

**Analyst Briefing Notes**  
**Budget Committee**  
**October 19, 2009**

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October 14, 2009

**PART I: 2010 OPERATING BUDGET****Executive Summary**

- Toronto Water is the largest supplier of municipal drinking water and wastewater treatment in Canada and fifth largest in North America. The Program delivers water treatment and distribution and wastewater collection and treatment services on demand to 3.1 million residents and businesses in Toronto, and portions of York Region and Peel Region 24 hours a day, 7 days a week, 365 days a year. Toronto Water delivers 2 main services:
  - Toronto Water every day treats; transmits; stores; and, distributes over 1 billion liters of potable (drinkable) water to all industrial; commercial; institutional; and, household water users in the City of Toronto, amounting to 470,200 connections.
  - Toronto Water collects and treats wastewater from over 4,400 kilometers of sanitary sewers; 4,300 kilometers of storm sewers; and, 1,300 kilometers of combined sewers (carries both sanitary and storm flows). The Program's wastewater treatment plants have a combined rated capacity of over 1.5 billion liters of wastewater a day and operate under strict regulations set by the Ministry of the Environment
- Toronto Water is self-sustaining and does not impact the municipal property tax levy. Operating and capital investments are funded through water and sewage rates established each year by Council. Other sources of funding include revenue from the sale of water to York Region; industrial waste surcharges; private water agreements; service charges; and, sundry revenue.
- Toronto Water's service objectives focus primarily on the need to manage within the strong regulatory environment which governs the provision of water supply and wastewater treatment in Ontario. Ensuring that water supply and wastewater treatment services meet or exceed Provincial regulations and legislation, reflects Toronto Water's strong commitment to the social; economic; and environmental sustainability of the City.
- The Toronto Water 2009 projected year-end contribution to capital of \$314.379 million is \$2.000 million or 0.6% above the 2009 Approved Operating Budget of \$312.379 million net, as at June 30<sup>th</sup>, 2009. The contribution to capital represents the net water and wastewater rate revenue used to fund the Toronto Water's capital works program.
  - Toronto Water is forecasting an under expenditure in year-end gross expenditures of \$16.000 million or 4.1% compared to the 2009 Approved Operating Budget of \$386.324 million, as at June 30<sup>th</sup>, 2009. The favourable variance is primarily attributed to salary savings from unfilled vacancies and reduced utility costs from lower than anticipated water production.
  - Toronto Water is reporting that year-end revenue will not be achieved and is forecasted to be approximately \$14.000 million or 2.0% below the 2009 Approved Operating Budget of \$698.703 million. The projected decline in water sales revenue is attributed to lower consumption demand throughout the summer months. Toronto experienced a wet summer with cooler than normal temperatures.

Table 1: 2010 Recommended Budget

	2009		2010 Recomm'd Operating Budget			Change - 2010 Recommended Operating Budget v. 2009 Appvd. Budget		FY Incremental Outlook	
	2009 Appvd. Budget	2009 Projected Actual	2010 Rec. Base	2010 Rec. New/Enhanced	2010 Rec. Budget			2011	2012
	\$	\$	\$	\$	\$			%	\$
<b>GROSS EXP.</b>	386,324.0	370,324.0	384,515.7	0.0	384,515.7	(1,808.3)	(0.5)	7,259.3	2,526.2
<b>REVENUE</b>	698,703.4	684,703.4	767,707.7	0.0	767,707.7	69,004.3	9.9	11,352.0	7,397.2
<b>CAP. CONTR.</b>	312,379.4	314,379.4	383,192.0	0.0	383,192.0	70,812.6	22.7	4,092.7	4,871.0
<b>Approved Positions</b>	1,744.4	1,744.4	1,731.4	0.0	1,731.4	(13.0)	(0.7)	0.0	0.0

- The 2010 Recommended Operating Budget gross expenditures are \$384.516 million and represents a decline of \$1.808 million or 0.5% compared to the 2009 Approved Operating Budget of \$386.324 million. Revenues from water and wastewater surcharges and other sources are anticipated to increase by \$69.004 million or 9.9%. The budgeted contribution to capital of \$383.192 million represents an increase of \$70.813 million or 22.7% over the 2009 Approved Operating Budget contribution to capital of \$312.379 million.
  - The 2011 Outlook incremental gross expenditures are projected to be \$7.259 million and include non-labour economic pressures; cost of living allowance; progression pay; and, step increases. The 2011 Outlook incremental revenue estimate of \$11.352 million includes revenue from the Automated Meter Reading (AMR) System. Further review of services in 2011 will be undertaken to mitigate base pressures.
  - The 2012 Outlook incremental gross expenditures are \$2.526 million and include non-labour economic pressures. The 2012 Outlook incremental revenue estimate of \$7.397 million includes revenue from the Automated Meter Reading (AMR) System project.
- The 2010 Recommended Base Budget provides funding for the following key cost drivers:
  - Labour costs are projected to result in an increase of \$7.227 million.
  - Non labour inflationary pressures of \$2.033 million.
  - Growth in interdivisional charges for the 311 Program of \$0.406 million.
  - Equipment is projected to result in an increase of \$0.216 million.
  - Fleet Services' maintenance and short-term rental charges are anticipated to grow \$0.342 million.
- The cost drivers noted above will be partially off-set by the following savings included in the 2010 Recommended Operating Budget:
  - Pay adjustment (\$0.996 million); labour reclassification (\$0.458 million); and, gapping (\$0.164 million) savings.
  - Reduction in fuel charges of \$0.572 million.
  - Projected decline in contractual services of \$0.811 million.

- Elimination of powdered activated carbon for seasonal drinking water taste and odour control for \$0.639 million.
- Reduction in recoveries from Transportation Services for road cuts of \$2.035 million.
- Reduction in interdivisional charges between Toronto Water and Revenue Services of \$0.687 million.
- The Program's 2010 Recommended Operating Budget includes Service Adjustments with efficiency savings of \$4.505 million for 2010 with no incremental impact in 2011. Implementation of the Service Adjustments will not impact current service levels and delivery standards for water treatment/distribution and wastewater collection/treatment. In addition, the efficiency savings will not negatively impact regulatory compliance. They include labour savings of \$1.192 million and non-labour savings of \$3.313 million for training services; the joint billing system; and, reduction in polymer consumption.
- Approval of the Service Adjustments will result in a reduction of 13 approved positions reducing the complement to 1,731.4.
- Frequent changes in legislation are challenging Toronto Water's ability to plan and allocate staff resources to meet new and emerging regulatory requirements. In the post-Walkerton period, changes in the industry have focused on drinking water quality. Operating budget funding to satisfy legislative requirements is expected to increase in future years as regulations governing water supply and wastewater treatment services continue to evolve.
- The 2010 Recommended Operating Budget should be considered concurrently with the 2010 Water and Wastewater Service Rate Report (October 2009) from the Deputy City Manager and Chief Financial Officer and General Manager for Toronto Water.
- The 2010 Recommended Operating Budget provides funding for a broad range of services and activities that advance the Mayor's and Council's policy agenda.
  - *Climate Change Adaptation, Clean Air and Sustainable Energy Action Plan:* The 2010 Recommended Operating Budget provides base funding of \$4.199 million for the Action Plan.
  - *Help to Clean Up Lake Ontario to Make Toronto's Beaches More Swimmable:* Funding of \$3.380 million is provided in the 2010 Recommended Operating Budget for various programs to help clean up Lake Ontario and make Toronto's beaches more swimmable.
  - *Sustainment of a Ravine Improvement Team that will Clean, Beautify, and Improve Access and Stewardship to Toronto's Ravines:* Dedicated base funding of \$0.233 million is provided in the 2010 Recommended Operating Budget for the Improvement Team.
- The 2010 Recommended Operating Budget provides funding to maintain current service levels and standards for Toronto Water.

**Recommendations**

The City Manager and Chief Financial Officer recommend that:

1. the 2010 Recommended Operating Budget of \$767.708 million with gross operating expenditures of \$384.516 million and a capital-from-current contribution of \$383.192 million, as funded by the water and wastewater user rates and other recoveries, comprised of the following services be approved:

<u>Services:</u>	<u>Gross (\$000s)</u>	<u>Net (\$000s)</u>
Water Supply & Treatment	62,446	0
Wastewater Treatment	101,702	0
District Operations	94,632	0
Water Infrastructure Management	9,883	0
Capital-from-Current Contribution	383,192	0
Business Operations Management	23,159	0
Operational Support	32,943	0
Program Support	<u>59,751</u>	<u>0</u>
Total Toronto Water	<u><u>767,708</u></u>	<u><u>0</u></u>

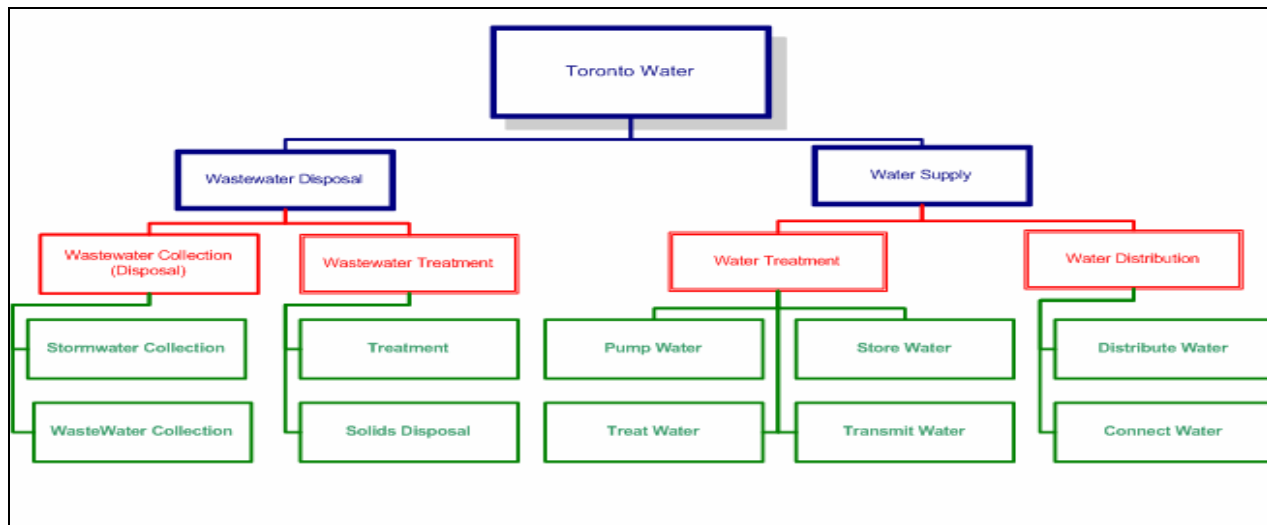
2. this report be considered concurrently with the 2010 Water and Wastewater Service Rate Report (October 2009) from the Deputy City Manager and Chief Financial Officer and General Manager for Toronto Water; and,
3. the information contained in confidential attachment I remain confidential until Council's approval of the Toronto Water 2010 Operating Budget.

**PART II: 2010 OPERATING BUDGET OVERVIEW**

**Mission Statement**

*Toronto Water provides quality water services through supplying drinking water and treatment of wastewater and stormwater to residents, businesses and visitors in order to protect public health, safety and property in an environmentally and a fiscally responsible manner.*

**Program Map**



Toronto Water, the largest supplier of municipal drinking water and wastewater treatment in Canada and fifth largest in North America, delivers water treatment and distribution and wastewater collection and treatment services on demand to 3.1 million residents and businesses in Toronto, and portions of York Region and Peel Region 24 hours a day, 7 days a week, 365 days a year. Toronto Water ensures that these services are provided to all customers in a safe, responsible manner which meet and/or exceed all legislated requirements. The Program also responds to customer service requests in both emergency and non-emergency situations.

***Water Treatment and Distribution Services***

Toronto Water every day treats; transmits; stores; and, distributes over 1 billion litres of potable (drinkable) water to all industrial; commercial; institutional; and, household water users in the City of Toronto, amounting to 470,200 connections. In addition, the drinking water requirements of a major portion of York Region are supplied under an agreement between the City and the Region. Water is drawn from Lake Ontario, treated and distributed through an integrated system which includes 4 water treatment plants (R.C. Harris, F.J. Horgan, R.L. Clark and Toronto Island); 18 water pumping stations; 102 pumps; 510 kilometers of trunk watermains; 10 underground storage reservoirs; 4 elevated storage tanks; 52,900 valves; and, 5,015 kilometers of distribution water mains if laid end-to-end would exceed the entire distance from Newfoundland to British Columbia.

***Wastewater Collection and Treatment Services***

Toronto Water collects and treats wastewater from over 4,400 kilometres of sanitary sewers; 4,300 kilometers of storm sewers; and, 1,300 kilometers of combined sewers (carries both sanitary and storm flows). Wastewater is pumped by 82 pumping stations to 1 of 4 wastewater treatment plants (Ashbridges Bay, Highland Creek, Humber and North Toronto) where physical and biological treatment processes remove solids; chemicals; and, pathogens. Toronto's wastewater treatment plants have a combined rated capacity of over 1.5 billion litres of wastewater a day and operate under strict regulations set by the Ministry of the Environment. Toronto Water provides wastewater collection and treatment services to all City residents and businesses. In addition, the Program collects and treats a small volume of wastewater from the Region of Peel.

**Service Objectives**

The service objectives for Toronto Water primarily reflect the need to manage within the strong regulatory environment which governs the provision of water supply and wastewater treatment in Ontario. Ensuring that water supply and wastewater treatment services meet or exceed Provincial regulations and legislation, reflects Toronto Water's strong commitment to the social; economic; and environmental sustainability of the City. The following section provides Toronto Water's measurable service objective targets for 2010 and beyond.

**Water Treatment and Supply Services:**

- 1. Maintain 100% compliance with Ministry of the Environment drinking water standards while operating in an efficient manner.*

Toronto Water is forecasting for 2010 and beyond 100% compliance with the Ministry of the Environment standards for drinking water quality.

- 2. Reduce watermain breaks per 100 km of watermain by 10% from the 2000-2005 average of 27.60 to 24.84 in 2010.*

Toronto Water is anticipating that watermain breaks will be gradually reduced by 10% in 2010. This will require the renewal and rehabilitation of aging infrastructure with significant long-term investment.

**Wastewater Collection and Treatment Services:**

- 3. Maintain 100% compliance with Ministry of the Environment Wastewater Certificates of Approval for wastewater while operating in an efficient manner.*

Toronto Water is forecasting for 2010 and beyond 100% compliance with the Ministry of the Environment standards for wastewater collection and treatment.

- 4. Reduce the number of secondary treatment by-passes to 30 or less by 2010.*

Toronto Water is projecting that the percentage of wastewater that by-passes treatment will be gradually decreased from 0.62% in 2006 to 0.50% in 2010. However, the by-pass treatment targets will be partially dependent on weather conditions.

**2010 Operating Budget Highlights**

The 2010 Recommended Operating Budget reflects the strategic direction of the Toronto Water Multi-Year Business Plan and provides base funding for several key priority actions outlined in the Mayor's and Council's policy agenda. The following highlights key initiatives.

***Climate Change Adaptation, Clean Air and Sustainable Energy Action Plan***

The 2010 Recommended Operating Budget provides base funding of \$4.199 million for the Climate Change Adaptation, Clean Air and Sustainable Energy Action Plan. The following highlights funding provided in the 2010 Recommended Operating Budget for these purposes:

***Downspout Disconnection Program:*** City Council at its meeting of September 24 and 25, 2008, adopted the Mandatory Downspout Disconnection Program. The Program requires all existing downspouts to be disconnected from the sewer system in combined sewer service areas. The areas include most of the former City of Toronto; York and East York; and, the south-west portion of Scarborough. In addition, Council also agreed to process all applications to the City's former Voluntary Downspout Disconnection Program received by November 20, 2007. An estimated 47,000 requests for the Voluntary Program were received by Toronto Water up to November 20, 2007. Based on past experience, it is forecasted that the disconnection of downspouts is feasible for approximately 80% of these applications, reflecting 37,600 properties. The 2010 Recommended Operating Budget provides \$0.181 million in base funding to continue implementation of the Program.

***Basement Flooding Relief Work Plan:*** Council, at its meeting of September 24 and 25, 2008, adopted a multi-pronged (lot level; storm drainage; and, sewer infrastructure) adaptive management approach to mitigate the risk of basement flooding. This approach will be applied in all of the previously identified 31 chronic basement flooding areas. The 2010 Recommended Operating Budget includes base funding of \$0.548 million for implementing the Work Plan. The first contracts for remediation in the most critical areas have been awarded with construction to commence by year-end. Environmental Assessments are currently being completed for the remainder of the Study Areas.

***Grant Administration Office:*** Council, as part of Toronto Water's 2009 Operating Budget process, approved the creation of a centralized Grant Administration Office. The 2010 Recommended Operating Budget provides \$0.470 million in base funding for the management of approximately \$8 million in annual financial assistance paid to residential customers from a variety of incentive programs, such as:

- \$2,000 Drain Grant for homeowners who have had their private-side drains infiltrated by a City-owned tree.
- \$3,200 Basement Flooding Subsidy to assist homeowners in preventing storm water basement flooding.
- \$75 Toilet Replacement Rebate.
- \$60 Front-Load Laundry Washer Rebate.

The Office coordinates the application process for each of these programs and conducts the appropriate eligibility requirements to process for either approval or denial. In addition, staff

ensures proper financial controls and procedures for the distribution of funds, lower the risk of error, while maintaining the service delivery standards for reimbursement as directed by Council.

***Tree Planting:*** The 2010 Recommended Base Budget requires funding of \$2.000 million for tree planting to improve the retainment of rainwater to reduce surface run-off. The planting of trees will also contribute to the reduction of CO<sub>2</sub> and other green house gases in the atmosphere.

***Help to Clean Up Lake Ontario to Make Toronto's Beaches More Swimmable***

The 2010 Recommended Operating Budget provides base funding of \$3.380 million for various monitoring programs, such as outflow; Blue Flag Program; backflow prevention; and, beaches to help clean up Lake Ontario to make Toronto's beaches more swimmable. In addition, funding is also provided for continued implementation of the Wet Weather Flow Master Plan to improve water quality in watercourses and the waterfront.

To ensure compliance and better enforcement of the Sewer Use By-law, increased monitoring of influent, untreated wastewater that flows into the treatment plants, commenced in early 2009. There are no financial implications for the 2010 Recommended Operating Budget. These services are provided through efficiencies gained from restructuring activities undertaken in previous years.

***Implementation of a Ravine Improvement Team that will Clean, Beautify, and Improve Access and Stewardship to Toronto's Ravines***

Toronto Water has base funding of \$0.233 million for cleaning, beautifying and improving access to Toronto's ravines in the 2010 Recommended Operating Budget. The ravine and watercourse improvement will be managed by the Parks, Forestry and Recreation staff.

## PART III: 2009 BUDGET VARIANCE ANALYSIS

**Table 2: 2009 Budget Variance Review**

(In \$000s)	2008 Actuals	2009 Approved Budget	2009 Projected Actuals*	2009 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
<b>GROSS EXP.**</b>	348,201.0	386,324.0	370,324.0	(16,000.0)	(4.1)
<b>REVENUES</b>	660,729.8	698,703.4	684,703.4	(14,000.0)	(2.0)
<b>CAP. CONTR.</b>	312,528.8	312,379.4	314,379.4	2,000.0	0.6
<b>Approved Positions</b>	1,675.5	1,744.4	1,744.4	0.0	0.0

**Notes:**

\* Based on the Second Quarter Operating Budget Variance Report.

\*\* Does Not Include Capital Financing.

### 2009 Experience

Toronto Water does not have a direct impact on the municipal property tax levy. The 2009 Approved Operating Budget is financed from water and wastewater rates and other service charges.

Toronto Water's actual gross expenditures, as of June 30<sup>th</sup>, 2009, are \$9.702 million or 2.9% under planned expenditures. The favourable variance is attributed primarily to salary savings from vacant positions and reduced utility costs. Revenues are \$7.481 million or 2.8% under budget, reflecting minor timing differences in water billings. Net expenditures are \$2.221 million below plan, which is largely the result of lower than forecasted gross expenditures.

The Program is projecting that year-end water sales and sewer surcharges will not be achieved and are forecasted to be 2.0% or \$14,000 million below budget. The projected revenue loss reflects lower consumption from the wet summer and cooler than normal temperatures.

The forecasted year-end gross expenditures are expected to be \$16,000 million or 4.1% lower than the 2009 Approved Operating Budget of \$386,324 million. This decrease reflects savings from unfilled vacancies and lower than anticipated utility costs from reduced water demand in the summer months. The contribution to capital is projected to be \$2,000 million or 0.6% above plan, largely representing gross expenditure savings partially offset by revenue losses.

The 2009 year-end forecast does not include potential net savings from the summer labour disruption currently estimated at \$1.174 million. It is anticipated that further expenditure and revenue adjustments will be processed but these should not materially change the reported preliminary net savings. A final 2009 labour disruption impact will be presented to the Budget Committee through the 2009 3<sup>rd</sup> Quarter Operating Budget Variance Report.

**Impact of 2009 Operating Variance on the 2010 Recommended Budget**

A proportion of Toronto Water's favourable variance in 2009 gross expenditures of \$16.000 million from unfilled vacancies and reduced utility costs will be maintained in the 2010 Recommended Operating Budget. The reorganization of District Operations currently in progress will have a substantial impact on the number of unfilled vacancies. It is anticipated that the reorganization and final assessment of personnel requirements for District Operations will be completed by mid-2010.

The projected year-end net revenue short-fall for lower than planned water sales and sewer surcharges of \$14.000 million or 2.0% compared to the 2009 Approved Operating Budget of \$698.703 million will be managed at year-end with funding from the Water and Wastewater Rate Stabilization Reserves, if required.

<b>PART IV: 2010 RECOMMENDED BASE BUDGET</b>
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**Table 3: 2010 Recommended Base Budget**

(In \$000s)	2009 Appvd. Budget	2010 Recommended Base	Change 2010 Recommended Base v. 2009 Appvd. Budget		FY Incremental Outlook	
	\$	\$	\$	%	2011	2012
	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	386,324.0	384,515.7	(1,808.3)	(0.5)	7,259.3	2,526.2
<b>REVENUE</b>	698,703.4	767,707.7	69,004.3	9.9	11,352.0	7,397.2
<b>CAP. CONTR.</b>	312,379.4	383,192.0	70,812.6	22.7	4,092.7	4,871.0
<b>Approved Positions</b>	1,744.4	1,731.4	(13.0)	(0.7)	0.0	0.0

**2010 Recommended Base Budget**

The reduction of \$1.808 million in gross expenditures recommended for the 2010 Recommended Base Budget reflects a decrease of 0.5% compared to the 2009 Approved Operating Budget of \$386.324 million. The decline in gross expenditures results from the implementation of various cost saving efficiencies, as outlined below.

The 2010 Recommended Base Budget revenues of \$767.708 million are \$69.004 million or 9.9% higher than the 2009 Approved Operating Budget of \$698.703 million. Revenues for 2010 will be recovered from the following:

- Water sales and wastewater surcharges in Toronto budgeted at \$733.678 million.
- Revenue from industrial waste surcharges; private water agreements; service charges; and, sundry revenue, forecasted at \$15.261 million.
- Sale of water to York Region, estimated at \$18.769 million.

Please refer to the 2010 Water and Wastewater Service Rate Report (October 2009) from the Deputy City Manager and Chief Financial Officer and General Manager for Toronto Water, for a detailed discussion regarding the methodology used to establish water and wastewater rates.

As outlined in the table below, the 2010 Recommended Base Budget contribution to capital of \$383.192 million represents an increase of \$70.813 million or 22.7% compared to the 2009 Approved Operating Budget of \$312.379 million. The significant increase in the contribution to capital reflects gross expenditure savings of \$1.808 million and \$69.004 million in incremental revenue from the 9% water and wastewater rate increase and other surcharges. The increase in the contribution to capital of \$70.813 million will be used entirely to fund Toronto Water's capital program.

### Contribution to Capital Comparison

Description	(In \$ Thousands)
2009 Gross Expenditures	386,324.0
2009 Revenues	698,703.4
2009 Capital Contribution	312,379.4
2010 Operating Budget Savings	1,808.3
2010 Incremental Revenue	69,004.3
2010 Capital Contribution	383,192.0

The 2010 recommended complement is 1,731.4 positions and includes a reduction of 13 positions or 0.7% compared to the 2009 approved complement of 1,744.4 positions.

### Key 2010 Cost Drivers

The 2010 Recommended Base Budget provides funding for the following key cost drivers:

- Annualized funding for 48 positions approved in the 2009 Approved Operating Budget with a forecasted increase of \$2.597 million.
- Cost of living allowance (COLA) and fringe benefit costs resulting in an increase of \$3.299 million.
- Step and progression pay increases of \$0.538 million and \$0.248 million respectively.
- Non labour inflationary pressures for materials and supplies of \$2.033 million.
- Equipment parts for the Highland Creek Treatment Plant have a projected increase of \$0.216 million.
- Additional working day for 2010 with a forecasted increase of \$0.545 million.
- Fleet Services' maintenance and short-term rental charges are anticipated to have an increase of \$0.342 million.
- Interdivisional charges for the 311 Program are \$0.406 million.

The cost drivers noted above will be partially off-set by the following savings included in the 2010 Recommended Base Budget:

- Cost of living allowance and performance pay adjustment savings of \$0.996 million for non-union staff.
- Elimination of powdered activated carbon for seasonal drinking water taste and odour control for a savings of \$0.639 million.
- Reduction in recoveries from Transportation Services for road cuts of \$2.035 million to reflect the actual level of work undertaken.

- Reduction in interdivisional charges between Toronto Water and Revenue Services of \$0.687 million to reflect changes in billing revenue for new connections.
- Decrease in the contribution to the Insurance Reserve Fund of \$0.298 million.
- Reduction in fuel charges from Fleet Services for a savings of \$0.572 million to reflect lower rates budgeted for gas and diesel,
- Reclassification of positions for a projected labour savings of \$0.458 million.
- Projected decline in contractual services of \$0.811 million to reflect 2009 actual spending.
- Increase in planned gapping of \$0.164 million to maintain a 3% rate.

**2010 Service Adjustments**

The Program's 2010 Recommended Base Budget includes efficiency savings of \$4.505 million in 2010 with no incremental impact in 2011 and beyond. Implementation of the Recommended Service Adjustments will not affect current service levels and delivery standards for water treatment/distribution and wastewater collection/treatment. In addition, the efficiencies will not negatively impact regulatory compliance. The Recommended Service Adjustments are summarized below:

- Reduction in training services with estimated efficiency savings of \$0.093 million.
- Reduction in hydro usage at water and waster treatment plants with anticipated savings of \$3.092 million.
- Reduction of 12 Toronto Water approved positions for a labour savings forecasted at \$1.072 million.
- Elimination of 1 vacant Chief Chemist resulting from the consolidation of water and wastewater testing at the Dee Avenue Laboratory with projected savings of \$0.120 million.
- Reduction in consumption of polymer for sludge thickening has forecasted savings of \$0.050 million.
- Efficiency savings for the Toronto Water and Solid Waste Management Services' joint billing system are anticipated to be \$0.079 million.

Please refer to Part VI for a discussion regarding the 2010 Recommended Base Budget Service Adjustments.

**2011 and 2012 Outlook: Net Incremental Impact**

Approval of the 2010 Recommended Base Budget for Toronto Water maintains water and wastewater service levels and delivery standards for the incremental 2011 and 2012 Outlook.

- The 2011 Outlook incremental gross expenditures are projected to be \$7.259 million and include non-labour economic pressures; cost of living allowance; progression pay; and, step increases. The 2011 Outlook incremental revenue estimate of \$11.352 million includes revenue from the Automated Meter Reading (AMR) System. Further review of services in 2011 will be undertaken to mitigate base pressures.
- The 2012 Outlook incremental gross expenditures are \$2.526 million and include non-labour economic pressures. The 2012 Outlook incremental revenue estimate of \$7.397 million includes revenue from the Automated Meter Reading (AMR) System project.

<b>PART V: RECOMMENDED SERVICE ADJUSTMENTS</b>
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**Table 4**  
**2010 Recommended Service Adjustments Summary**

Description	2010 Recommended		Rec. Positions	Net Incremental Impact	
	Gross Exp.	Net Exp.		2011	2012
	\$	\$	#	\$	\$
<b>(a) Efficiency:</b>					
Reduction in Training Services	(93.0)	(93.0)			
Lower Hydro Usage	(3,091.7)	(3,091.7)			
Reduction of 12 Toronto Water Approved Positions	(1,071.5)	(1,071.5)	12.0		
Reduction of 1 Vacant Chief Chemist	(120.0)	(120.0)	1.0		
Reduced Polymer for Sludge Thickening Savings	(50.0)	(50.0)			
Toronto Water and Solid Waste Management Services Joint Billing System	(78.6)	(78.6)			
<b>Sub-Total Efficiency</b>	<b>(4,504.8)</b>	<b>(4,504.8)</b>	<b>13.0</b>	-	-
<b>(b) Minor Service Level Change:</b>					
<b>Sub-Total Minor Service Level Changes</b>	-	-	-	-	-
<b>(c) Major Service Level Change:</b>					
<b>Sub-Total Major Service Level Changes</b>	-	-	-	-	-
<b>Total Service Adjustments</b>	<b>(4,504.8)</b>	<b>(4,504.8)</b>	<b>13.0</b>	-	-

The budgetary impact of implementing 6 Service Adjustments are included in the 2010 Recommended Base Budget, with savings estimated at \$4.505 million in 2010 with no incremental impact in 2011 and beyond. Approval of the Recommended Service Adjustments will result in a reduction of 13 approved positions reducing the complement to 1,731.4.

The Recommended Service Adjustments included in Toronto Water's 2010 Recommended Base Budget are discussed below.

***Reduction in Training Services (2010 Efficiency Savings of \$0.093 Million)***

The 2010 Recommended Operating Budget for Toronto Water includes efficiency savings of \$0.093 million in staff training. Commencing in 2010, operator certification preparation training; succession planning for management training; and, support for staff progressing from Operator in Training to a Class IV Operator Licence will be delivered only as required. The reduction in training will not impact the current level and standards for the delivery of water treatment /distribution and wastewater collection/treatment services.

***Lower Hydro Usage (2010 Efficiency Savings of \$3.092 Million)***

The 2010 Recommended Operating Budget includes a reduction in hydro usage of \$3.092 million due to lower production and distribution at both the water treatment plants and the wastewater

treatment plants. Toronto Water has implemented conservation activities (internally and externally) reducing the amount of electricity used to process sewage. In addition, the 2009 summer was cool and rainy resulting in lower water use by residents. Functional efficiencies were realized by undertaking a number of operations during off-peak hours at water treatment plants and using water storage reservoirs, all contributing to lower hydro costs. There will be no impact to current service levels and standards for water supply and treatment. There is a potential that hydro consumption may increase in 2010 should water production increase from a hot and dry summer. However, any growth in hydro usage will be fully off-set by an increase in water and wastewater surcharges from increased demand.

***Reduction of 12 Toronto Water Approved Positions (2010 Efficiency Savings of \$1.072 Million)***

This Recommended Service Adjustment proposes the reduction of 12 full-time permanent positions, resulting in savings of \$1.072 million for 2010 with no incremental impact in 2011. Please refer to the confidential attachment I.

***Reduction of 1 Vacant Chief Chemist (2010 Efficiency Savings of \$0.120 Million)***

The consolidation of water and wastewater testing has created 1 vacant Chief Chemist at Toronto Water. Testing of water and wastewater samples are currently managed by the Chief Chemist from Dee Avenue Laboratory. This Recommended Service Adjustment, which includes the reduction of 1 vacant permanent non-union position, has savings estimated at \$0.120 million for 2010 with no incremental impact in 2011. Approval of this Recommended Service Adjustment will not impact the current services levels and standards for water and wastewater testing undertaken by Toronto Water.

***Reduced Polymer for Sludge Thickening Savings (2010 Efficiency Savings of \$0.050 Million)***

Toronto Water is forecasting savings of \$0.050 million for 2010 from a Sludge Thickening Building project with the objective of reducing and ultimately eliminating the need for polymer consumption. Introduction of process improvements at the Sludge Thickening Building will not affect the Program's current service levels and delivery standards.

***Toronto Water and Solid Waste Management Services Joint Billing System (2010 Efficiency Savings of \$0.079 Million)***

Revenue Services commenced joint billing for Toronto Water and Solid Waste Management Services in January of 2009. Efficiencies gained from full implementation of the shared billing system, such as postage costs; labour; etc., amount to \$0.079 million for Toronto Water in 2010 with no incremental impact anticipated for 2011. Service levels and standards for Toronto Water and Solid Waste Management Services billing will remain unchanged from approval of this Recommended Service Adjustment.

**PART VII: ISSUES FOR DISCUSSION****2010 Base Budget Issues****2010 Recommended Operating Budget Funding**

Toronto Water is self-sustaining and does not impact the municipal property tax levy. Operating and capital investments are funded through water and sewage rates established each year by Council and included in the City's By-law (Municipal Code, Chapter 849: Water and Sewage Services). Other sources of funding include revenue from the sale of water to York Region; industrial waste surcharges; private water agreements; service charges; and, sundry revenue.

Funding from water and wastewater surcharges provides financing for both the 2010 Recommended Operating Budget and the capital program set out in the 2010 Recommended Capital Budget and 2011-2019 Recommended Capital Plan, while maintaining modest Water and Wastewater Capital Reserve balances. Incremental funding from the 2010 Recommended Water and Wastewater Rate increase of 9% and other sources of funding, estimated at \$69.004 million, combined with the forecasted decrease in the 2010 Recommended Operating Budget of \$1.808 million, will be used fund Toronto Water's capital program.

**Overtime Costs**

Overtime costs to ensure the delivery of water supply and wastewater treatment services have increased in the last 8 years. The 2010 Recommended Operating Budget requires funding of \$8.438 million for anticipated overtime expenditures, reflecting an increase of \$0.219 million or 2.7% compared to the 2009 Approved Operating Budget of \$8.219 million. Numerous factors, both controllable and uncontrollable, have contributed to the increase in overtime costs, which include:

- Unpredictability of extreme weather events and their subsequent pressure on Toronto Water's infrastructure.
- Increase in Provincial regulations and legislation which governs water supply and wastewater treatment in recent years.
- Emergency maintenance due to equipment breakdowns at water supply and wastewater treatment facilities.
- Staff reductions from municipal amalgamation in 1998 and the Works Best Practices program.
- Unfilled vacancies stemming primary from the reorganization of District Operations currently in progress.

It is anticipated that the reorganization and final assessment of personnel requirements for District Operations, projected to be completed by mid-2010 will significantly lower overtime costs for 2011 and beyond.

**Legislative Requirements and Compliance with Provincial Regulations**

Frequent changes in legislation are challenging Toronto Water in terms of planning and allocating staff resources to meet the new and emerging regulatory requirements. Water supply and wastewater treatment services in Ontario are in the midst of an unprecedented period of regulatory reform. In the post-Walkerton period, changes in the industry have focused on drinking water quality. These changes occurred through the Safe Drinking Water Act and related Ministry of the Environment Regulations, including legal obligations/liabilities for Council and staff. There remain a number of very significant changes in the regulatory framework of the industry about which little are presently known. The Province is still developing the requirements beyond the current conceptual framework. Operating budget funding to satisfy legislative requirements is expected to increase in future years as regulations governing water supply and wastewater treatment services continue to evolve.

**Service Improvement Demands**

Toronto Water experiences challenges in balancing the range of emerging service improvement demands, such as the Mandatory Downspout Disconnection Program; Automated Meter Reading System; and, the Basement Flooding Remediation Work Plan. The recent increase in service improvement demands requires Toronto Water to continually plan and rank priorities to ensure that resources are allocated consistently with core service delivery responsibilities.

**Issues Referred to the 2010 Operating Budget Process**

There are no issues referred to the 2010 Operating Budget process for Toronto Water.

**Issues from 2009 and Prior Years****Implementing Water Efficiency Measures within Parks, Forestry and Recreation Facilities**

City Council at its meeting of January 29 and 30 2008, adopted the implementation of water efficiency measures within Parks, Forestry and Recreation facilities. The purpose of this initiative is to implement measures required by Parks, Forestry and Recreation to successfully achieve the objectives of the City's Water Efficiency Plan and Toronto Water's Water Loss Reduction Strategy. The motion recommended the following:

*As part of the annual Capital and Operating Budget submission, the General Manager, Parks, Forestry and Recreation, in collaboration with the General Manager, Toronto Water, and the Deputy City Manager and Chief Financial Officer develop a water conservation strategy for the implementation of water efficiency measures at specific sites proposed in the forthcoming year; and,*

*The Deputy City Manager and Chief Financial Officer and General Manager of Toronto Water report annually through Toronto Water's Capital and Operating Budget approval process on the aggregate annual water consumption from all Parks, Forestry and Recreation Division sites and facilities, tracking changes in consumption as water efficiency measures are implemented.*

Toronto Water in collaboration with the Parks, Forestry and Recreation Division staff is currently undertaking a water use and consumption audit of all Parks, Forestry and Recreation facilities and sites.

The project has commenced with the selection of 250 high priority sites from the more than 1,000 Parks, Forestry and Recreation facilities and sites. To date, 220 of the sites have been visited to determine if the site is currently metered and whether the water meter is adequate or requires replacement. If the site is not metered, the project will establish the details and requirement for installation of a water meter. Basic water audits have been carried out at each of the sites which include:

1. Water use description;
2. Estimate of potential indoor and outdoor water use on a yearly basis; and,
3. Overview of potential areas where water savings could be achieved for both indoor and outdoor water use.

This data is being compiled and analyzed in order to identify 30 sites where a detailed water audit should be undertaken. The detailed water audit will assess the costs and savings of various water use reduction measures that could be employed and recommend those that are most cost-effective for implementation.

Appendix A

2010 Recommended Base Budget Changes vs. 2009 Approved Budget

(In \$000s)	Summary of 2010 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	CAP. CONTR.	2011	2012
		\$	\$	\$	\$	\$
<b>2009 Council Approved Operating Budget</b>	<b>1,744.4</b>	<b>386,324.0</b>	<b>698,703.4</b>	<b>312,379.4</b>	<b>0.0</b>	<b>0.0</b>
In-year approvals and technical adjustments Corporate adjustments						
<b>2009 Approved Operating Budget</b>	<b>1,744.4</b>	<b>386,324.0</b>	<b>698,703.4</b>	<b>312,379.4</b>	<b>0.0</b>	<b>0.0</b>
Prior year impacts		2,732.1		(2,732.1)		
Zero base items		(85.3)		85.3		
Economic factors		6,117.9		(6,117.9)	(7,259.3)	(2,526.2)
<b>Adjusted Base Budget</b>	<b>1,744.4</b>	<b>395,088.7</b>	<b>698,703.4</b>	<b>303,614.7</b>	<b>(7,259.3)</b>	<b>(2,526.2)</b>
Other base changes		(6,068.2)		6,068.2		
Base revenue changes			69,004.3	69,004.3	11,352.0	7,397.2
Recommended Service Level Adjustments:						
Base changes						
Efficiency Change	(13.0)	(4,504.8)		4,504.8		
Revenue adjustments						
Minor service impact						
Major service impact						
<b>Total Recommended Base Adjustments</b>	<b>(13.0)</b>	<b>(4,504.8)</b>	<b>0.0</b>	<b>4,504.8</b>	<b>4,092.7</b>	<b>4,871.0</b>
<b>2010 Recommended Base Budget</b>	<b>1,731.4</b>	<b>384,515.7</b>	<b>767,707.7</b>	<b>383,192.0</b>	<b>4,092.7</b>	<b>4,871.0</b>

**Appendix B**

**Summary of Service Adjustments**

**Appendix D**

**Program Summary by Expenditure Category**

PROGRAM SUMMARY BY CATEGORY

(in \$000s)

CLUSTER: B								
PROGRAM: TORONTO WATER								
	2008	2009	2009	2010	Change from		2011	2012
	Actuals	Approved Budget	Projected Actuals	Requested Base	2009 Approved Budget	%	Outlook	Outlook
	\$	\$	\$	\$	\$	%	\$	\$
Salaries and Benefits	130,636.5	149,041.1	147,122.4	153,409.1	4,368.1	2.9%	157,853.4	162,635.1
Materials and Supplies	75,632.0	87,539.5	86,425.5	84,241.5	(3,298.0)	(3.8%)	85,489.3	87,158.4
Equipment	3,214.3	3,229.2	3,216.0	3,052.9	(176.2)	(5.5%)	3,104.5	3,166.6
Services & Rents	34,433.6	39,797.1	38,592.1	39,663.5	(133.5)	(0.3%)	39,766.4	40,561.3
Contributions to Capital	347,697.7	342,207.5	344,707.5	412,892.5	70,685.0	20.7%	482,119.9	547,596.9
Other Expenditures	3,933.0	450.0	450.0	481.0	31.0	6.9%	481.0	481.0
Interdivisional Charges	68,384.5	76,439.0	76,389.5	73,967.1	(2,471.9)	(3.2%)	73,534.0	73,534.0
<b>TOTAL GROSS EXPENDITURES</b>	663,931.6	698,703.4	696,903.1	767,707.8	69,004.3	9.9%	842,348.4	915,133.3
Grants from Others	0.0	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Interdivisional Recoveries	66.3	3.2	3.2	3.2	0.0	0.0%	3.2	3.2
User Fees	12,567.9	11,945.0	11,945.0	11,509.0	(436.0)	(3.7%)	11,509.0	11,509.0
Other Revenues	651,297.4	686,755.2	686,756.7	756,195.6	69,440.4	10.1%	830,836.2	903,621.1
<b>TOTAL REVENUE</b>	663,931.6	698,703.4	698,704.9	767,707.8	69,004.4	9.9%	842,348.4	915,133.3
<b>TOTAL NET EXPENDITURES</b>	0.0	0.0	(1,801.8)	0.0	0.0	n/a	0.0	0.0
<b>APPROVED POSITIONS</b>	1,675.5	1,744.5	1,744.5	1,731.5	(13.0)	(0.7%)	1,731.5	1,731.5

**Appendix E**

**Inflows/Outflows to/from Reserves and Reserve Funds**

Please refer to the:

**2010 Water and Wastewater Service Rate Report**