

Toronto Water

Toronto City Hall, 24th Floor, East Tower
100 Queen Street West
Toronto, ON M5H 2N2

Tel: 416-392-8200
Fax: 416-392-4540

2007 BUDGET BRIEFING NOTE

Identification of Impact on Toronto Water Capital Program of Alternative Rate Scenarios

Issue/ Background:

- In December 2005, City Council adopted staff report “2006 Water and Wastewater Rate Increase and Rate Projections for 2007-2015”. Based on the operating and capital budgets for 2006 and projections to 2015, that report recommended a 9% increase on the water and wastewater rate for 2006 and projected 9% rate increases each year thereafter to 2012.
- The proposed Staff Report “2007 Water and Wastewater Service Rate and Related Matters”, continues to recommends 9% rate increase on the water and wastewater rate for 2007 and each year of the 5-year program.
- An analysis has been undertaken to evaluate the impact on Toronto Water’s capital program of three alternative rate scenario”
 - **Scenario 1** - 12% rate increase on the water and wastewater rate for 2007, followed by 9% rate increases for 2008-2011
 - **Scenario 2** - 12% rate increase on the water and wastewater rate for 2007 and 2008, followed by 9% rate increases for 2009-2011
 - **Scenario 3** - 9% rate increase on the water and wastewater rate for 2007, followed by 12% rate increases for 2008-2009 and 9% rate increases for 2010-2011

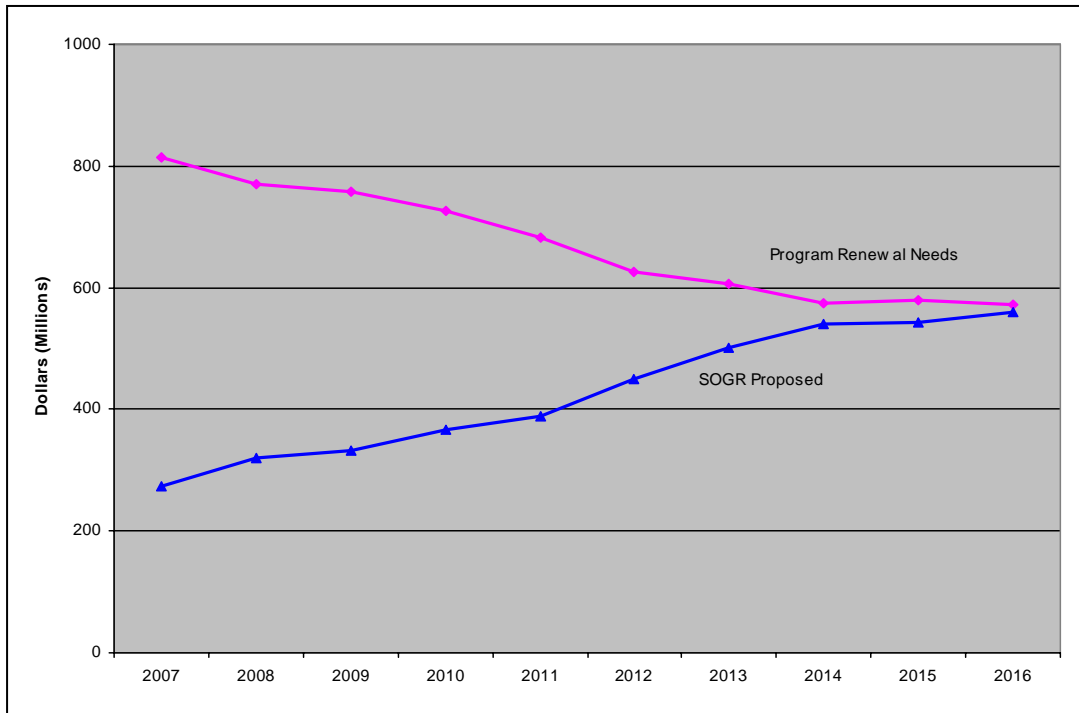
Key Points:

State of Good Repair

- Rising fuel and other commodity costs have increased Toronto Water’s operating expenditures and coupled with declining revenues, the amount available to be allocated to capital construction has decreased.

- There is currently a backlog of capital works required to achieve a state of good repair in Toronto Water's infrastructure. At current funding levels, it is expected that it will take more than 10 years to clear the backlog as shown in Figure 1.

Figure 1: State of Good Repair for 9% Rate Scenario

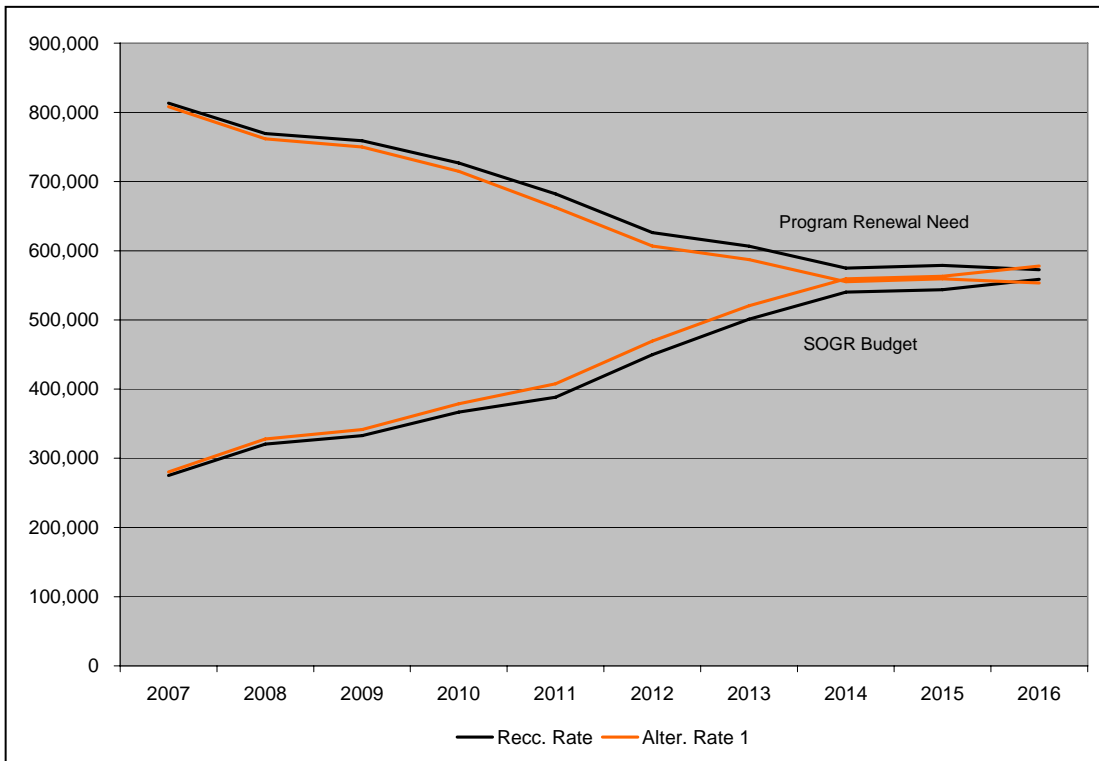


- Toronto's 2007-2010 capital works forecast decreased \$188 million over 2006 forecast for period 2007-2010, requiring a deferral of completion of trunk transmission mains, odour control at Ashbridges Bay Wastewater Treatment Plant and implementation of the Wet Weather Flow Master Plan, including Basement Flooding protection works and the critical twinning of the Coxwell Trunk Sanitary Sewer.
- The Coxwell Sanitary Trunk Sewer is arguably the most critical trunk sewer section in the City, servicing approximately 750,000 residents. The sewer was constructed in the 1950s and has no redundancy to allow for re-routing of flows in the event of an emergency such as a structural failure or for routine maintenance purposes.
- It is essential to maintain a Capital Reserve Fund to allow financing in the event of catastrophic failure of key infrastructure. With a replacement value of water and wastewater infrastructure exceeding \$26 Billion, the aging state of these assets and a cursory review of reserve balances among local regional municipalities, the reserve balances currently projected would appear to be low.

Alternative Rate Scenarios

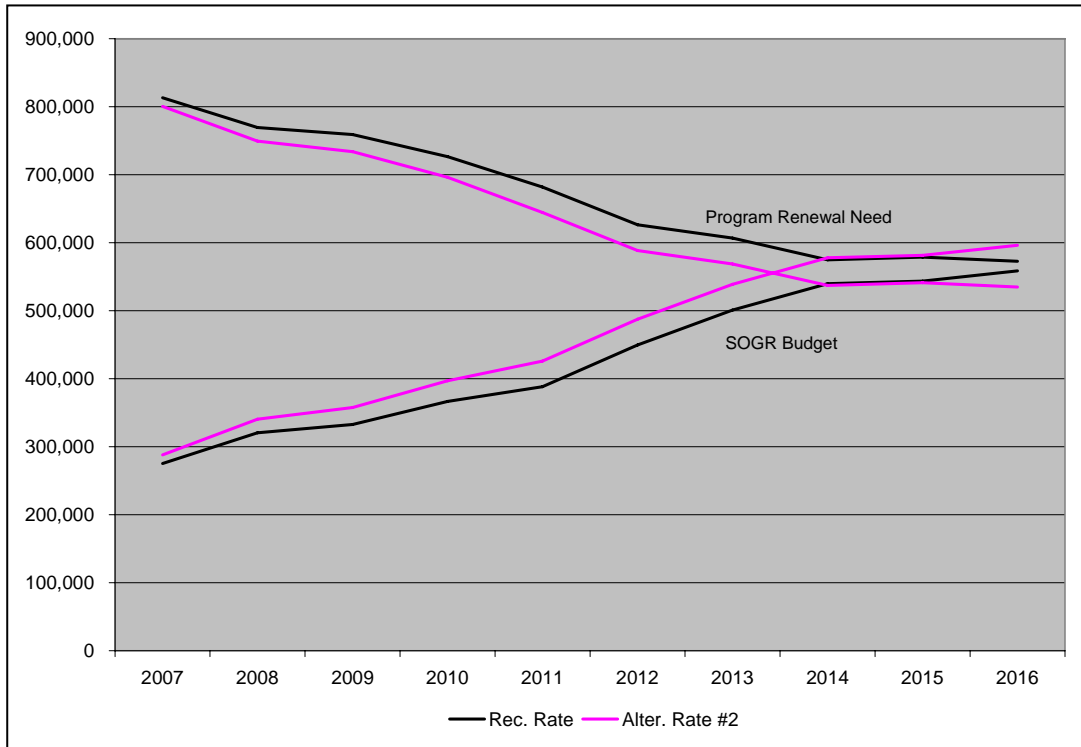
- It is assumed that additional funds made available through alternative rate increases would be applied to allow the Ashbridges Bay Wastewater Treatment Plant odour control project to proceed on its original schedule along with Basement Flooding protection works and permit the construction of the critical twinning of the Coxwell Trunk Sanitary Sewer within the 5-year capital plan.
- The funds remaining would be applied to advance state of good repair projects, recognizing that Toronto Water has acknowledged that both internal and external resource issues could make it difficult to actually achieve a higher degree of replacement than is currently included in the 2007 recommended Budget and Forecast.
- Scenario 1: considers a 12% rate increase on the water and wastewater rate for 2007, followed by 9% rate increases for 2008-2011, would result in an additional \$58 million of funding to be applied in the 5-year period between 2007-2011 to state of good repair. As Figure 2 shows, clearing the backlog of State of Good Repair projects could be advanced from beyond 2016 to after 2014

Figure 2: State of Good Repair for Scenario 1



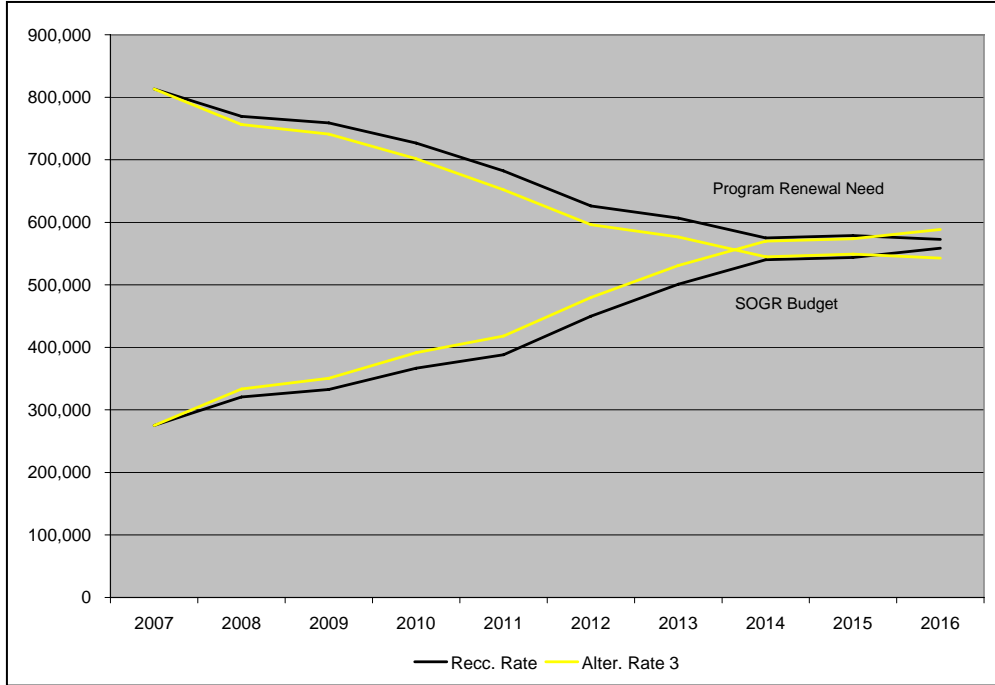
- Scenario 2: considers a 12% rate increase on the water and wastewater rate for 2007 and 2008, followed by 9% rate increases for 2009-2011, would result in an additional \$126 million of funding to be applied in the 5-year period between 2007-2011 to state of good repair. As Figure 3 shows, clearing the backlog of State of Good Repair projects could be advanced from beyond 2016 to before 2013

Figure 3: State of Good Repair for Scenario 2



- Scenario 3: considers a 9% rate increase on the water and wastewater rate for 2007, followed by 12% rate increases for 2008-2009 and 9% rate increases for 2010-2011, would result in an additional \$86 million of funding to be applied in the 5-year period between 2007-2011 to state of good repair. As Figure 4 shows, the change in funding does not significantly impact on the clearing the backlog of State of Good Repair projects before 2013. The only measurable difference is that the backlog begins to decrease one year later.

Figure 4: State of Good Repair for Scenario 3



Prepared by: Lee Anne Jones

Contact for further information: Lee Anne Jones
Manager, Capital Programming and Facilities Asset Planning
Unit
Water Infrastructure Management Section
Toronto Water
Tel: 416- 338-2840
E-mail: ljones@toronto.ca

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