



## REPORT FOR INFORMATION

# 2019 Operating and Capital Budget Briefing Note Potential Financial Impact of Briefing Notes 29, 30, 39

**Date:** March 5, 2019

**To:** City Council

**From:** General Manager, Toronto Water

**Wards:** All

### SUMMARY

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The Budget Committee at its meeting on February 20, 2019, requested that the General Manager, Toronto Water report to City Council on the potential impact of the three options (Briefing notes 29, 30 and 39) presented to the Budget Committee on the 2019 Toronto Water Operating and Capital Budgets.

### DECISION HISTORY

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Briefing Note #29 – 2019 Operating Budget – Industrial Waste Surcharge Agreement (IWSA) Fee Review. This briefing note responds to Budget Committee's request on February 6, 2019 to provide background information on the Industrial Waste Surcharge policy and previous staff recommendations regarding full cost recovery. The briefing note includes a list of companies releasing more than one treatable parameter, if such information is in keeping with the City's obligations under the Municipal Freedom of Information and Protection and Privacy Act.

<http://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-126786.pdf>

Briefing Note #30 – 2019 Operating Budget – Water Rate Structuring. This briefing note responds to Budget Committee at its meeting on February 6, 2019 to 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.

<http://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-126787.pdf>

Briefing Note #39 – 2019 Operating Budget – Industrial Waste Surcharge Program – Feasibility of Phased In Surcharge Parameter Fee Increases. This briefing note responds to Budget Committee request on February 13, 2019 to address the feasibility of phased-in surcharge parameter fee increases for each of the five treatable surcharge parameters permitted under the City's Industrial Waste Surcharge Agreement Program

(the "Program") in an effort to reduce the Program funding deficit. For the reasons outlined below, the phased in surcharge parameter fee increases, as contemplated by the motion, are not feasible.

<http://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-129529.pdf>

## **COMMENTS**

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The findings in Briefing Note #39 show that it is not feasible to implement phased-in surcharge parameter fee increases for each of the five treatable surcharge parameters as contemplated by the Budget Committee motion.

Therefore, this report summarizes the potential impacts of the two remaining options (Briefing Notes #29 and #30) as presented to Budget Committee during the 2019 Toronto Water Operating and Capital Budgets process. The review of potential impacts are documented in Attachment 1 of this report.

## **CONTACT**

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## **SIGNATURE**

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Lou Di Gironimo  
General Manager, Toronto Water

## **2019 TORONTO WATER OPERATING AND CAPITAL BUDGET Potential Financial Impact of Briefing Notes 29, 30 and 39**

### **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>
- Currently, companies with IWSA's are only charged a fee based on the highest surcharge parameter, in excess of the By-law limits, to which an IWSA applies; not all surcharge parameters discharged in excess of the By-law limits that are permitted in their agreements with the City.
- The difference between the costs recovered from all active surcharge agreement holders, based on the current surcharge fee structure and the costs incurred by the City for treatment (at full cost recovery) under these IWSA's is approximately \$1.2 million annually. This loss in revenue is currently being absorbed in the water rates paid by residents and businesses.
- 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.
- 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.
- Based on the findings noted in Briefing Note #39, this briefing note will only summarize the potential impacts of the two options (Briefing notes 29 and 30) presented to Budget Committee on the 2019 Toronto Water Operating and Capital Budgets.

## Options to Modify Industrial Waste Surcharge Agreement and Block 2 Water Rate

**Table 1:** Implementation of full cost recovery method on Industrial Waste Surcharge Agreement phased in over six years

Year	Formula Adjustment Factor	Estimated Cost Recovery	Annual Increase in Cost Recovery	Average Annual % Increase
2018		\$9,132,746.22		
2019	0.902	\$9,336,300.27	\$203,554.05	2.23%
2020	0.921	\$9,539,854.32	\$203,554.05	2.18%
2021	0.941	\$9,743,408.37	\$203,554.05	2.13%
2022	0.961	\$9,946,962.42	\$203,554.05	2.09%
2023	0.98	\$10,150,516.47	\$203,554.05	2.05%
2024	1	\$10,354,070.52	\$203,554.05	2.01%
<b>Total</b>			<b>\$1,221,324.30</b>	<b>13%</b>

- Table 1 illustrates how using an adjustment factor would incrementally increase the City's current IWSA method to a full cost recovery method by 2024.

**Table 2A:** Implementation of full cost recovery method on Industrial Waste Surcharge Agreement phased in over six years and 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	0.02%	0.1%	0.1%	0.1%	0.05%						
Revenue Increase from IWSA (Full Cost Recovery Implementation)	204	407	611	814	1,018	1,221	1,221	1,221	1,221	1,221	9,160
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>	3.9557	4.0783	4.2010	4.3274	4.4853	4.6198	4.7583	4.9010	5.0480	5.1994	N/A
Revised Block 2 Rate \$/m <sup>3</sup>	2.7294	2.7732	2.8147	2.8561	2.8561	2.9154	3.0029	3.0929	3.1857	3.3796	N/A

**Table 2B:** Implementation of full cost recovery method on Industrial Waste Surcharge Agreement phased in over six years and 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 from Block 2	(538)	(1,467)	(2,245)	(3,055)	(3,769)	(3,995)	(4,073)	(4,154)	(4,236)	(4,320)	(31,853)
Revenue Increase from IWSA (Full Cost Recovery Implementation)	204	407	611	814	1,018	1,221	1,221	1,221	1,221	1,221	9,160
Block 2 % Reduction from Block 1 Rate	31%	32%	33%	34%	35%	35%	35%	35%	35%	35%	N/A
Reserve Balance	1,252,610	918,200	514,402	157,783	15,199	21,041	66,594	102,921	86,784	190,202	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.
- The implementation of full cost recovery method on Industrial Waste Surcharge Agreement phased in over six years results in a \$9,159,930 increase in revenue to Toronto Water over 10 years.
- Implementation of both full cost recovery on IWSA and 5% decrease from the proposed Block 2 rate results in a net loss of \$22,693,243 that will either be absorbed by other rate payers or be offset through reductions to Toronto Water's 10 year reserve balance.
- Toronto Water has maintained the current 10 year capital plan as proposed in the 2019 -2028 Capital Plan submission

**Table 3:** Impact of proposed billing on all parameters for companies with Industrial Waste Surcharge Agreements and Permits and on the Block 2 Program, assuming 5% block 2 reduction is fully implemented. (Q3 2018 IWSA Data and Fees)

Company (Comp.) Type	# of Comp. on the Block 2 Program	Average Annual Consumption (m <sup>3</sup> ) of Block 2 Companies	Average Value Savings from a 5% reduction on the proposed Block 2 (\$)	Average Increase in IWSA fees using Full Cost Recovery Method	Comp. Ex. #	Annual Consumption (m <sup>3</sup> ) of Block 2 Companies	Value Savings from a 5% reduction on the proposed Block 2 (\$)	IWSA Increase \$ (%)
Min. Fee (\$500) 169 Companies *	25	107,263.28	(\$21,205.95)	\$0 (0%)	1	7,707.22	(\$1,523.72)	\$0 (0%)
					2	96,018.00	(\$18,982.76)	\$0 (0%)
Low Volume (≤ \$5K) 83 Companies	8	35,924.63	(\$7,102.30)	\$140.27 (9.61%)	3	115,086.00	(\$22,752.50)	\$0 (0%)
					4	19,148.00	(\$3,785.56)	\$295.37 (57%)
Medium Volume (>\$5K to <\$75K) 86 Companies	23	179,770.26	(\$35,540.58)	\$3,215.77 (6.43%)	5	40,293.00	(\$7,965.93)	\$0 (0%)
					6	141,022.00	(\$27,880.05)	\$23,229.91 (35.59%)
High Volume (≥ \$75K) 32 Companies	22	532,041.14	(\$105,184.53)	\$32,150.36 (12.5%)	7	403,296.00	(\$79,731.62)	\$0 (0%)
					8	135,924.00	(\$26,872.17)	\$44,047.96 (53.23%)

\*Includes 55 companies with industrial waste surcharge permits

- Table 3 illustrates how many companies in each of the surcharge categories are on the Block 2 program, the average consumption of those companies that are on both programs, and the average savings from a 5% reduction in the proposed Block 2 rate. The examples listed in the table are for companies with an IWSA and the Block 2 rate, showing the least and most impacted companies from the implementation of a full cost recovery method on IWSA.
- Approximately 21% of companies on the Industrial Waste Surcharge Agreement (IWSA) with Toronto Water currently qualify for the Block 2 program (78 companies out of 370 companies on the Industrial Waste Surcharge Agreement are on the Block 2 program).
- The minimum category of IWSA (with 25 Block 2 companies) will not see any changes to their IWSA fees as a result of moving to a full cost recovery method.
- The high volume category of IWSA (with 22 Block 2 companies) will see the greatest savings from a 5% reduction in the proposed Block 2 rate.

Table 4: Number of Surcharge Parameters on the Industrial Waste Surcharge Agreements of Block 2 Companies

<b>Number of Parameters on IWSA</b>	<b>Number of Block 2 Companies</b>	<b>Percentage of Block 2 Companies</b>
1	4	5%
2	19	24%
3	18	23%
4	34	44%
5	3	4%

- Table 4 illustrates the number of surcharge parameters each Block 2 company has on their IWSA.
- Out of the 78 companies that have an IWSA and are on the Block 2 program, 51 companies (or 65% of companies) would not see any increase in their annual surcharge fees from using the current billing method vs. the full cost recovery method. Although most Block 2 companies have more than one surcharge parameter on their agreements, the majority of Block 2 companies with an IWSA have only one surcharge parameter exceeding therefore wont experience any increase with the full cost recovery billing method (These estimates are using a specific data range for a specific quarter of billing. Billing totals for each surcharge company can vary from quarter to quarter depending on their sampling results and water usage).