TORONTO

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2014 OPERATING BUDGET BRIEFING NOTE
Water Rates and Business Competitiveness

Issue/Background:

The Budget Committee at its meeting of November 12, 2013 requested that the General Manager, Economic Development and Culture provide a briefing note to the December 5, 2013 Executive Committee meeting on the consequences of implementing water rate increases that impact Toronto's competitiveness as a place for industry to invest.

At its meeting of November 13, 14, 15 and 18, 2013, City Council considered report *EX35.11 Future Options and Public Attitudes for Paying for Water, Wastewater and Stormwater Infrastructure and Services* and in doing so directed the Deputy City Manager and Chief Financial Officer, and the General Manager, Toronto Water, to report back to the Executive Committee, as part of Toronto Water's 2015 Capital Budget submission, with a recommended financing strategy to support Toronto Water's long term Capital Plan along with a detailed implementation plan.

Key Points:

- Many industrial employers in Toronto use large volumes of city water essential to their product and/or core product processes. The cost of water and other operating costs relative to their competitive markets and locations throughout North America is an important concern. They are finding that Toronto's water costs for industrial users are becoming less competitive and can place the viability of their Toronto-based operations at greater risk.
- The City's top 10 industrial water users/manufacturing companies together consume over 7 million m^3 per year, which is equivalent to annual water consumption of about 25,000 households. (For comparison, the average household consumes about 283 m^3 of water per year, or about 0.1% of the volume used by the smallest industrial water user in this group.)
- The impact of a 9% water increase on the average residential customer in Toronto is about $73 per year, while the impact to manufacturing operations using 1,000,000 m^3 of water per year is $171,299 (see below Chart 1, 2014 Water Rate Impact, Toronto Water). The closure of one of the top ten users would mean a serious drop in water revenue (over $2 million annually) as well as a significant loss of tax revenue.
- On average, the Block 2 water rate users consume 183,595 m^3/year. The impact of a 9% rate increase on this volume of use would be $34,212. Many of Toronto's largest manufacturing

industries use significantly more water than the average Block 2 volume of use and would be impacted in accordance with their consumption.

- There are over 4,300 manufacturing establishments operating in the city of Toronto. This number has decreased by 1,300 since 1997. During this same period, water rates have more than doubled in Toronto.
- While manufacturing employment in Toronto, and elsewhere, has declined over the past few decades for a number of economic and structural reasons, it remains a critical component of Toronto's economy, employing nearly 120,000 people (about 9% of total jobs in the city).
- It is important that the City and other partners continue to provide mechanisms to support the competitiveness of manufacturing activity in Toronto, as manufacturing provides quality jobs, is an economic driver and wealth generator, and contributes to a strong and balanced economy. Water is one of the few business input costs over which the City has control.
- In competing with other jurisdictions, Toronto manufacturers face other significant challenges stemming from operating in a high-density urban environment, including rising land values and operational costs, urban growth pressures, encroachment from sensitive uses, traffic congestion, older building stock and comparatively higher property taxes.
- An estimated 600 manufacturing companies use City water that is essential to their product and/or core product processes. For industrial manufacturers and core process users of water, the price structure and cost of water will have a direct effect on their existing and future competitiveness.
- In the ten years from 2002 to 2012, industrial taxes psf have remained relatively constant in the city of Toronto, while the cost of water has increased 9% year over year since 2006.
- Location and expansion decisions for multinational manufacturers are often made by head offices in other jurisdictions, and companies must compete with 'sister' locations for global product mandates and new product lines – elements of these competitions are directly related to costs, regulatory considerations and the ability to quickly expand an existing facility.
- In an increasingly competitive global market, Toronto's manufacturers and high volume water users of all types and scales must effectively manage their business input costs, including utility costs, and be able to benefit from a stable and competitive operating environment.
- Strengthening support for retaining and expanding industry as a strategy to boost business growth in Toronto supports a number of objectives of the *Collaborating for Competitiveness* Economic Growth and Job Creation Strategy adopted by Council in February 2013, and remains important to creating balanced and sustained economic growth.
- Toronto must continue to explore and implement options and mechanisms with respect to using the long term cost of water as a tool for retaining our existing companies, stimulating their future growth and attracting new companies. Toronto companies need to be able to control their operating costs to remain competitive and so they can invest in maintaining, growing and expanding their existing facilities and jobs here in the city. This should be done in concert with policies that encourage conservation of use and protection of water quality.

- Enhancing support for process users of water in Toronto can help to focus on employment, job quality and growing the assessment base; improving Toronto's competitiveness; accelerating investments; workforce development; strengthening key sectors; attracting companies and investment to Toronto; and alignment of City policies, programs and activities to create an attractive climate for business and investment in the city.

Chart 1 – 2014 Water Rate Impact

Type of Property	Average Consumption m3	2013 Cost	Projected 2014 Cost	2014 Rate Increase Impact	
Residential	300	$814	$887	$73	9.0%
Commercial	100,000	$271,370	$295,790	$24,420	9.0%
Industrial	100,000	$194,848	$212,374	$17,526	9.0%
Industrial	1,000,000	$1,904,525	$2,075,824	$171,299	9.0%

Source: Toronto Water 2014 Water and Wastewater Rates and Service Fees Report
http://www.toronto.ca/legdocs/mmis/2013/bu/bgrd/backgroundfile-63584.pdf

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