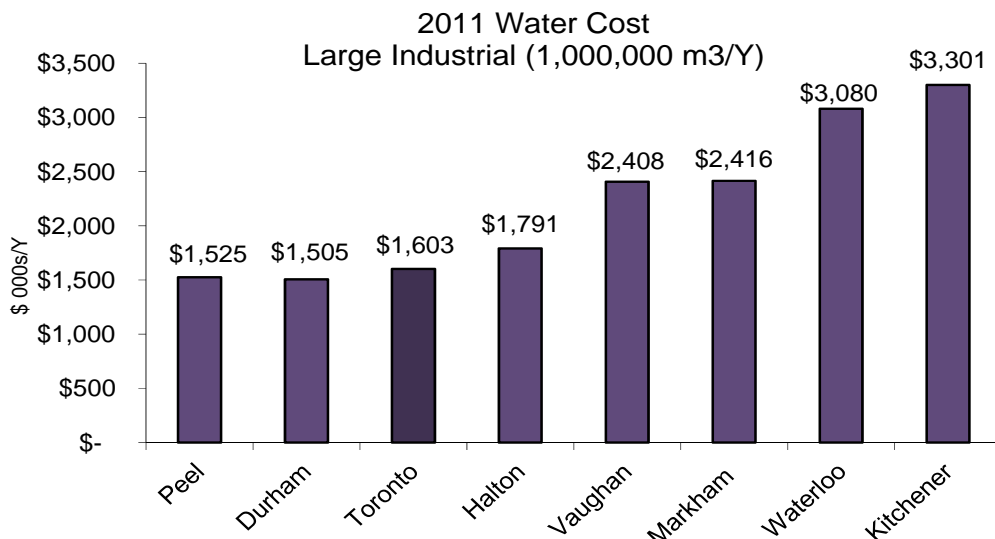


Chart 10 - GTA Industrial Water Cost



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 user fees charged for some specific services. These fees are summarized in Appendix C. While it is recommended that most fees remain unchanged in 2012, an increase to seven fees reflecting market conditions and current costs to Toronto Water, and the introduction of five new service fees is proposed for 2012. The changes are described briefly below:

Recommended New Fees

Effective January 1, 2012 five new service fees reflecting costs incurred for technical assessments and reviews of property development specific matters are proposed (Reference Numbers 15-19 in the attached Appendix C – Schedule 3, Wastewater Service). Chart 11 presents a summary of the proposed new fees, with an estimate of the additional annual revenues they represent.

Chart 11 - New Fees Recommended for 2012

Service	Proposed New Fee	Approx Number per Year	Projected Annual Revenue	Rationale
Inspection fee for the reuse of residential City sewer service connection up to 150 mm	\$500 per reused service	150	\$75,000	Authority to charge a fee exists in the Sewers By-law (681-11D(3), (4)) & (5). Chapter 441 needs to be updated to include the fee amount <i>"The owner, upon making an application under 681-11(D3), shall pay to the City any fees, charges and costs as may be prescribed or determined by the City from time to time"</i>
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.	\$1,500 per property	52	\$78,000	Fee amount is based upon the average amount of time of 20 hours 1 City Engineer spends reviewing the proposal. Sewer use By-law 681-11 (O3-(j)) – <i>"The installation is wholly at the expense and risk of the owner including payment by the owner to the City of any rates, fees, charges and costs prescribed or determined by the City from time to time"</i>
Technical Review by Toronto Water staff- Application to Toronto Water for request to encroach within a City permanent or	\$300 minimum fee; additional \$74/hour for each hour after 4 hours	10	\$3,000 - \$15,000	Cost reflects staff time associated with undertaking a technical review of the proposed encroachment and report to Community Council.

Service	Proposed New Fee	Approx Number per Year	Projected Annual Revenue	Rationale
temporary easement (related to City water and sewer infrastructure)	to a maximum fee of \$1,500			
Technical Review by Toronto Water staff – Application to Toronto Water for new connection or relocation of storm, sanitary or water supply connection	\$300 minimum fee; additional \$74/hour for each hour after 4 hours to a maximum fee of \$1,500	20	\$6,000 - \$30,000	Sewer Use By-law (Chapter 681 – 11(G2)) " <i>The Applicant shall pay to the city, at the time of making the application, all applicable fees, charges, deposits and costs...</i> "
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)	\$300 minimum fee; additional \$74/hour for each hour after 4 hours to a maximum fee of \$1,500	2-3	\$900 - \$4,500	Cost reflects staff time required to collect background information and undertake a technical review

Recommended Increases to Existing Fees

Increases to four water service fees in 2012 are being recommended (Reference Numbers: 1, 2, 5, and 12 in the attached Appendix C – Schedule 2, Water Service). The increases in these fees are intended to better reflect the actual cost of providing these services reflecting market conditions and current costs to Toronto Water. Chart 12 summarizes the proposed changes, comparing the 2011 fee and the recommended fee for these services in 2012, as well as the rationale for the increase and expected annual revenue increase.

Chart 12 – Water Service Fee Recommended for Increase in 2012

Ref No.	Service	2011 Fee	Proposed 2012 Fee	Approx Number per Year	Projected Revenue Increase	Rationale
1	Installing 19 mm new water service and meter	\$2,175	\$2,575	200	\$80,000	Increased to reflect administrative and construction costs in 2012 and application of Council Approved Pavement

Ref No.	Service	2011 Fee	Proposed 2012 Fee	Approx Number per Year	Projected Revenue Increase	Rationale
						Degradation Fees
2	Installing 25 mm New Residential Water Service and Meter	\$2,450	\$3,050	1,000	\$600,000	Increased to reflect administrative and construction costs in 2012 and application of Council Approved Pavement Degradation Fees
5	Disconnection Fee for Residential Water Service less than or equal to 25 mm	\$300	\$400	1,200	\$120,000	Increased to reflect administrative and construction costs in 2012 and application of Council Approved Pavement Degradation Fees
12	Water Meter Accuracy Test	\$60	\$150	260	\$23,400	Increased to reflect the actual/full cost to provide the service (3 hrs at \$50/hr; driving to the site; investigation; testing the meter; taking out the meter; installing new meter etc)

In addition there are 3 wastewater service fees that are recommended for increase in 2012 (Reference Numbers: 4, 5, and 6 in the attached Appendix C – Schedule 3, Wastewater Service). The increases in these fees are intended to better reflect the actual cost of providing these services reflecting market conditions and current costs to Toronto Water. Chart 13 summarizes the proposed changes, comparing the 2011 fee and recommended fee for these services in 2012, as well as the rationale for the increase and expected annual revenue increase.

Chart 13 – Wastewater Service Fee Recommended for Increase in 2012

Ref No.	Service	2011 Fee	Proposed 2012 Fee	Approx Number per Year	Projected Revenue Increase	Rationale
4	Install New residential sanitary sewer service connection in the road	\$6,750	\$7,150	1,000	\$400,000	Increased to reflect administrative and construction costs in 2012 and application of Council Approved Pavement

Ref No.	Service	2011 Fee	Proposed 2012 Fee	Approx Number per Year	Projected Revenue Increase	Rationale
	allowance					Degradation Fees
5	Install New residential storm sewer service connection in road allowance	\$6,750	\$7,150	100	\$40,000	Increased to reflect administrative and construction costs in 2012 and application of Council Approved Pavement Degradation Fees
6	Disconnect residential sanitary sewer service connection in road allowance	\$650	\$750	1,000	\$100,000	Increased to reflect administrative and construction costs in 2012 and application of Council Approved Pavement Degradation Fees

Technical Changes to User Fees in Chapter 441

During the user fee review process, it was identified that Toronto Water has some fee duplicates (same fee described twice in the fee schedule) in Chapter 441, Appendix D, Schedule 2 of the Municipal Code, which are recommended to be removed as follows:

1. Ref. No. 3 - Residential Water Service Disconnection less than or equal to 25 mm
Same fee as No. 5 Disconnection Fee for any residential water service less than or equal to 25 mm
2. Ref. No. 7 - Water Meter, Strainer Connection fittings, flanges, gaskets and hardware
Same fee as No. 24 Cost of meter, strainer, connection fittings, hardware and flanges
3. Ref. No. 16 Metered Construction Water at rate for metered account
Same fee as No. 9 - Metered Water provided to construction sites.

In addition, the fee description for some services has been changed to more accurately reflect the service being provided. These fees are with Ref. No 7, 12, 13, 24, 25, 29 and 33-39 in the attached Appendix C.

With regard to fees with Ref. No. 34-39 in the attached Appendix C, Schedule 2, the change in Service description from 'Unmetered Consumers – Former City of Etobicoke' to 'Revenue Services' is in accordance to By-law No. 1416-2007, which is the by-law initially authorizing those fees to be collected by Revenue Services and applied to the whole City of Toronto.

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ATTACHMENTS

Appendix A – Summary of 2012 Operating and Capital Budget and Forecast,
Corresponding Rate Increase and Capital Financing
Appendix B – 2012 Water Rates for Metered and Flat Rate Customers
Appendix C – 2012 Water and Wastewater Service Fees

Appendix A – Summary of 2012 Operating and Capital Budget and 2012- 2021 Capital Plan and Operating Forecast, Corresponding Rate Increase, and Capital Financing \$Million

TORONTO WATER	2011		2012 - 2021 Plan									
	2011 Budget	Projected Actual	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross Operating Budget	390.02	375.00	381.55	393.00	404.79	416.93	429.44	442.32	455.59	469.26	483.34	497.84
Capital from Current	430.98	432.20	504.90	498.33	628.75	628.34	651.04	669.42	688.34	702.37	696.53	722.38
Net Expenditure to be Financed by Water Rate	781.17	765.72	829.77	897.71	972.79	983.98	1,018.12	1,048.30	1,079.38	1,105.94	1,144.33	1,178.26
WATER RATE REVENUE INCREASE	10.80%	10.80%	9.00%	9.00%	9.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other Revenues	39.83	41.49	63.56	64.06	66.09	66.63	67.69	68.78	69.89	71.03	72.19	73.38
Total Revenues	821.00	807.20	893.33	961.77	1,038.88	1,050.60	1,085.82	1,117.08	1,149.27	1,176.97	1,216.52	1,251.64
Gross CAPITAL Budget	653.59	668.36	607.52	656.80	737.98	767.61	774.58	774.05	818.02	871.47	929.10	939.05
Net Capital Budget	555.77	594.44	558.93	624.41	704.31	746.05	757.47	758.79	783.70	821.35	885.50	900.72
CAPITAL FINANCING												
Capital Reserve Funding Level	80%	82%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Net Capital Spending	444.61	489.15	475.09	530.75	598.66	634.14	643.85	644.97	666.14	698.15	752.68	765.61
Capital from Current *	430.98	432.20	504.90	563.59	628.75	628.34	651.04	669.42	688.34	702.37	727.85	748.47
Capital from (to) Reserve	13.64	0.50	(29.81)	(32.84)	(30.09)	5.80	(7.19)	(24.45)	(22.20)	(4.22)	24.83	17.14
RESERVE Closing Balance	0.29	-	19.94	52.93	83.29	77.81	85.32	110.16	132.85	137.61	113.28	96.56

* Capital from Current with 85% of Capital User Fees