

2021 Water and Wastewater Consumption Rates and Service Fees

Date: October 30, 2020

To: Budget Committee

From: Chief Financial Officer and Treasurer and General Manager, Toronto Water

Wards: All

SUMMARY

This report presents the recommended 2021 water and wastewater consumption rates and service fees arising from the concurrent adoption by City Council of the 2021 Toronto Water Operating and Capital Budgets.

In order to support the recovery from the impact of COVID -19, this report recommends a 1.5% water and wastewater consumption rate increase, effective January 1, 2021, and inflationary fee increases for certain existing water and wastewater service fees, reflecting cost recovery for these services.

The recommended 2021 water and wastewater consumption rates and service fees will allow the Toronto Water Program to remain fully self-funded and financially stable, with both operating and capital needs being met without excessive year-over-year fluctuations in pricing over the long term.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer and the General Manager, Toronto Water recommend that:

1. City Council consider this report concurrently with the 2021-2030 Toronto Water Capital Plan and the 2021 Toronto Water Operating Budget.
2. City Council adopt:
 - a. Effective January 1, 2021, a 1.5% rate increase to the combined water and wastewater consumption rates (paid on or before the due date) charged to metered consumers as shown below and in Appendix B attached to this report;

Table 1: Rate Increase to Combined Water and Wastewater Consumption Rates Charged to Metered Consumers

Annual Consumption	Paid on or before the due date, \$/m3	Paid after the due date, \$/m3
Block 1 - All consumers of water, including the first 5,000 cubic metres per year consumed by Industrial users ("Block 1 rate")	4.1346	4.3522
Block 2 - Industrial process – use water consumption over 5,000 cubic metres per year, representing a 30% reduction from the Block 1 Rate ("Block 2 rate')	2.8941	3.0464

b. Effective January 1, 2021, an increase of 1.5% to the water and wastewater consumption rates (paid on or before the due date) charged to flat rate consumers, as set out in Appendix B attached to this report;

c. Effective January 1, 2021 the water and wastewater service fees, as set out in Appendix C attached to this report;

3. With respect to assistance for low-income seniors and low-income disabled persons:

a. Effective January 1, 2021, the water rebate for eligible low-income seniors and low-income disabled persons be set at a rate of \$1.2404 /m3, representing a 30% reduction from the Block 1 rate (paid on or before the due date);

4. City Council authorize that the necessary amendments be made to Municipal Code Chapter 441 - Fees and Charges, Municipal Code, Chapter 849 - Water and Sewage Services and Utility Bill, Municipal Code Chapter 851 - Water Supply, and Municipal Code Chapter 681- Sewers, and any other necessary Municipal Code Chapters as may be required, to give effect to these Recommendations.

5. City Council authorize the City Solicitor to introduce any necessary Bills required to give effect to Council's decision and authorize the City Solicitor to make any necessary clarifications, refinements, including stylistic, format and organization, minor modifications, technical amendments or by-law amendments as may be identified by the City Solicitor, the Chief Financial Officer & Treasurer and the General Manager, Toronto Water.

FINANCIAL IMPACT

The City of Toronto Water and Wastewater Program (the "Program") is currently fully funded on a 'pay-as-you-go' basis through a combined water and wastewater rate without any reliance on property taxes or borrowing/debenture financing. The property

tax supported budget is not impacted by adoption of the recommendations contained in this report.

In order to support the recovery from the impact of COVID -19, this report recommends a rate increase of 1.5%, effective January, 2021. The preliminary 10 year Capital Plan, approved by Council in 2015, was predicated on a 3% rate increase in 2021.

In response to the financial pressures from reducing the water rate increase in 2021, resulting in \$19.1 million loss of forecasted revenue in 2021, adjustments were made to the operating budget through a combination of efficiencies and reductions with no impact or deferrals to the 2021 Capital Program as a result of the 1.5% rate increase.

The 1.5% rate increase ensures critical water, wastewater and stormwater infrastructure work carries on as planned and supports the need for ongoing economic activity in Toronto during COVID-19. The 1.5% rate increase will not impact service levels and Toronto Water will continue to provide services to protect public health, safety and property in a fiscally and environmentally responsible manner.

The Toronto Water 2021 Operating and Capital Budget requires a combined water and wastewater expenditure level of \$1.415 billion, which is fully funded from the recommended 2021 water and wastewater consumption rates and service fees.

As shown in Table 2 below, the recommended rate increase impact on an average home consuming 230 m3/year, billed at the Block 1 Rate, will be 1.5% or \$14 over the calendar year (from \$937 in 2020 to \$951 in 2021). The impact of the 1.5% increase on a commercial consumer at the Block 1 rate and an industrial consumer at the Block 2 rate with annual consumption of 100,000 m3 will be \$6,110 and \$4,362 respectively, the latter reflecting a 30% discount over the Block 1 rate for eligible industrial consumers. The rate increase impact on a large industrial consumer of 1,000,000 m3 eligible for the Block 2 rate will be \$42,792.

Table 2: Impact of recommended water rates effective, January 1, 2021

Type of Property	Consumption m3/y	2020 Cost \$/y	2021 Projected Cost \$/y	2021 Rate Increase Impact	
				\$/y	%
Residential	230	\$937	\$951	\$14	1.50%
Commercial	100,000	\$407,350	\$413,460	\$6,110	1.50%
Industrial	100,000	\$291,232	\$295,594	\$4,362	1.50%
Large Industrial	1,000,000	\$2,857,312	\$2,900,104	\$42,792	1.50%

The recommended increases to certain water and wastewater service fees set out in Appendix C are expected to generate additional revenue of approximately \$751,107 which is intended to offset the cost increases associated with delivering these services.

DECISION HISTORY

At its meeting on December 17, 2019, City Council adopted the water and wastewater consumption rates and service fees to be charged to metered and flat rate consumers, effective January 1, 2020. The 2020 Water and Wastewater Rates and Service Fees report, adopted by City Council, can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX11.2>

COMMENTS

Issue Background

The City annually adopts a by-law to establish its water and wastewater consumption rates and service fees. Adoption of the concurrent Toronto Water 2021 Operating and 2021-2030 Capital Budgets will necessitate the recommended 2021 water and wastewater consumption rates and service fees as outlined in this report.

The Program also provides water and wastewater services directly to customers for which it charges a fee generally based on cost recovery. Most water and wastewater service fees are recommended to be increased by the applicable rate of inflation for 2021, except for those that are based on contracts for procured services, which recommended increases, therefore, reflect the actual contract price.

Financial Model

The financial model used to forecast water and wastewater rates is premised upon the objective that the Program remains fully self-funded and financially stable, with both operating and capital needs being met without excessive year-over-year fluctuations in pricing over the long term.

During the 2021 budget review process, staff updated the 10 year Capital Plan to allow Toronto Water to deliver on key priorities, while also supporting the recovery from COVID -19 through a reduced water rate increase in 2021. Staff are recommending a 1.5% rate increase in 2021, and 3% increase for the following years of the ten year plan. To manage the reduced water rate increase in 2021, adjustments were made to the operating budget through a combination of efficiencies, reductions and reduced forecasted revenue in 2021 with no impact or deferrals to the 2021 Capital Program as a result of the 1.5% rate increase.

Toronto Water's 2021 Operating and Capital Budget, and 10-Year Capital Plan, are considered together with the projected water consumption to generate the water and wastewater rates which will self-finance the Program over the ten-year planning period, including reserve contributions. The current financing model does not rely on any debt issuance.

The 2021 financial model also assumes that 85% of the net Capital Budget (after grants, subsidies and other capital contributions) will be drawn from Toronto Water's

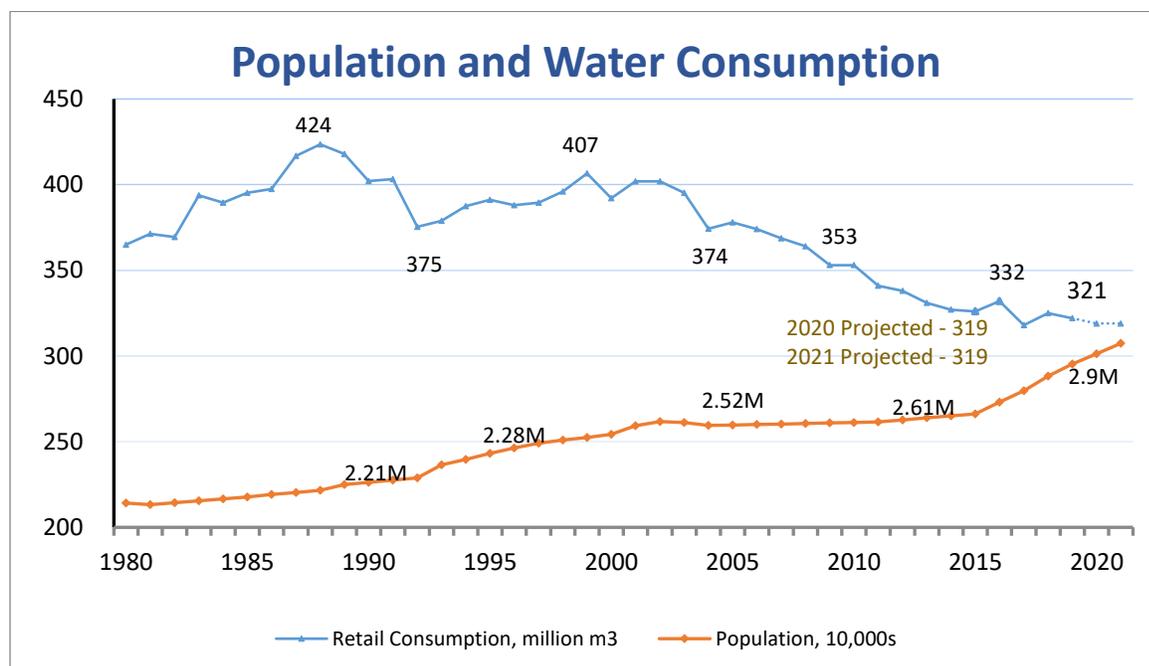
Capital Reserve, based on the current capital completion level experienced by the Program, so as not to overstate actual projected funding requirements.

Water Consumption Forecast

Over the last decade, despite the increase in population, there has been a trend of reduced consumption, as shown in Figure 1 below. Toronto’s water consumption projected to 2020 year - end is estimated at 319 million cubic metres, which represents a substantial drop from 353 million cubic meters in 2010.

However, substantial fluctuations in consumption have been observed over the past five years, as shown in Figures 1 and 2. The City experienced unusually high consumption in 2016 (332 M m3), attributed to the hot and dry summer; significantly lower consumption in 2017 (318 M m3), attributed to a cool and wet spring and summer. Water consumption in 2018 (325 M m3) was relatively high again, and 2019 (320 M m3) consumption slightly lower than 2018 consumption. All these fluctuations are considered to be weather dependent.

Figure 1: Toronto Retail Water Consumption and Population

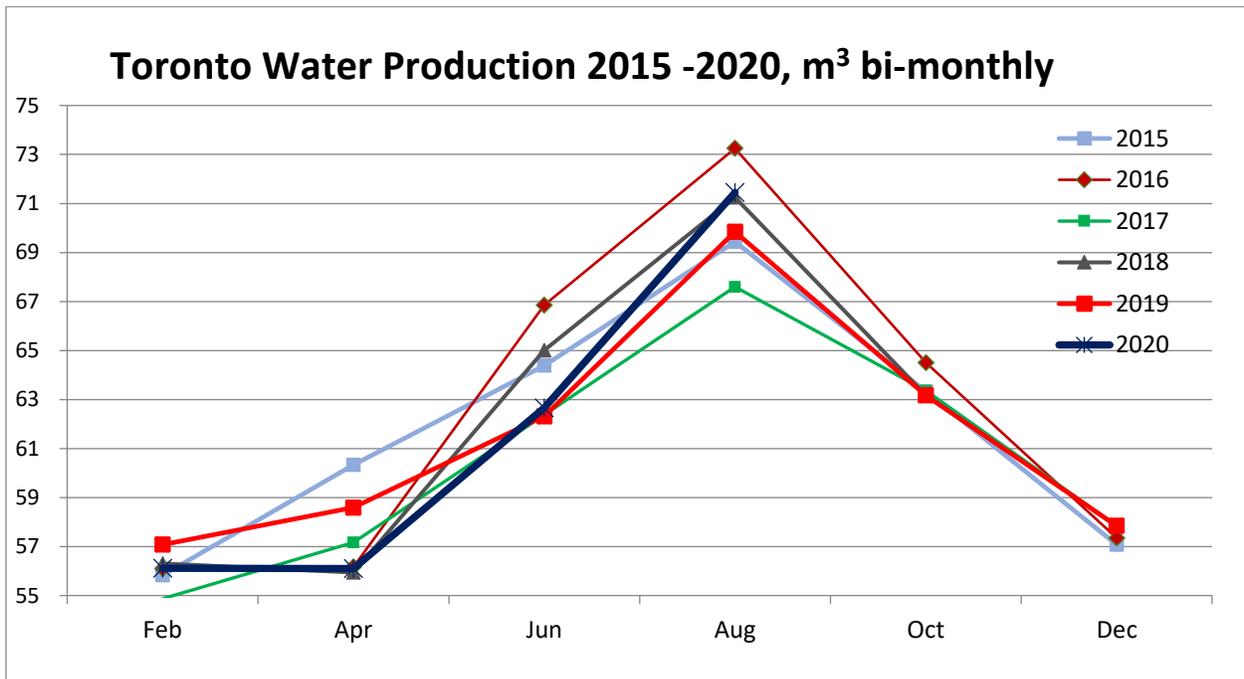


Winter consumption (October to April) is not affected by additional outdoors use typical for the summer, and hence is used to analyse the steady baseline consumption trends in the City.

The data show that over the last 10 years (2010-2019), winter water consumption has fallen over 5%, with an annual average drop of 0.9%. The last 5 years, however, (except for 2019) as shown in Figure 2, had fairly similar consumption during the winter months. The trend of more stable baseline consumption could suggest that the sharp increase in population offsets the efficiency related consumption decline, and we could expect a fairly constant baseline consumption in the future.

The projected consumption for 2020 is about 319 m³, which is slightly (0.4%) lower than the relatively high 2019 consumption. 2020 is a year of many extraordinary changes in consumers' behavior due to COVID 19, and it is difficult to assess a trend over the last few months. The hot summer of 2020 was a strong factor in the observed high summer consumption, and staff will be monitoring the consumption over the fall and winter months to detect changes in the base consumption patterns. The water consumption for 2021 is projected at about 319 million m³, and in following years is conservatively projected at 0.5% decrease per year, with the intention to monitor closely consumption trends over the next 12 months and adjust the projections in the next budget cycle if necessary.

Figure 2: Water Production (2015 to 2020)



2021 Operating Budget and 2021 - 2030 Capital Plan

The concurrent Toronto Water 2021 Operating and Capital Budget Notes provide details on Toronto Water’s 2021 Operating and Capital Budgets. A summary of the 2021 Operating Budget and Forecast, the 2021-2030 Capital Plan, and the resulting rate requirements are presented in Appendix B, attached to this report, together with the sources of capital financing and corresponding reserve balances.

2021 Operating Budget

The 2021 Operating Budget gross expenditure of \$468.824 million is outlined in detail in the concurrent Toronto Water 2021 Budget Notes. The 2021 net expenditures inclusive of capital from current to be funded by the water rate is \$1.289 billion. A further \$125.842 million is expected to be generated from the sale of water to the Region of

York (\$32.591 million) and user service fees (\$93.251 million), for a total program expenditure and revenue of \$1.415 billion. The recommended capital contribution from operations for 2021 is \$946.512 million.

Table 3: 2021 Operating Budget

	\$ Millions
Gross Operating Cost	\$468.824
Capital from Current	\$946.512
	\$1,415.336
Other Revenues	(\$125.842)
Net Expenditure to be Financed from Water Rates	\$1,289.493

2021 - 2030 Capital Plan

Toronto Water's Capital Program continues to be 100% self-sustaining, largely through water revenues, with no debenture financing and no impact on the municipal property tax levy.

The 2021–2030 Capital Plan of \$14.784 billion (including the 2021 carry forward funding) is based on the available funding provided by the current capital financing plan that is based on 1.5% water consumption rate increases in 2021 and 3% annual increase beyond.

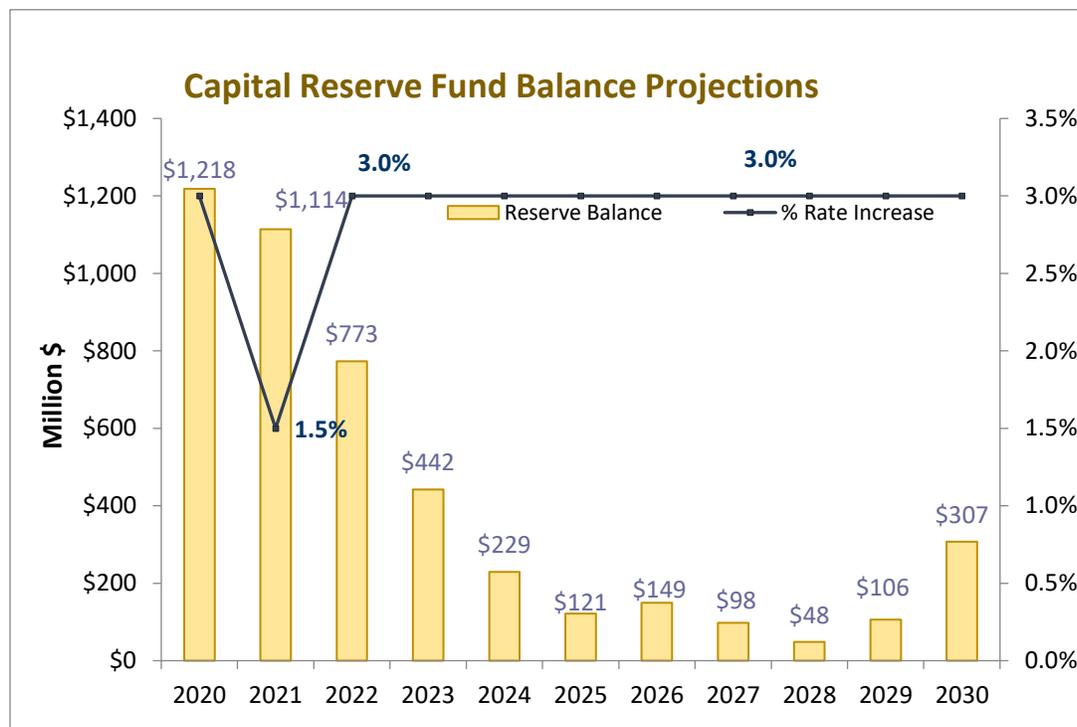
The concurrent Toronto Water 2021 Budget Notes provide details on Toronto Water's 2021-2030 Capital Plan.

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 Toronto Water operating budget ("capital-from-current") sufficient to ensure that an adequate balance is maintained in these reserve funds.

Figure 3 below shows the capital reserve fund balance for the period 2020-2030 and the projected annual rate increases outlined in this report. The capital reserve has been replenished to above \$1 billion following the two consecutive years of 5% increases in 2017 and 2018. The reserve decreases significantly in 2022 and forward when the Capital Program expenditures are projected to exceed \$1.3 billion a year, incorporating all priority projects. A targeted minimum balance of \$30 million is maintained for the capital reserve in all years.

Figure 3: 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 that result in water consumption below projected levels. Circumstances giving rise to lower than forecasted consumption can include loss of major water consumers, and unusually wet summers.

At its meeting on December, 2007, Toronto City Council directed that 1% of budgeted water user revenue, be contributed to the Water & Wastewater Stabilization reserves, apportioned as 43% to Water and 57% to Wastewater, until such time that a minimum combined balance of \$30 million be reached between them. Any excess amounts are transferred to the Capital Reserves in order to use those additional funds for capital projects.

The rate model is based on the assumption that the combined Stabilization Reserve balance is at \$30 million over the 10 year planning period and any balance above \$30 million is transferred to Capital Reserve.

Industrial Discount Rate

Since January, 2008, City Council has adopted a 2 block rate structure, with the second block rate providing a 30% discount for eligible industrial process-use consumers, complying with certain requirements. There were 101 industrial accounts at the discounted Block 2 rate in 2019.

Currently Toronto Water and Economic Development and Culture, as directed by City Council, are undertaking stakeholder consultation with water users on water fees and charges, including possible changes to the water rate structure, to support business retention, economic growth, investment and employment. The consultations will take place in the late fall of 2020 and the results reported to Council for consideration by mid-year 2021.

Flat-rate Accounts

In 2010, the City started implementation of a City-wide water meter replacement program coupled with concurrent installation of an automated meter reading technology, planning to convert all flat-rate accounts to metered accounts.

As of September 2020, there were 256 remaining flat-rate accounts compared to 72,000 flat-rate accounts in 2007.

The accounts that have refused the installation of an automated water meter have been subject to a flat rate legacy fee since July, 2014, which is recommended to be increased to *\$1,269 in 2021 for inflation*.

This report recommends a 1.5% rate increase to the water and wastewater consumption rates charged to flat-rate consumers, effective January 1, 2021, as is the case with metered customers.

Assistance for Eligible Low-Income Seniors and Low-Income Disabled Persons

As part of the City's water rate structure, since January 1, 2008, Council has approved a water rebate program for low-income seniors and low-income persons with disabilities who meet the eligibility criteria for tax relief as prescribed in the Municipal Code, Chapter 849. This rebate is set at the difference between the Block 1 and Block 2 rates, 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 per year, to provide assistance to those most in need.

In 2020, the City processed 6,286 low income water rebate applications for a total rebate amount of \$1,160,759.

Comparison of Water Rates in GTA Municipalities

Toronto's 2020 water rate for residential consumers, in comparison to surrounding municipalities, is shown in Figure 4, based on 230 m³/ year (2021 rates for surrounding municipalities are not yet available). As the chart shows, the residential water cost in Toronto is one of the lowest amongst the surrounding municipalities. It should be noted that in Peel Region, storm water related projects are still funded from property taxes, except for the City of Mississauga, which added a stormwater charge to their water bill in January, 2016. In 2020 Markham, Vaughan and Richmond Hill did not increase their water rates. Figure 5 provides a similar comparison for large industrial users, and shows that Toronto offers a reasonably competitive water cost amongst GTHA municipalities.

Figure 4: GTHA 2020 Residential Water Cost



Note: Peel stormwater funded by property taxes except for Mississauga's stormwater charge since 2016

Figure 5: GTHA 2020 Industrial Water Cost



Water and Wastewater Services 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 various specific water and wastewater services. These fees, along with the proposed fee increases, are identified in Appendix C attached to this report.

All Block 1 rate related user fees, are subject to the recommended 1.5% rate increase, effective January 2021.

In compliance with the City's full cost recovery policy, certain water and wastewater service fees are recommended for increase in order to recover the increased cost of the services provided. Most user fees are recommended to be increased by the 2021 rate of inflation applicable to the specific service provided, which in most cases is different from the consumer price index (CPI). In addition, the increase of fees based on contracts for procured services and products reflects the actual contract price.

Recommended Increases to Existing Water Fees

Fifteen water service fees (Reference Numbers: 1, 2, 5, 11, 12, 13, 15, 15.1, 17, 21, 25, 32, 40, 41, 42, 43, 44 and 45 in the attached Appendix C – 2021 Water Services Fees) are recommended to be increased by 2.21% in 2021, intended to reflect the market conditions and current costs of labour, energy, utilities and materials involved in providing those services by Toronto Water. In addition, 5 Revenue Services Fees (Ref. No. 33, 35, 36, 37 and 39 in the attached Appendix C – 2021 Water Services Fees) are recommended to be increased by 2.0% which is the inflationary factor for the Revenue Services Division, mainly reflecting labour cost increase.

Table 4 below summarizes the proposed changes, comparing the 2020 water service fee and the recommended 2021 fee, as well as the percentage increase and the rationale for the increase.

Table 4: Water Service Fees recommended for increase in 2021

Ref. No.	Fee Description	2020 fee	Proposed 2021 Fee	2021 % Increase	Rationale
1	Installing 19 mm New Residential Water Service and meter	\$4,863.57	\$4,971.05	2.21%	Toronto Water inflation
2	Installing 25 mm New Residential Water Service and Meter	\$5,635.39	\$5,759.93	2.21%	Toronto Water inflation
5	Disconnection Fee for any residential water service less than or equal to 25 mm	\$1,437.92	\$1,469.70	2.21%	Toronto Water inflation

Ref. No.	Fee Description	2020 fee	Proposed 2021 Fee	2021 % Increase	Rationale
11	Fire hydrant Permit	\$182.17	\$186.20	2.21%	Toronto Water inflation
12	Water meter accuracy test ; Meter less than or equal to 50mm - No Chamber - applied if meter does not over-register	\$182.17	\$186.20	2.21%	Toronto Water inflation
13	Water turn off fee for demolition; (disconnection of old water service not included)	\$91.03	\$93.04	2.21%	Toronto Water inflation
15	Water Turn-off or Turn-on	\$91.03	\$93.04	2.21%	Toronto Water inflation
15.1	Single Service call Turn-off and Turn-on within 30 min	\$91.03	\$93.04	2.21%	Toronto Water inflation
17	Conduct fire hydrant flow test	\$303.68	\$310.39	2.21%	Toronto Water inflation
21	Unregistered water each day order not complied	\$60.68	\$62.02	2.21%	Toronto Water inflation
25	Annual Seasonal Meter Activation Fee : includes replacement, removal of water meter; 1 turn on, 1 turn off	\$233.60	\$238.76	2.21%	Toronto Water inflation
32	Reuse of residential water service 19 mm to 25 mm	\$303.44	\$310.15	2.21%	Toronto Water inflation
33	Administrative fee to reflect a change in ownership on an existing utility account	\$39.97	\$40.77	2.0%	Revenue Services Inflation
35	Water Special/Final Reading	\$17.13	\$17.47	2.0%	Revenue Services Inflation
36	Water Consumption Statements	\$45.70	\$46.61	2.0%	Revenue Services Inflation
37	Water Consumption Statements	\$28.56	\$29.13	2.0%	Revenue Services Inflation

Ref. No.	Fee Description	2020 fee	Proposed 2021 Fee	2021 % Increase	Rationale
39	Water Collection Field Visit	\$28.56	\$29.13	2.0%	Revenue Services Inflation
40	Administration of MECP Municipal drinking Water Licensing Program	\$2,746.91	\$2,807.62	2.21%	Toronto Water inflation
41	Fee for lost or damaged automated meter reading transmitter	\$102.55	\$104.82	2.21%	Toronto Water inflation
42	Manual water meter reading fee for consumers with water meters refusing installation of a new automatic water meter and associated meter reading equipment	\$93.09	\$95.15	2.21%	Toronto Water inflation
43	Flat rate legacy fee, in addition to any existing water and wastewater flat rates charged, for residential flat rate consumers who refuse the installation of an automatic water meter and associated meter reading equipment	\$1,241.73	\$1,269.17	2.21%	Toronto Water inflation
44	Processing annual water supply backflow prevention device testing reports	\$56.61	\$57.86	2.21%	Toronto Water inflation
45	Water Service Upgrade Fee - Lead Water Service Replacement Programs (19mm to 25mm upgrade only)	\$552.96	\$565.18	2.21%	Toronto Water inflation

Recommended Increases to Existing Wastewater Fees

For 2021, inflationary increases of 2.21% are recommended for 10 wastewater service fees. (Reference Numbers: 4, 5, 6, 15, 16, 17, 18, 19, 20 and 24 in the attached Appendix C – 2021 Wastewater Services Fees) intended to reflect the market conditions and current costs of labour, energy, utilities and materials involved in providing those services by Toronto Water.

The sewer surcharge on private water is based on the Block 1 water rate and as such, is recommended for 1.5% rate increase, effective January 1, 2021.

Table 5 below summarizes the proposed changes, comparing the 2020 wastewater service fee and the recommended 2021 fee, as well as the percentage increase and the rationale for the increase.

Table 5: Wastewater Service Fees recommended for increase in 2021

Ref. No.	Fee Description	2020 fee	Proposed 2021 fee	2021 % Increase	Rationale
4	To install new residential sanitary sewer service connection in road allowance	\$12,165.26	\$12,434.11	2.21%	Toronto Water inflation
5	To install new residential storm sewer service connection in road allowance	\$12,165.26	\$12,434.11	2.21%	Toronto Water inflation
6	To disconnect residential sanitary sewer service connection in road allowance	\$1,501.36	\$1,534.54	2.21%	Toronto Water inflation
15	Inspection fee for the reuse of residential City sewer connection up to 150 mm in diameter	\$608.16	\$621.60	2.21%	Toronto Water inflation
16	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.	\$1,822.77	\$1,863.05	2.21%	Toronto Water inflation

Ref. No.	Fee Description	2020 fee	Proposed 2021 fee	2021 % Increase	Rationale
17	Technical Review by Toronto Water staff - Application to Toronto Water for new connection or change or alteration to the existing storm connection, sanitary or water supply connection	\$364.32 minimum fee, additional \$89.86/hour for each hour after 4 hours to a maximum of \$1,822.77 (Plus HST)	\$372.37 minimum fee, additional \$91.85/hour for each hour after 4 hours to a maximum of \$1863.05 (Plus HST)	2.21%	Toronto Water inflation
18	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)	\$364.32 minimum fee, additional \$89.86/hour for each hour after 4 hours to a maximum of \$1,822.77 (Plus HST)	\$372.37 minimum fee, additional \$91.85/hour for each hour after 4 hours to a maximum of \$1863.05 (Plus HST)	2.21%	Toronto Water inflation
19	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)	\$364.32 minimum fee, additional \$89.86/hour for each hour after 4 hours to a maximum of \$1,822.77 (Plus HST)	\$372.37 minimum fee, additional \$91.85/hour for each hour after 4 hours to a maximum of \$1863.05 (Plus HST)	2.21%	Toronto Water inflation
20	Initial fee for establishment of new industrial waste surcharge agreement	\$934.67	\$955.33	2.21%	Toronto Water inflation
24	Record search for Sewers by-law and water supply by-law compliance violation	\$110.57	\$113.01	2.21%	Toronto Water inflation

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SIGNATURE

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ATTACHMENTS

Appendix A – Summary of 2021 Operating and Capital Budget and Forecast,
Corresponding Rate Increase and Capital Financing
Appendix B – 2021 Water and Wastewater Consumption Rates
Appendix C – 2021 Water and Wastewater Service Fees