



**Tracey Cook**  
Deputy City Manager  
Infrastructure & Development Services

**Lou Di Gironimo**  
General Manager, Toronto Water  
City Hall, 100 Queen Street West  
East Tower, 24<sup>th</sup> Floor  
Toronto, Ontario M5H 2N2

**Lou Di Gironimo**  
General Manager

**Tel:** 416 392-8200  
**Fax:** 416 392-4540  
lou.digironimo@toronto.ca  
www.toronto.ca

---

## 2019 OPERATING BUDGET BRIEFING NOTE

### Water Rate Structuring

---

#### Issue:

- The Budget Committee at its meeting on February 6, 2019, requested that the General Manager, Toronto Water provide a budget briefing note that examines the options for modifying the Block 2 Water Rate to provide economic benefits for large water consumption manufacturer's and present the implications for the increase of the discount rate using a range of 1 percent to 5 percent and consider a phase-in of options over a number of years.

#### Background:

- In 1999, the newly amalgamated City of Toronto implemented a four-year phase-in of a seven-block water rate structure (Clause 25 of the Strategic Policies and Finance Committee, as adopted by Council April 26, 1999).  
<http://www.toronto.ca/legdocs/1999/agendas/council/cc/cc990426/sp8rpt/cl001.htm>
- At that time, numerous water consumers in the City of Toronto appeared before Committee and met with staff to raise issues related to the block rate water rate structure. These concerns included: similar customers are paying different rates; the differences in the charges between small and large volume consumers was getting bigger over time; the 7-block rate structure was hard to understand; the volume based block structure results in large volume consumers bearing a disproportionate share of certain costs; and, the rate structure did not position the City competitively, specifically in regards to its manufacturing sector.
- The City engaged the public and stakeholders and the broader public to comment upon a number of principles. The following six guiding principles, for the development of a new water rate structure for the City of Toronto, resulted from the public consultation: Rates should be equitable across customer sectors; Rates should encourage water efficiency; Rates should position the city competitively; the Rate structure should be simple and transparent; the Rates should ensure the sustainability of the water and sewage systems; and, the Rates must meet regulatory requirements.
- Additionally, after a comprehensive review of other jurisdictions (large Canadian and American cities), the options for a water and wastewater rate structure were distilled to one or a combination of: 1. Single rate structure; 2. Block rate structure; 3. Consumer sector/class structure; or, a variation of each case was also possible.

- In June 2007, City Council adopted a new water rate structure for the City of Toronto which took effect on January 1, 2008. The new rate structure provided for a single uniform rate for the domestic consumption of water, and provided for an available lower second Block rate for industrial process consumption of water, subject to certain conditions.  
<https://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-3800.pdf>
- The target was to achieve a difference in water rate of 30% below the domestic consumption rate by limiting the increases on the industrial process rate to one-third of the increases in the Block 1 rate until this target is achieved.
- This new rate structure addressed key concerns such as providing an equitable rate for the domestic uses of water and towards positioning the City competitively with regards to its manufacturing sector.
- The new rate structure provided for a single domestic-use rate for all users, with a second available block for industrial/manufacturing process-use on the volumes above 6,000 m<sup>3</sup> (amended to 5,000 m<sup>3</sup> since 2016) subject to certain conditions.
- The second block process-use rate was initially set at a rate reduction of 20% from the first block domestic-use rate in 2008, to be phased-in with the rate being increased by one-third of the rate increase on Block 1 until a differential of 30% between Block 1 and Block 2 was reached.
- This option is intended to assist as many industrial and manufacturing employers as possible and not necessarily just high volume users and industrial process water users must be in compliance with the City's sewer-use by-law. This option was most widely supported at the public and individual meetings.

#### **Assistance for Low-Income Seniors and Low-Income Persons with Disabilities**

- As part of the water restructuring policy in 2007, Council approved a water rate 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, which is based on criteria similar to the City's existing property tax relief programs for low-income seniors and low income disabled persons.
- This rebate is set at the difference between Block 1 and Block 2 rate – the same as for industrial process consumption - which started with a differential of 20% from the uniform domestic use rate. The differential reached 30% in 2011.

#### **Key Points:**

- Toronto Water in its 2019 Operating and Capital Budget submission proposes the following:
  - 3.98% increase in the water rate, effective April 1, 2019 (or 3% annualized increase), including the Block 2 users
  - Annual rate increase of 3% from 2019- 2028 is recommended and incorporated in the 2019 Water and Wastewater Rate Model
  - 2019 Block 1 rate proposed is \$3.9549 m<sup>3</sup>
  - 2019 Block 2 rate proposed is 2.7684 m<sup>3</sup>

- In order to assess the implications for modifying the Block 2 water rate, Toronto Water considered four scenarios. In all scenarios, Toronto Water has maintained the current 10 year capital plan as proposed in the 2019 -2028 Capital Plan submission. The impact of the proposed scenarios are illustrated in tables 1-4 below.

### Options to Modify Block 2 Water Rate

**Table 1A:** 1% Block 2 reduction commencing in 2019 (31% reduction from Block 1 rate) compensated by additional increase on Block 1 rate

(\$000's)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Additional increase on Block 1	0.058%										
Block 2 % Reduction from Block 1 Rate	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	N/A
Revised Block 1 Rate \$/m <sup>3</sup>	3.9572	4.0759	4.1981	4.3240	4.4796	4.6139	4.7523	4.8948	5.0416	5.1928	N/A
Revised Block 2 Rate \$/m <sup>3</sup>	2.7305	2.8124	2.8967	2.9836	3.0909	3.1836	3.2791	3.3774	3.4787	3.5830	N/A

**Table 1B:** 1% Block 2 reduction commencing in 2019 (31% reduction from Block 1 rate) compensated by reduction to the Water and Wastewater reserve balance

(\$000's)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Revenue Shortfall	(538)	(731)	(745)	(761)	(775)	(795)	(810)	(827)	(843)	(861)	(7,685)
Block 2 % Reduction from Block 1 Rate	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
Revised Block 2 Rate \$/m <sup>3</sup>	2.7289	2.8107	2.8950	2.9818	3.0891	3.1818	3.2772	3.3755	3.4767	3.5810	N/A
Reserve Balance	1,252,406	918,324	515,418	160,287	19,694	27,536	75,161	113,633	99,714	205,427	N/A

- 1% decrease from the proposed Block 2 rate in 2019 results in a \$7,685,223 loss in revenue to Toronto Water over 10 years that will either be absorbed by other rate payers or be offset through reductions to Toronto Water's 10 year reserve balance.

**Table 2A: 5% Block 2 reduction commencing in 2019 (35% reduction from Block 1 rate) compensated by additional increase on Block 1 rate**

(\$000's)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Additional increase on Block 1	0.302%										
Block 2 % Reduction from Block 1 Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	N/A
Revised Block 1 Rate \$/m <sup>3</sup>	3.9664	4.0853	4.2078	4.3340	4.4900	4.6247	4.7634	4.9063	5.0534	5.2050	N/A
Revised Block 2 Rate \$/m <sup>3</sup>	2.5782	2.6654	2.7351	2.8171	2.9185	3.0061	3.0962	3.1891	3.2847	3.3833	N/A

**Table 2B: 5% Block 2 reduction commencing in 2019 (35% reduction from Block 1 rate) compensated by reduction to the Water and Wastewater reserve balance**

(\$000's)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Revenue Shortfall	(2,702)	(3,674)	(3,746)	(3,820)	(3,895)	(3,995)	(4,073)	(4,154)	(4,236)	(4,320)	(38,616)
Block 2 % Reduction from Block 1 Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	N/A
Revised Block 2 Rate \$/m <sup>3</sup>	2.5707	2.6478	2.7272	2.8090	2.9101	2.9973	3.0872	3.1798	3.2752	3.3734	N/A
Reserve Balance	1,250,237	913,198	507,265	149,034	5,270	9,848	54,133	89,186	71,770	173,904	N/A

- 5% decrease from the proposed Block 2 rate in 2019 results in a \$38,616,414 loss in revenue to Toronto Water over 10 years that will either be absorbed by other rate payers or be offset through reductions to Toronto Water's 10 year reserve balance.

**Table 3A:** 5% Block 2 reduction phased in equally over two years (35% reduction from Block 1 rate fully implemented in 2020) ) compensated by additional increase on Block 1 rate

(\$000's)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Additional increase on Block 1	0.157%	0.160%									
Block 2 % Reduction from Block 1 Rate	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	N/A
Revised Block 1 Rate \$/m <sup>3</sup>	3.9606	4.0853	4.2078	4.3340	4.4900	4.6247	4.7634	4.9063	5.0534	5.2050	N/A
Revised Block 2 Rate \$/m <sup>3</sup>	2.6734	2.6554	2.7351	2.8171	2.9185	3.0061	3.0962	3.1891	3.2847	3.3833	N/A

**Table 3B:** 5% Block 2 reduction phased in equally over two years (35% reduction from Block 1 rate fully implemented in 2020) ) compensated by reduction to the Water and Wastewater reserve balance

(\$000's)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Revenue Shortfall	(1,350)	(3,674)	(3,746)	(3,820)	(3,895)	(3,995)	(4,073)	(4,154)	(4,236)	(4,320)	(37,264)
Block 2 % Reduction from Block 1 Rate	32.5%	35%	35%	35%	35%	35%	35%	35%	35%	35%	N/A
Revised Block 2 Rate \$/m <sup>3</sup>	2.6696	2.6478	2.7272	2.8090	2.9101	2.9973	3.0872	3.1798	3.2752	3.3734	N/A
Reserve Balance	1,251,593	914,559	508,631	150,406	6,647	11,230	55,521	90,580	73,169	175,309	N/A

- 5% decrease from the proposed Block 2 rate phased in equally over two years results in a \$37,263,592 loss in revenue to Toronto Water over 10 years that will either be absorbed by other rate payers or be offset through reductions to Toronto Water's 10 year reserve balance.

**Table 4A:** 5% Block 2 reduction phased in equally over five years (35% reduction from Block 1 rate fully implemented in 2023) compensated by additional increase on Block 1 rate

(\$000's)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Additional increase on Block 1	0.058%	0.117%	0.175%	0.233%	0.292%						
Block 2 % Reduction from Block 1 Rate	31%	32%	33%	34%	35%	35%	35%	35%	35%	35%	N/A
Revised Block 1 Rate \$/m <sup>3</sup>	3.9572	4.0782	4.2030	4.3316	4.4898	4.6244	4.7631	4.9059	5.0530	5.2045	N/A
Revised Block 2 Rate \$/m <sup>3</sup>	2.7305	2.7732	2.8160	2.8589	2.9184	3.0059	3.0960	3.1888	3.2845	3.3829	N/A

**Table 4B:** 5% Block 2 reduction phased in equally over five years (35% reduction from Block 1 rate fully implemented in 2023) compensated by reduction to the Water and Wastewater reserve balance

(\$000's)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Revenue Shortfall	(538)	(1,467)	(2,245)	(3,055)	(3,769)	(3,995)	(4,073)	(4,154)	(4,236)	(4,320)	(31,853)
Block 2 % Reduction from Block 1 Rate	31%	32%	33%	34%	35%	35%	35%	35%	35%	35%	N/A
Revised Block 2 Rate \$/m <sup>3</sup>	2.7289	2.7700	2.8111	2.8522	2.9101	2.9973	3.0872	3.1798	3.2752	3.3734	N/A
Reserve Balance	1,252,406	917,587	513,175	155,735	12,123	16,729	61,041	96,122	78,734	180,896	N/A

- 5% decrease from the proposed Block 2 rate phased in equally over five years results in a \$31,853,173 loss in revenue to Toronto Water over 10 years that will either be absorbed by other rate payers or be offset through reductions to Toronto Water's 10 year reserve balance.

---

**Prepared by:** Boriana Varleva, Senior Financial Analyst, Corporate Finance, Strategies & Policy, 416-392-4949, [Boriana.Varleva@toronto.ca](mailto:Boriana.Varleva@toronto.ca)

Mary Russo, Acting Manager, Policy, Planning, Finance & Administration, Financial Planning, 416-397-1766, [Mary.Russo@toronto.ca](mailto:Mary.Russo@toronto.ca)

**Further information:** Lou Di Gironimo, General Manager, Toronto Water, 416 392-8200, [Lou.DiGironimo@toronto.ca](mailto:Lou.DiGironimo@toronto.ca)

**Date:** February 8, 2019