



City Budget  
2013

Toronto Water  
Operating Budget Analyst Notes

The City of Toronto's budget is presented by program and service, in Analyst Note format. The City's Operating Budget pays the day-to-day operating costs for the City.

# 2013 Operating Budget

## 2013 OPERATING BUDGET ANALYST NOTES BRIEFING NOTES

BUDGET COMMITTEE, NOVEMBER 7, 2012

### TABLE OF CONTENTS

<b>PART I: RECOMMENDATIONS</b> .....	2
<b>PART II: 2013 SERVICE OVERVIEW AND PLAN</b>	
Program Map and Service Profiles .....	4
2013 Recommended Service Levels .....	6
2013 Service Deliverables .....	7
<b>PART III: 2013 RECOMMENDED BASE BUDGET</b>	
2013 Recommended Base Budget .....	8
2013 Recommended Service Changes .....	10
2014 and 2015 Outlook .....	13
<b>PART IV: RECOMMENDED NEW/ENHANCED SERVICE PRIORITY ACTIONS</b>	
2013 Recommended New/Enhanced Service Priority Actions .....	15
<b>PART V: ISSUES FOR DISCUSSION</b>	
2013 and Future Year Issues .....	17
Issues Referred to the 2013 Operating Budget Process .....	N/A
Core Service Review and Efficiency Study Implementation Progress .....	19
<b>APPENDICES</b>	
Appendix 1: 2012 Performance .....	20
Appendix 2: 2013 Recommended Operating Budget by Expenditure Category and Key Cost Driver .....	23
Appendix 3: Summary of 2013 Recommended Service Changes .....	29
Appendix 4: Summary of 2013 Recommended New/Enhanced Service Priority Actions .....	30
Appendix 5: Inflows / Outflows to/ from Reserves and Reserve Funds .....	31

**Contacts: Stephen Conforti**

Manager, Financial Planning

Tel: (416) 397-0958

**Maria Djergovic**

Senior Financial Planning Analyst

Tel: (416) 397-4558

## PART I: RECOMMENDATIONS

**2013 Recommended Operating Budget  
(In \$000s)**

(In \$000s)	2012		2013 Recommended Operating Budget			Change - 2013 Recommended Operating Budget v. 2012 Appvd. Budget		FY Incremental Outlook	
	Approved Budget	Projected Actual	2013 Rec. Base	2013 Rec. New/Enhanced	2013 Rec. Budget			2014	2015
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	383,957.2	358,996.4	394,394.6		394,394.6	10,437.4	2.7	4,783.8	3,124.8
REVENUE	895,243.8	875,602.6	940,057.1	583.9	940,641.0	45,397.2	5.1	168.0	604.8
CAPITAL CONTRIBUTION	511,286.6	516,606.2	545,662.5	583.9	546,246.4	34,959.8	6.8	(4,615.8)	(2,519.9)
Approved Positions	1,689.8	1,438.0	1,724.8	0.0	1,724.8	35.0	2.1	2.0	4.0

### Recommendations

The City Manager and Acting Chief Financial Officer recommend that:

1. City Council approve the 2013 Recommended Operating Budget for Toronto Water of \$394.395 million gross and \$546.246 million in capital-from-current contribution, comprised of the following services:

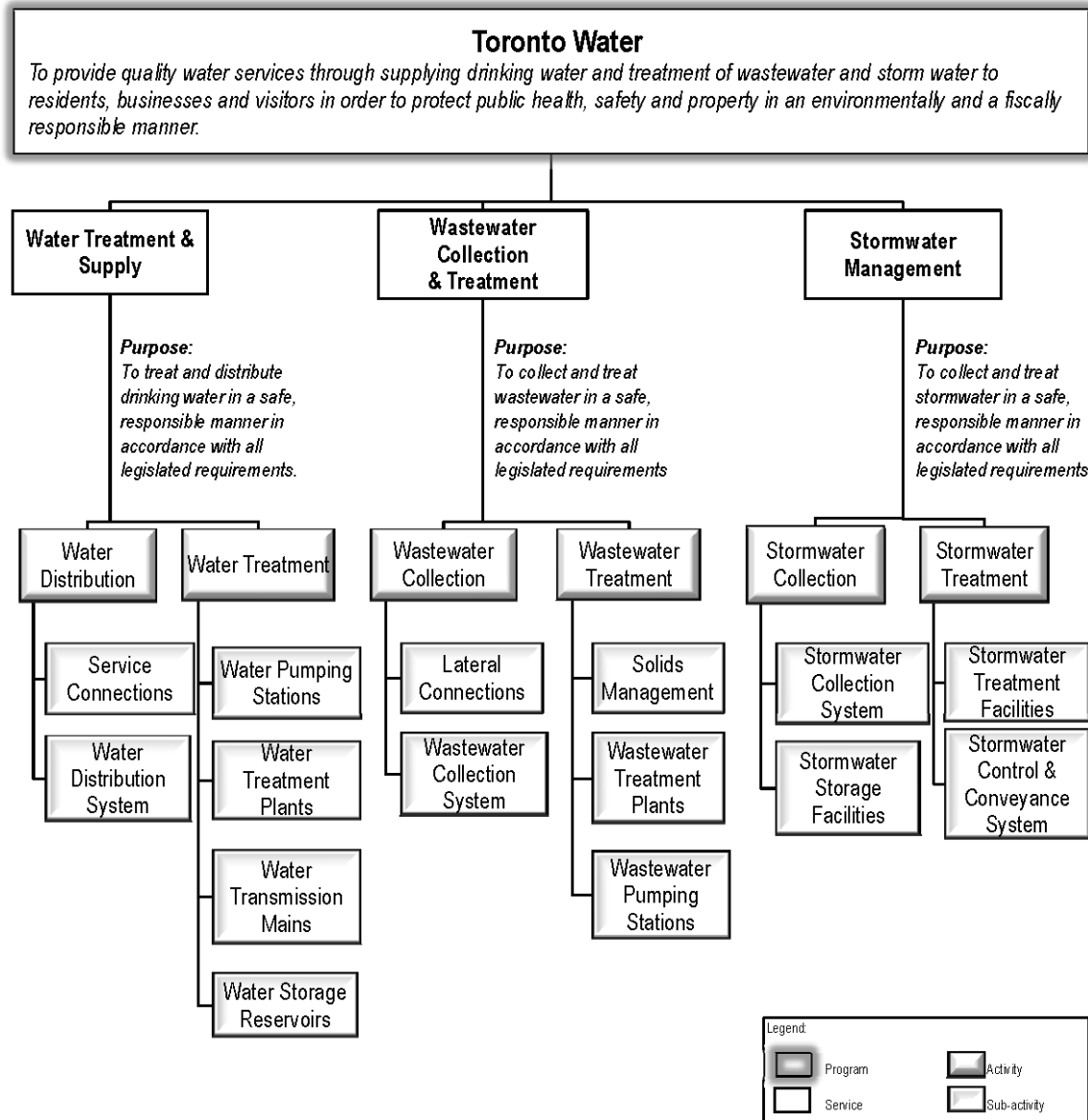
Service:	Gross (\$000s)	Net (\$000s)
Water Supply & Treatment	69,992.4	0
Wastewater Treatment	110,775.0	0
District Operations	89,760.1	0
Water Infrastructure Management	9,807.7	0
Business Operations Management	18,361.2	0
Operational Support	40,384.4	0
Program Support	55,313.8	0
Capital-from-Current Contributions	<u>546,246.4</u>	<u>0</u>
Total Program Budget	<u>940,641.0</u>	<u>0</u>

2. Toronto Water's services and 2013 proposed service levels, as outlined on page 6 and associated staff complement of 1,724.8 be approved.
3. This report be considered concurrently with the 2013 Water and Wastewater Rate Report from the Deputy City Manager and Acting Chief Financial Officer and General Manager for Toronto Water.

4. This report be considered concurrently with the "Sewers By-law Administration – Response to Request for Information" report from the General Manager, Toronto Water.

PART II: 2013 SERVICE OVERVIEW AND PLAN

Program Map and Service Profiles



Service Customer

**Water Treatment & Supply**

- Water account holders
- Water consumers

**Wastewater Collection & Treatment**

- Wastewater account holders
- Wastewater producers
- Public and private landowners

**Stormwater Management**

- Public and private landowners

- 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 3.3 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; 528 kilometers of trunk watermains; 10 underground storage reservoirs; 4 elevated storage tanks; 60,933 valves; and, 5,427 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; 4,900 kilometers of storm sewers; and, 1,450 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.

### ***Stormwater Management***

- Through Stormwater Management, Toronto Water protects the environment, City residents and businesses, by efficiently handling, treating and disposing of stormwater discharge in a safe and responsible manner in accordance with all legislated requirements.

**2013 Recommended Service Levels**

The 2013 proposed service levels for Toronto Water activities are summarized in the table below:

Service	Activity	Sub-Activity	Type	Sub-Type	2012 Service Level	Proposed 2013 Service Levels
Stormwater Management	Stormwater Collection	Stormwater Collection System			Cost of storm pipes maintained is \$1232/km	Cost of storm pipes maintained is \$1232/km
		Stormwater Storage Facilities			Meeting all Certificate of Approval requirements	Meeting all Certificate of Approval requirements
	Stormwater Treatment	Stormwater Treatment Facilities			Meeting all Certificate of Approval requirements	Meeting all Certificate of Approval requirements
		Control & Conveyance System			Meeting all Certificate of Approval requirements	Meeting all Certificate of Approval requirements
Wastewater Collection & Treatment	Wastewater Collection	Lateral Connections			Basement flooding being reduced through capital investment	Basement flooding being reduced through capital investment
		Wastewater Collection System			5.27 mainline backups per 100 km of pipe	5.27 mainline backups per 100 km of pipe
	Wastewater Treatment	Solids Management			Consistently meeting compliance limits in Nutrient Management Act	Consistently meeting compliance limits in Nutrient Management Act
		Wastewater Treatment Plants			In compliance with all applicable legislation	In compliance with all applicable legislation
		Wastewater Pumping Stations			Meeting legislative compliance	Meeting legislative compliance
Stormwater Management	Stormwater Collection	Stormwater Collection System			Cost of storm pipes maintained is \$1232/km	Cost of storm pipes maintained is \$1232/km
		Stormwater Storage Facilities			Meeting all Certificate of Approval requirements	Meeting all Certificate of Approval requirements
	Stormwater Treatment	Stormwater Treatment Facilities			Meeting all Certificate of Approval requirements	Meeting all Certificate of Approval requirements
		Stormwater Control & Conveyance System			Meeting all Certificate of Approval requirements	Meeting all Certificate of Approval requirements
Water Treatment & Supply	Water Distribution	Service Connections			Meeting the 40 to 100 psi requirement	Meeting the 40 to 100 psi requirement
		Water Distribution System			20.8 mainbreaks per 100 km of pipe	20.8 mainbreaks per 100 km of pipe
	Water Treatment	Water Pumping Stations			317 kWh/ML of water pumped	317 kWh/ML of water pumped
		Water Treatment Plants			In compliance with all applicable legislation	In compliance with all applicable legislation
		Water Transmission Mains			Meeting velocity and headloss guidelines	Meeting velocity and headloss guidelines
		Water Storage Reservoirs			Consistently maintain 24 hrs of storage capacity	Consistently maintain 24 hrs of storage capacity

- The 2013 Recommended Operating Budget for Toronto Water includes service change savings of \$6.069 million that are comprised of base expenditure reductions, service efficiency savings and revenue increases that will not impact the current level of service provided by Toronto Water.
- These savings arise from a detailed line by line review of required expenditures, deletion of vacant positions, deferral of additional labour, material and supply costs related to infrastructure growth to 2014 since these costs will be absorbed in 2013, increased user fee revenues and savings arising from the annualized impact of service changes approved in 2012.
- Further information on service changes is discussed in Part III – "2013 Recommended Service Changes".

### **2013 Service Deliverables**

The 2013 Recommended Operating Budget of \$394.395 million gross will ensure delivery of Water and Wastewater services for 3.3 million residents and business in Toronto by providing:

- Treatment and supply of 454 billion litres of water (includes York Region)
- Collection and treatment of 438 billion litres of wastewater;
- Replacement of 5,000 sub-standard water services (approximately 3,500 of which are lead)
- Response to and clearing of 10,000 blocked sewer connections;
- Cleaning of over 122,500 catch basins; and
- Repair of approximately 1,500 broken watermains.



## PART III: RECOMMENDED BASE BUDGET

**2013 Recommended Base Budget**  
(In \$000s)

(In \$000s)	2012 Approved Budget*	2013 Rec'd Base	Change 2013 Recommended Base vs. 2012 Appvd. Budget		FY Incremental Outlook	
			\$	%	2014	2015
	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	383,957.2	394,394.6	10,437.4	2.7	4,783.8	3,124.8
<b>REVENUE</b>	895,243.8	940,057.1	44,813.3	5.0	(436.8)	
<b>CAPITAL CONTRIBUTION</b>	511,286.6	545,662.5	34,375.9	6.7	(5,220.6)	(3,124.8)
<b>Approved Positions</b>	1,689.8	1,724.8	35.0	2.1	2.0	4.0

\* Includes in-year adjustments.

### 2013 Recommended Base Budget

The 2013 Recommended Base Budget of \$394.395 million gross and \$940.057 million in revenue, results in a \$545.662 million in capital-from-current contribution that reflects an increase of 2.7% over the 2012 Approved Budget gross expenditures of \$383.957 million and an increase of 6.7% over the 2012 Approved Capital Contribution of \$511.287 million.

The 2013 Recommended Base Budget provides \$14.463 million in funding for base budget increases which have been offset by \$6.069 million in recommended service budget reductions bringing the Program's base budget to \$10.437 million over the budget target of a 0% gross increase.

- The recommended budget reductions of \$6.069 million include base budget savings of \$5.590 million net, savings from efficiencies of \$0.478 million net and revenue increases of \$0.168 million.
- The 2013 Recommended Contribution of \$545.662 million will increase by a total of \$34.376 million or 6.7% over the 2012 Approved Capital Contribution level as a result of \$44.813 million or 5% increase in Toronto Water revenues.
- Additional funding of \$14.324 million for gross expenditures (prior to reductions) is required for:
  - Increased costs for step and progression pay increases (\$0.663 million) and salaries and benefits for unionized (\$2.071 million) and non-unionized employees (\$0.790 million).
  - Projected inflationary cost increases for non-labour expenses of \$3.374 million.
  - Additional operating costs resulting from completion of previously approved capital projects of \$5.562 million.
  - Other base budget changes required for the delivery of Toronto Water services of \$1.864 million.
- Additional revenues of \$45.397 million reflect:

- A 9% effective Water and Wastewater service rate increase, which was partially offset by projected water consumption decline (\$44.521 million);
- Increases in user fees to reflect full cost recovery (\$0.281 million) and changes to the industrial waster surcharge program fees (\$0.584 million).
- Approval of the 2013 Recommended Base Budget will result in an increase of 35 positions to the Program's approved staff complement resulting in a change from 1,689.8 positions to 1,724.8 positions as highlighted in the table below:

**2013 Recommended Staff Complement  
Base Budget Summary**

Changes	Staff Complement
<b>2012 Approved Complement</b>	1,676.3
- 2012 In-year Adjustments	13.5
<b>2012 Approved Staff Complement</b>	<b>1,689.8</b>
<b>2013 Recommended Staff Complement Changes</b>	
- 2013 Temporary Complement - Capital Project Delivery	3.0
- 2013 Operating impacts of completed Capital projects	
- 2013 Service Changes	32.0
<b>Total 2013 Recommended Complement</b>	<b>1,724.8</b>

- In 2012, 13.5 positions were added to the staff complement (3 permanent, 10.5 temporary) to support the design, planning and construction of the Eglinton-Scarborough Crosstown project. All positions are fully funded by Metrolinx.
- The 2013 Recommended staff changes include:
  - An increase of 3 temporary positions to provide support to the District Operations, Watermain Replacement Support Unit, for the installation and/or rehabilitation of the water infrastructure for a period of approximately 3 years, subject to further evaluation based on the capital program requirements. These positions are required to open and close watermains scheduled for replacement in compliance with the MOE legislated requirements. They will also perform water sampling to ensure water quality prior to commissioning the new infrastructure.
  - Base budget adjustments will result in a net increase of 32 positions, due the transfer of the water metering function from Revenue Services to Toronto Water (31 position), operating requirements of the FJ Horgan Plant expansion (2 positions), and growth in third party infrastructure developments (2 positions), which are offset by a deletion of 3 positions due to implementation of proposed operational efficiencies.

### 2013 Recommended Service Change Summary (In \$000s)

Description	2013 Recommended Service Changes				Incremental Impact 2014		Incremental Impact 2015	
	Position Changes	Gross Exp.	Capital Contribution	% Change over 2012 Budget	Capital Contribution	Position Change	Capital Contribution	Position Change
<b>Base Changes:</b>								
Annualized Impact of 2012 Service Changes		(1,024.5)	1,095.3	0.21%				
<b>Base Expenditure Changes</b>								
Customer Service Improvements	(1.0)	(113.2)	113.2	0.02%				
Process Control Systems & Operational Support Unit Savings		(141.4)	141.4	0.03%				
Expenditure Reductions Based on Actual Experience		(2,128.7)	2,128.7	0.42%				
Tree Planting DC Contribution		0.0	195.0	0.04%				
<b>Base Budget Change</b>	<b>(1.0)</b>	<b>(3,407.8)</b>	<b>3,673.6</b>	<b>0.72%</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Base Revenue Changes</b>								
Increase in User Fee & Other Revenues			1,916.7	0.37%				
<b>Base Revenue Change</b>	<b>0.0</b>	<b>0.0</b>	<b>1,916.7</b>	<b>0.37%</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Sub-Total Base Budget Changes</b>	<b>(1.0)</b>	<b>(3,407.8)</b>	<b>5,590.2</b>	<b>1.09%</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Service Efficiencies</b>								
Defer Additional Positions for Linear Infrastructure	(2.0)	(168.4)	168.4	0.03%	(168.4)	2.0		
Marine Operations Efficiencies		(310.0)	310.0	0.06%				
<b>Sub-Total Service Efficiencies</b>	<b>(2.0)</b>	<b>(478.4)</b>	<b>478.4</b>	<b>0.09%</b>	<b>(168.4)</b>	<b>2.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Revenue Adjustments:</b>								
User Fee Inflationary Increases			281.3	0.06%				
<b>Sub-Total Revenue Adjustments</b>	<b>0.0</b>	<b>0.0</b>	<b>281.3</b>	<b>0.06%</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Service Changes</b>	<b>(3.0)</b>	<b>(3,886.2)</b>	<b>6,068.6</b>	<b>1.19%</b>	<b>(168.4)</b>	<b>2.0</b>	<b>0.0</b>	<b>0.0</b>

### 2013 Recommended Service Changes

The 2013 recommended service changes consist of base expenditure and revenue changes of \$5.590 million net, service efficiency savings of \$0.478 million and revenue adjustments of \$0.281 million net.

In total, the Program has achieved reductions of \$6.069 million net, bringing the 2013 Recommended Base Budget's gross expenditures to \$10.437 million or 2.7% over the 2012 Approved Budget's gross expenditures of \$383.957 million. The 2013 Recommended Capital Contributions reflect an increase of \$34.376 million or \$6.7% over the 2012 Approved Capital Contribution of \$511.287 million.

#### **Base Expenditure Changes: (\$3.408 million gross, savings of \$3.674 million net)**

##### *Annualized Impact of 2012 Approved Service Changes*

- In 2012, Council approved various reduction options that result in incremental savings of \$1.095 million in 2013 including: upgrades to lab equipment (\$0.070 million), reduced administrative support at Dee Avenue lab (\$0.031 million), a reduction in the number of

water meters ordered (\$0.050 million), hydro cost efficiencies at various water treatment plants (\$0.200 million), surface restoration of excavation savings (\$0.529 million), reduced community outreach program costs (\$0.073 million), elimination of the night shift at the North Toronto Treatment Plant (\$0.071 million) and additional revenues from Development Application Review fees (\$0.071 million).

#### *Base Expenditure Changes*

##### *Customer Service Improvements*

- Customer service improvements resulting from organizational changes in the Business & Customer Support (B&CS) and Environmental Monitoring & Protection (EM&P) units, including redistribution of temporary and part-time positions, will result in a net reduction of one vacant staff position and savings of \$0.113 million, effective January 1, 2013.

##### *Process Control Systems & Operational Support Unit Savings*

- Base expenditure savings of \$0.141 million will be achieved as a result of repurposing existing positions within Toronto Water to create a Process Control System (PCS) Unit, with a mandate to provide additional capital program support in the wastewater treatment plants, manage PCS standards and documentation and to establish a core body of expertise in the troubleshooting of daily automation issues.

##### *Expenditure Reductions Based on Actual Experience*

- \$2.129 million in net expenditure reductions is recommended, based on a detailed review and realignment of Toronto Water's operating expenses and revenues based on actual experience, resulting in savings in salaries, benefits and various materials and supplies.
- Cost savings on salaries and benefits (\$2.612 million) and materials and supplies (\$1.784 million) partially offset an increase in costs for equipment (\$0.171 million), services and rents (\$1.808 million) and interdivisional charges (\$0.288 million) in order to fund contracted work.

##### *Tree Planting Development Charge Contribution*

- Toronto Water provides funding for tree planting services to better retain rainwater and reduce surface run-off. Tree planting services are eligible for Development Charge funding of up to 10%. It is recommended that this funding source of \$0.195 million be utilized to reduce Toronto Water's \$1.950 million cost for this service.

#### **Base Revenue Changes: (Revenue of \$1.917 million)**

- User fee and other revenues will increase by \$1.917 million in 2013 due to higher volumes of utility account change applications, surcharges on private water and sale of water to Region of York.

**Service Efficiencies (\$0.478 million gross, savings of \$0.478 million):***Defer Additional Positions for Linear Infrastructure*

- Toronto Water will defer its request for additional 2 staff positions, materials and supplies in the amount \$0.168 million to 2014. These positions are required for maintenance of recent linear infrastructure growth related to developments at Morningside Heights and Warden Avenue / St. Clair Avenue area that will add another 84 km in linear assets. Toronto Water will utilize its existing staff to provide these services in 2013.

*Marine Operations Efficiencies*

- In the past, Toronto Water provided weed cutting and cleaning services of for leased water lots in the Toronto harbour area. An agreement has been reached with the Toronto Port Authority to take responsibility for marine clean up of that area, as it is already responsible for clean up of all other areas of Toronto harbour. This will result in savings of \$0.310 million, with no impact on services already provided to leaseholders.

**Revenue Adjustments: (Revenue of \$0.281 million)***Increase to Existing User Fees*

- In accordance with Council's approved User Fee Policy inflationary factors that reflect service specific cost increases are applied in order to recover the full costs. As a result, the 2013 Recommended Operating Budget includes revenue additional revenues of \$0.281 million.
- The overall factor for Toronto Water 2013 Budget was estimated at 1.8% including labour cost increase, energy, utilities, materials and contracted services. The 1.8% increase was applied to most fees except for those that are part of individual contracts which increase reflects the actual contract costs.
- The following increases will be effective January 1, 2013:
  - 12 water service fees (Appendix C – Schedule 2, Water Service, Reference Numbers: 1, 2, 5, 11, 12, 13, 15, 15.1, 17, 21, 25 and 32) are increased based on 1.8% inflationary factor and actual contract increases.
  - 8 wastewater service fees (Appendix C – Schedule 3, Wastewater Service, Reference Numbers: 4, 5, 6, 15, 16, 17, 18 and 19) are increased based on 1.8% inflationary factor and actual contract increases.
  - Proposed changes are summarized in the 2013 Water and Wastewater Rate Report from the Acting Deputy City Manager and Acting Chief Financial Officer and General Manager for Toronto Water. This report also provides a comparison with the existing user fee rates.

## 2014 and 2015 Outlook (In \$000s)

Description	2014 - Incremental Impact					2015 - Incremental Impact					Total Net % Change from 2013
	Gross Expense	Revenue	Capital Contribution	Net % Change from 2013	# Positions	Gross Expense	Revenue	Capital Contribution	Net % Change from 2013	# Positions	
<b>Known Impacts</b>											
Annualized Impact of 2012 Service Changes	(388.1)		388.1	0.1%							
Step and Progression Pay Increases	316.6		(316.6)	-0.1%		221.7		(221.7)	-0.1%		-0.1%
Other Salary Related Increases	694.4		(694.4)	-0.2%		2,556.1		(2,556.1)	-0.6%		-0.8%
Operating Impact of Capital	2,432.5		(2,432.5)	-0.6%				(347.0)	-0.1%	4.0	-0.7%
<b>Sub-Total - Known Impacts</b>	<b>3,055.4</b>	<b>0.0</b>	<b>(3,055.4)</b>	<b>-0.8%</b>	<b>0.0</b>	<b>2,777.8</b>	<b>0.0</b>	<b>(3,124.8)</b>	<b>-0.8%</b>	<b>4.0</b>	<b>-1.6%</b>
<b>Anticipated Impacts</b>											
Increase in Fleet Costs	1,200.0		(1,200.0)	-0.3%							-0.3%
Additional Storm Water Facilities	360.0		(360.0)	-0.1%							-0.1%
Defer Additional Positions for Linear Infrastructure	168.4		(168.4)	0.0%	2.0						0.0%
Reduced Revenue from Region of Peel		(436.8)	(436.8)	-0.1%							-0.1%
<b>Sub-Total - Anticipated Impacts</b>	<b>8,227.4</b>	<b>(436.8)</b>	<b>(2,165.2)</b>	<b>-0.5%</b>	<b>2.0</b>	<b>5,555.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0%</b>	<b>0.0</b>	<b>-0.5%</b>
<b>Total Incremental Impact</b>	<b>11,282.8</b>	<b>(436.8)</b>	<b>(5,220.6)</b>	<b>-1.3%</b>	<b>2.0</b>	<b>8,333.3</b>	<b>0.0</b>	<b>(3,124.8)</b>	<b>-0.8%</b>	<b>4.0</b>	<b>-2.1%</b>

\* Outlooks do not include incremental impact from new/enhanced priorities.

Approval of the 2013 Recommended Base Budget for Toronto Water will result in a 2014 incremental cost increase of \$5.221 million and a 2015 incremental cost increase of \$2.778 million to maintain 2013 service levels.

Future year incremental costs are primarily attributable to the following:

### 2014 Outlook

#### Known Impacts

- The Automatic Meter Reader Program currently under implementation is expected to generate savings of \$0.388 million, based on operational efficiencies and improved revenues due to more accurate readings. Since the meter reading function will be transferred to Toronto Water in 2013 from Revenue Services, where it currently resides, appropriate savings are included in the 2014 Outlook.
- Step and progression pay increases of \$0.317 million.
- Salary increases related to negotiated settlements of \$0.694 million.
- Increased corrosion control costs and materials and supplies for water treatment plants, arising from the completion of capital projects, most notably the FJ Horgan Plant Expansion project, of \$2.432 million.

#### Anticipated Impacts

- Increase in fleet reserve contribution of \$1.200 million based on a recently updated vehicle replacement schedule.
- A clean-up of 2 additional water ponds to restore their intended storm water capacity in the amount \$0.360 million.

- The cost of additional 2 positions and related materials and supplies of \$0.168 million for the maintenance of new infrastructure arising from third party development growth, deferred from 2013 to 2014.
- Further decline in revenues from the treatment of wastewater originating from Region of Peel of \$0.437 million, due to lower volumes anticipated in 2014.

**2015 Outlook***Known Impacts*

- Step and progression pay increases of \$0.222 million.
- Salary increases related to negotiated settlements of \$2.556 million.
- Operating impact of completed capital projects resulting in additional corrosion control costs and materials and supplies for water treatment plants of \$0.347 million.



## PART IV: RECOMMENDED NEW/ENHANCED SERVICE PRIORITY ACTIONS

**2013 Recommended New/Enhanced Service Priority Actions  
(In \$000s)**

Description	2013 Recommended			Net Incremental Impact			
	Gross Expenditure	Capital Contribution	New Positions	2014		2015	
				Capital Contribution	# Positions	Capital Contribut	# Positions
<b>Enhanced Services Priorities</b>							
Changes to the Industrial Waste Surcharge Program / Additional User Fee Revenue		(583.9)		(604.8)		(604.8)	
<b>Sub-Total Enhanced Services</b>	<b>0.0</b>	<b>(583.9)</b>	<b>0.0</b>	<b>(604.8)</b>	<b>0.0</b>	<b>(604.8)</b>	<b>0.0</b>
<b>New Service Priority Actions</b>							
- New Services							
- New Revenues							
<b>Sub-Total New Service Priorities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total New/ Enhanced Service Priorities</b>	<b>0.0</b>	<b>(583.9)</b>	<b>0.0</b>	<b>(604.8)</b>	<b>0.0</b>	<b>(604.8)</b>	<b>0.0</b>

## 2013 Recommended New / Enhanced Service Priority Actions

### Enhanced Service Priorities

#### Changes to the City's Industrial Waste Surcharge Program/Additional User Fee Revenue

- The City of Toronto was one of the first municipalities in Canada to incorporate pollution prevention (P2) planning requirements into its Sewers By-law. The Sewers By-law sets strict limits on the quantity of heavy metals and toxic organic compounds in wastewater discharged to the sanitary and storm sewers and natural watercourses. Some waste streams discharged into the City's sewers from food processing plants can be treated at the City's sewage treatment plants which is accomplished through surcharge agreements.
- Most companies enter into an industrial waste surcharge agreement to meet the Sewers By-law requirements, as it is generally more cost effective than installing a wastewater treatment system on site. Companies that have entered into an industrial waste surcharge agreement with the City may exceed sanitary concentration limits for any of the four treatable parameters: biochemical oxygen demand (BOD), phenolics (4AAP), total phosphorus (TP) and total suspended solids (TSS) and are charged a fee only for the parameter that exceeds the By-Law limit the most. Total Kjeldahl Nitrogen (TKN) is not currently a treatable parameter.
- In 2011, the City had industrial waste surcharge agreements with 154 companies and recovered approximately \$8.5 million in costs. The City is not currently recovering its full cost of providing waste water treatment services under the Industrial Waste Surcharge Program.
- In its report titled "Sewers By-law Administration – Response to Request for Information", considered by the Public Works Committee (PWIC) on October 11, 2012, the General



Manager of Toronto Water recommended changes to the City's industrial waste surcharge program, including the addition of Total Kjeldahl Nitrogen (TKN) as a treatable parameter, the introduction of new rates for treatable parameters and a new formula for the calculation of fees.

- Implementation of the proposed changes to the City's industrial waste surcharge program consisting of addition of TKN as a treatable parameter and a surcharge on all parameters exceeding the By-law limit, based on a new formula (Type I Formula), would result in an estimated increase in revenue of \$3.6 million. This is also consistent with Council approved User Fee Policy that directs staff to recover the full costs for private services that benefit specific individuals, groups or business.
- The program changes would be phased in over a six year period, starting on January 1, 2013 resulting in revenue increases as follows: \$0.584 million in 2013; \$0.605 million in 2014; \$0.605 million in 2015; \$0.605 million in 2016; \$0.605 million in 2017; and \$0.605 million in 2018. The incremental rate increases would bring the City's current cost recovery to full cost recovery by 2018. Incremental implementation costs related to the addition of TKN as a surcharge parameter are minimal and will be accommodated within the exiting operating budget. The details of the proposed changes are outlined in the "Sewers By-law Administration – Response to Request for Information" report, which can be viewed at: <http://www.toronto.ca/legdocs/mmis/2012/pw/bgrd/backgroundfile-50495.pdf>.
- The Public Works and Infrastructure Committee amended the staff recommendations as it pertains to the calculation of the fees. Instead of charging for all parameters in the waste stream, the PWIC recommends to charge only for the parameter that exceeds the by-law limits the most, for a partial cost recovery effective 2013. This would provide for incremental revenues estimates at \$0.740 million in 2013. There would be no six-year phase-in period.
- The report has been forwarded to the Budget Committee for its meeting on November 7, 2012, to be considered concurrently with the 2013 Water and Wastewater Rates and Service Fees report and Toronto Water's 2013 Operating Budget, along with the appropriate recommendations to amend the Municipal Code.
- The 2013 Recommended Operating Budget reflects assumptions presented in the original staff report. It is however recommended that this enhanced service priority be considered in conjunction with the "Sewers By-law Administration – Response to Request for Information" and that the 2013 Recommended Operating Budget be adjusted accordingly.

## Part V: ISSUES FOR DISCUSSION

**2013 and Future Year Issues****2013 Issues**

## 2013 Operating Budget Funding

- Toronto Water is fully self-sustaining and does not rely on the municipal property tax levy for funding. Operating and capital investments are funded from revenues generated by 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 2013 Operating Budget and the capital program set out in the 2013 Capital Budget and 2014-2022 Capital Plan, while maintaining relatively healthy Water and Wastewater Capital Reserve balances. It is important however, to note that this funding does not address any other unbudgeted pressures as outlined in the "*Toronto Water Capital Program Funding Pressures and Financing Options*" report from the General Manager, Toronto Water that was considered by Council on October 30, 2012.
- Incremental rate revenues from the 2013 Recommended Water and Wastewater Rate increase of 9% and other sources of funding will generate an additional \$45.397 million (net of projected consumption decline in 2013 of \$27.667 million). The increase in the 2013 Operating Budget gross expenditures of \$10.437 million will decrease the 2013 Capital Contribution by the same amount, resulting in a net incremental revenue of \$34.960 million that will be used to fund Toronto Water's Capital Budget in 2013.

**Future Year Issues***Legislative Requirements and Compliance with Provincial and Federal Regulations*

- The water and waste water industry continues to experience increased legislative and regulatory reform impacting both, operating and capital budgets. Increased requirements and frequent changes in legislation represent a significant challenge for Toronto Water in terms of planning and allocating appropriate staff resources to maintain legislative compliance.
- In the post-Walkerton period, significant changes focusing on drinking water quality were introduced through the Safe Drinking Water Act and related Ministry of the Environment Regulations, including legal obligations/liabilities for Council and staff.
  - The Safe Drinking Water Act stipulates that as of January 2013, every person that oversees the operating authority of the drinking water system, including decision making, can be charged with an offence under the act if they fail to carry out regulations and requirements under the Act.
- Federal Wastewater Systems Effluent Regulations enacted on July 18, 2012 include new regulations that could result in increases to both operating and capital costs for Toronto

Water. They also mandate enforcement activities with potential penalties for non-compliance. Some of the regulations require:

- Eliminating chlorinated effluent from Ashbridges Bay Wastewater Treatment Plant by January 1, 2015.
- Measuring and reporting all combined sewer overflows within the City.
- There remain a number of very significant changes in the regulatory framework of the industry about which little are presently known. The Provincial and Federal Governments are still developing the requirements beyond the current conceptual framework.
- For these reasons, operating budget funding is expected to increase in future years as regulations governing water supply and wastewater treatment services continue to evolve.

#### *Other Operating Cost Pressures*

- One of the main challenges facing Toronto Water in future years will be the management of the continuously increasing costs from both, internal and external sources. Personnel costs and inflationary pressures related to costs for materials and supplies, electricity, chemicals and parts, as well as machinery and services are ongoing.
- For example, in 2013 alone, operating impacts of previously completed capital projects amount to \$5.562 million, while salary and non-salary inflationary increases approximate \$5.993 million. Further increases of \$5.221 million and \$3.175 million are anticipated for 2014 and 2015 respectively.

#### *Impact of Lower Water Consumption Forecasts on Water and Wastewater Rate Revenues*

- Beginning in 2006 Toronto Water implemented a planned multi-year Water and Wastewater annual rate increase of 9% for 9 years, with the final 9% rate increase planned for the year 2014.
- The annual multi-year rate increase strategy was planned to generate revenues required to fund Toronto Water's operations and its capital program, balancing infrastructure renewal needs for state of good repair with new service improvement projects requiring funding to increase system capacity to keep pace with population growth, while ensuring the delivery of water supply and wastewater treatment within an increasingly stringent regulatory framework.
- However, the additional revenues to be generated by an annual 9% rate increase have been reduced by the steady decline in water consumption of 2% per year since 2003, mostly due to the effectiveness of Toronto Water's Water Efficiency Plan, directed at reducing water consumption.
- As a result of lowered consumption forecasts, projecting a \$686.8 million reduction in revenues over the 10-year planning period, Toronto Water adjusted its 2012 – 2021 Capital Plan by \$1.132 billion.
- Further decline in water consumption is forecasted for 2013, further lowering revenues available to fund the capital program. The estimated revenue impact of projected water consumption decline is \$27.667 million in 2013 only.

- Additional detail on historical and forecasted water consumption and production, as well as its impact on the Toronto Water Capital Reserve is available in the accompanying 2013 Water and Wastewater Rates report.

#### *Resulting Capital Program Funding Pressures*

- While 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), declining water consumption trends have placed significant pressure on the long term capital program as outlined above.
- Concurrently with deferring \$1.132 billion in capital work in the 2012-2021 Capital Plan, there is an estimated \$540 million in project funding required to address unbudgeted projects, while at the same time, public pressure is increasing to reinstate funding that was deferred for programs such as basement flooding protection and combined sewer overflow control projects, resulting in a number of competing priorities and significant funding pressures for Toronto Water.
- Coupled with the fact that the 10-Year Capital Plan relies primarily on successive water rate increases to fund growing infrastructure funding needs the long-term financial strategy for Toronto Water becomes an imperative for the 2014 planning process. These issues are outlined in the report from the General Manager, Toronto Water titled "*Toronto Water Capital Program Funding Pressures and Financing Options*" that was considered by Council on October 30, 2012.

#### **Core Service Review Implementation**

- At its meeting of September 26, 2011 Council approved the report entitled, EX10.1 Core Service Review – Final Report to Executive Committee, and requested the City Manager to review the remaining efficiency related opportunities as set out in Appendix E–KPMG Opportunities Related to Service Efficiencies, to determine whether and in what manner implementation is appropriate through the 2012, 2013 and 2014 Operating Budget
- Item #113 in Appendix E directed Toronto Water to continue implementing the final elements of Works Best Practices Program (WBPP) and District Services Improvement Program (DSIP) restructuring to ensure additional efficiencies are obtained.
- The 2012 Operating Budget for Toronto Water included efficiency savings of \$1.951 million that can be achieved without impacting service levels following the implementation of the final elements of the WBPP and DSIP. In 2013, Toronto Water continues to identify savings from the final implementation of the WBPP and DSIP and the 2013 Recommended Operating Budget includes further savings from:
  - ✓ Customer service improvements resulting from organizational changes in the Business & Customer Support and Environmental Monitoring and Protection units (\$0.113 million)
  - ✓ Process Control System Unit establishment (\$0.141 million).

## Appendix 1

### 2012 Performance

#### 2012 Key Accomplishments

In 2012, Toronto Water achieved the following results:

- ✓ The Ministry of Environment (MOE) has completed annual inspections at the City's water treatment facilities and there have been no major non-conformance issues identified.
- ✓ The MOE has completed annual inspections of the City's wastewater treatment facilities and there have been no major non-conformance issues identified.
- ✓ Energy Optimization initiatives completed at various locations to reduce the overall cost of energy and to reduce Toronto Water's carbon footprint.
- ✓ Completion of detailed design for construction of Corrosion Control Facilities. Implementation beginning in the fall of 2013.

#### 2012 Performance

The following tables represent available OMBI performance measures related to various services provided by Toronto Water.

<b>WATER TREATMENT AND SUPPLY</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Operating Cost for the Distribution/Transmission of Drinking Water per km of Water Distribution Pipe	\$18,410.19	\$23,160.32	\$24,722.11
Number of Watermain Break per 100 km of Water Distribution Pipe (excluding connections)	27	22	21
Operating Cost for the Treatment of Drinking Water per Megalitre of Drinking Water Treated	\$182.85	\$149.64	\$209.47
Operating Cost for the Treatment and Distribution/Transmission of Drinking Water per Megalitre of Drinking Water Treated	\$462.60	\$498.53	\$572.73

The Water Treatment and Supply service performance indicators show a decrease in operating costs per unit for both water distribution and water treatment.

Total service costs have been reduced from \$572.73 per megalitre of drinking water treated in 2009 to \$462.60 in 2011, or 24%, mostly due to business operations and technology improvements in these areas.

The number of watermain breaks per 100 km however increased from 21 in 2009 to 27 in 2011.

<b>WASTEWATER COLLECTION AND TREATMENT</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Operating Cost of Wastewater Collection/Conveyance per km of Pipe	\$18,041.34	\$15,816.40	\$19,706.93
Annual Number of Wastewater Main Backups per 100 km of Wastewater Main	11	8	5
Operating Cost of Wastewater Treatment/Disposal per Megalitre Treated	\$389.21	\$434.59	\$403.99
Operating Cost of Wastewater Treatment/Disposal and Collection/Conveyance per Megalitre Treated	\$616.99	\$641.16	\$646.47

Wastewater Collection and Treatment indicators show improved performance over the 2009-2010 period. The total service costs have been reduced from \$646.47 per megalitre of wastewater treated in 2009 to \$616.99 in 2011 or 5%. Efficiency gains were more difficult to achieve as this service is not computerized/automated to the same extent as Water Treatment and Supply service, where costs were lowered by 24% over the same period..

The number of wastewater main backups per 100 km of wastewater main however increased from 21 in 2009 to 27 in 2011.

<b>STORMWATER MANAGEMENT</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Operating Cost for Urban Stormwater Management per km of Drainage System	\$7,718.16	\$4,708.70	\$1,232.23
Total Costs of Urban Stormwater Management per km of Drainage System	\$8,250.51	\$5,105.55	\$1,232.23

Stormwater Management services experienced large cost increases mostly due to extreme weather events and lack of funding capacity for significant investments associates with this type of projects.



## 2012 Budget Variance Analysis

2012 Budget Variance Review  
(In \$000s)

(In \$000s)	2010 Actuals	2011 Actuals	2012 Approved* Budget	2012 Projected Actuals**	2012 Approved Budget vs Projected Actual Variance	
	\$	\$	\$	\$	\$	%
<b>Gross Expenditures</b>	352,884.8	381,227.8	383,957.2	358,996.4	(24,960.8)	(6.5)
<b>Revenues</b>	758,000.1	809,449.4	895,243.8	875,602.6	(19,641.2)	(2.2)
<b>Capital Contribution</b>	405,115.3	428,221.6	511,286.6	516,606.2	5,319.6	1.0
<b>Approved Positions</b>	1,731.4	1,723.4	1,689.8	1,438.0	(251.8)	(14.9)

\* 2012 Approved Budget adjusted for in-year changes.

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

## 2012 Experience

- Toronto Water reported a net under-spending of \$7.900 million of planned expenditures for the nine month period ended September 30, 2012. The variance consisted of lower than budgeted gross expenditures of \$20.084 million or 6.5%, mainly due to \$12.100 million in salary and benefit savings arising from vacancies, and \$4.000 million in under-spending for hydro costs, due to later than planned invoice payments. Expenditure savings are partially offset by lower than budgeted revenue of \$12.183 million or 1.8%, reflecting continuing lower water consumption trends arising from water efficiency measures.
- Toronto Water is projecting that budgeted year-end water sales and sewer surcharges will not be achieved. They are forecasted to be 2.2% or \$19.641 million below the 2012 Approved Operating Budget Revenues of \$895.244 million.
  - The projected revenue loss reflects lower water consumption of \$13.9 million, and lower than anticipated revenues from sale of water to York Region of \$3.2 million.
- Forecasted year-end gross expenditures are expected to be \$24.961 million or 2.8% lower than the 2012 Approved Gross Operating Budget of \$383.957 million, reflecting savings from unfilled vacancies of \$16.5 million and lower than anticipated Hydro costs of \$4.2 million.
- The contribution to capital is projected to be \$5.320 million or 1.0% above plan, largely as a result of gross expenditure savings partially offset by revenue losses.

## Impact of 2012 Operating Variance on the 2013 Recommended Budget

- The projected year-end net revenue short-fall for lower than planned water sales and sewer surcharges of \$19.6 million has been taken into account in developing the current and future year consumption projections in the 2013 Water Rate Model.

## Appendix 2

## 2013 Recommended Operating Budget by Expenditure Category and Key Cost Driver

### Program Summary by Expenditure Category (In \$000s)

Category of Expense	2010	2011	2012	2012	2013	2013 Change from		2014	2015
	Actual	Actual	Budget	Projected	Recommended	2012 Approved	%	Outlook	Outlook
	\$	\$	\$	\$	\$	\$	%	\$	\$
Salaries and Benefits	141,791.7	147,615.4	158,763.5	140,339.2	161,489.9	2,726.4	1.7%	162,669.3	165,447.1
Materials and Supplies	84,784.6	83,123.9	91,588.7	85,365.5	94,553.0	2,964.3	3.2%	96,985.5	97,382.5
Equipment	2,908.4	3,179.5	2,330.7	2,330.7	2,473.2	142.5	6.1%	2,473.2	2,473.2
Services & Rents	35,594.7	42,101.9	38,759.0	33,450.8	42,599.5	3,840.5	9.9%	42,959.5	42,959.5
Contributions to Capital	405,115.3	438,492.2	511,286.6	511,779.9	546,246.3	34,959.7	6.8%	546,246.3	546,246.3
Contributions to Reserve/ Res Funds	7,748.3	8,050.4	6,965.4	6,965.4	7,628.8	663.3	9.5%	8,828.8	8,828.8
Other Expenditures	17,631.2	21,780.5	18,884.4	21,975.0	19,478.8	594.4	3.1%	19,478.8	19,478.8
Interdivisional Charges	62,425.8	65,105.7	66,665.4	66,165.4	66,171.5	(494.0)	(0.7%)	65,783.3	65,783.3
<b>TOTAL GROSS EXPENDITURES</b>	<b>758,000.0</b>	<b>809,449.4</b>	<b>895,243.8</b>	<b>868,372.2</b>	<b>940,641.0</b>	<b>45,397.1</b>	<b>5.1%</b>	<b>945,424.7</b>	<b>948,599.5</b>
Interdivisional Recoveries	83.0	120.4	3.2	3.2		(3.2)	(100.0%)		
Provincial Subsidies									
Federal Subsidies									
Other Subsidies	68.1								
User Fees & Donations	14,300.7	39,143.6	35,260.0	30,901.6	29,525.5	(5,734.5)	(16.3%)	29,693.6	30,298.4
Transfers from Capital Fund	1,413.5	2,100.3	2,178.5	2,178.5	1,989.0	(189.5)	(8.7%)	1,989.0	1,989.0
Contribution from Reserve/ Res. Funds		6,392.7			195.0	195.0		195.0	195.0
Other Revenues	3,577.3	6,741.7	2,692.1	2,692.1	7,841.6	5,149.6	191.3%	7,841.6	7,841.6
Sale of Water	738,557.4	754,950.7	855,110.0	837,916.3	901,089.9	45,979.9	5.4%	901,089.9	901,089.9
<b>TOTAL REVENUE</b>	<b>758,000.0</b>	<b>809,449.4</b>	<b>895,243.8</b>	<b>873,691.8</b>	<b>940,641.0</b>	<b>45,397.3</b>	<b>5.1%</b>	<b>940,809.1</b>	<b>941,413.9</b>
<b>TOTAL NET EXPENDITURES</b>	<b>0.0</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(5,319.5)</b>	<b>(0.0)</b>	<b>(0.0)</b>		<b>4,615.7</b>	<b>7,185.6</b>
<b>APPROVED POSITIONS</b>	<b>1,731.4</b>	<b>1,676.3</b>	<b>1,689.8</b>	<b>1,682.3</b>	<b>1,724.8</b>	<b>35.0</b>	<b>2.1%</b>	<b>2.0</b>	<b>4.0</b>

### 2013 Key Cost Drivers

- Salaries and benefits are the largest expenditure category and account for 41% of the total expenditures (excluding capital contributions), followed by materials and supplies at 24%, services and rents at 11%, and interdivisional charges at 17%. The remaining 7.4% represents all other costs, including equipment and contribution to reserve funds.
- Revenues are derived mostly from the sale of water and waste water surcharges which constitute 93% of the total, with the remaining 7% of revenues comes from a variety of sources such as industrial waste surcharges, private water agreements, and service charges.
- Over the last three years (2010-2012), Toronto Water's *salary and benefit costs* have increased by 3.6%. Salary and benefit costs account for \$161.490 million or 41% of the 2013 Recommended Operating Budget.
  - Salary and benefit costs have historically increased with contractually obligated wage increases, increased benefit costs and step and progression pay increases.
  - These expenses continue to impact the Program's budget in 2013 requiring additional funding of \$2.726 million or a 1.7% increase from 2012 budgeted salaries and benefits,



- mainly for OMERS and other benefit increases, step and progression pay and increases arising from negotiated settlements with unionized employees and approved inflationary adjustments for non unionized staff.
- The increased salary and benefit costs in 2013 were fully offset through savings realized from a detailed review of salaries and benefits based on actual expenses (\$2.612 million) as well as annualized salary and benefit savings (\$0.249 million) arising from budget reductions approved in 2012.
  - The remaining net increase in salaries and benefits for 2013 is mostly attributable to the transfer of 31 meter reading positions from Revenue Service to Toronto Water of \$2.270 million.
  - Toronto Water projects significant savings in salaries and benefits in 2012, due to a large number of vacant positions. Under spending of salary and benefit budget assisted Toronto Water in mitigating the impact of lower water consumption experienced in 2012. Through its work force development program, Toronto Water continues to address issues of unfilled positions and reduce any adverse impact on its operational requirements.
- Inflationary increases in materials, chemicals and utility costs are continuing to result in significant increases in *material and supplies* expenses. These costs, which represent \$94.553 million or 24.0% of Toronto Water's gross expenditures, less capital contributions, increased by 1.3% since 2010 and are budgeted to further increase by 3.2% or \$2.964 million in 2013.
    - 2013 inflationary increases in materials and supplies of \$3.375 million are predominately driven by anticipated increases in electricity and other utility costs of \$2.014 million and materials and supplies such as chlorine and various other chemicals of \$0.589 million.
    - Previously completed capital projects resulted in increased operating costs of \$5.044 for additional corrosion and odour control materials and supplies, mostly for the FJ Horgan and Ashbridges Bay treatment plants.
    - Inflationary increases in material and supplies have been somewhat offset by process efficiency savings and line by line expenditure reductions.
  - Costs of various professional *services and rents* decreased by 3% over the 2010-2012 period, mostly as a result of budget reduction implemented in 2012. The 2013 Recommended Operating Budget of \$42.599 million is \$3.840 million or 9.9% higher than the 2012 Approved Budget primarily due to:
    - General inflationary pressures of \$0.723 million.
    - Increase in prices for a previously approved catchbasin cleaning contract \$1.808 million
    - Higher costs associated with the disposal of biosolids at Green Lane Landfill (\$0.263 million), workforce development program (\$0.328 million), improvements to health and safety mandatory training (\$0.182 million), storm water facilities cleaning (\$0.360 million) and other base pressures as described on page 25.

- A decrease in the Contribution to Reserves of \$0.663 million is due to an increase in fleet requirements resulting in an additional contribution of \$0.500 million to the Vehicle and Equipment Reserve. Toronto Water's contribution to the Insurance Reserve has also increased by \$0.053 million. The remaining \$0.111 million represents the transfer of a fleet contribution associated with the water meter reading function transferred from Revenue Services.
- Decreases to City-wide Interdivisional Charges (IDCs) of \$0.494 million are mostly due to changes to the water and waste water billing cost sharing agreement with the Solid Waste Management Services.
- As a result of reduced water consumption levels, Toronto Water's actual annual revenues have not increased in direct proportion with the 9% approved annual rate increase.
  - Actual revenues, excluding transfers from the Capital Budget, have increased by 7.4% in 2010, 5.9% in 2011, and 8.3% in 2012. An overall revenue increase of 5.1% is projected in 2013.
- The 2013 Water and Wastewater 5.1% service rate increase is anticipated to generate the following additional revenue:
  - \$44.522 million from the sale of water within the City of Toronto, representing a 5.4% increase from the 2012 approved sale of water revenues. The annual rate increase impact of 9% that would have generated \$72.189 million in revenues, was reduced by \$27.667 million due to lower consumption projections for 2013;
  - \$0.865 million increase in user fees due to inflationary increases to existing user fees (\$0.281 million) and recommended changes to the industrial waste surcharge program (\$0.584 million);
  - \$1.457 million from the sale of water to the Region of York, representing a 5.8% increase from the 2012 approved sale of water revenues to the Region of York;
  - \$0.459 million from other revenues such as surcharge on private water, ownership utility fees, and sales of water to Enwave, offset by estimated revenue loss from water and sewer connection charges; and
  - \$0.195 million in Development Charge funding will be used to partially fund tree planting.
- Approval of the 2013 Recommended Operating Budget for Toronto Water will result in an increase of 35 positions (13 temporary, 22 permanent) primarily due to the transfer of water metering function from Revenue Services (10 temporary, 21 permanent positions). The remaining 3 temporary positions are required for work on capital projects, while one permanent position represents addition to the staff complement resulting from operating requirements of previously approved capital projects. The total staff complement will increase from 1,689.8 to 1,724.8.

The 2013 Recommended Base Budget provides funding for the following:

*Previously Approved Completed Capital Projects*

- Toronto Water identified a need for additional funding to mitigate operating impacts resulting from completion of several capital projects of \$5.675 million. As a result of new buildings and processes coming on line in 2012 and 2013, Toronto Water requires funding for additional chemicals, energy and utilities, as well as contracted services. 2 additional positions are necessary to ensure that expanded facilities at FJ Horgan Treatment Plant are properly maintained. There will be an incremental impact of \$2.433 million in 2014.

*Economic Factors*

- Step and progression pay increases require \$0.172 million and \$0.491 million respectively in 2013.
- Approved annual salary increases for unionized employees (\$2.071) and salary increases for non-unionized employees (\$0.790 million) result in \$2.860 million in additional payroll costs.
- Harmonization of fringe benefit costs to reflect corporate average benefit rates of 27.40% for permanent employees and 17.15% for recreation and casual employees resulted in a net decrease in salary and benefits costs of \$0.657 million.
- \$3.375 million in additional costs based on non-labor economic factors primarily driven by increases in costs of energy and utilities (\$2.014 million), materials (\$0.589 million), equipment (\$0.048 million) and various professional and contracted services (\$0.724 million).

*Other Base Changes*

- An increase in costs associated with (a) disposal of biosolids at Green Lane facility, consisting of waste disposal costs of \$0.619 million and haulage costs of \$0.203 million; and (b) wastewater treatment costs of \$0.132 million for the purchase and transportation insurance of chemicals, for a total of \$0.955 million, partially offset by lower hydro costs due to anticipated lower water consumption in 2013, will result in a net increase in base budget expenditures of \$0.263 million.
- Toronto Water has reviewed its current staff complement of two units which are directly involved in capital program delivery, the Business Operations Management, Environmental Health and Safety Compliance (EH&S) Construction Branch and District Operations, Watermain Replacement Support units and determined that the District Operations, Watermain Replacement Support unit requires 3 temporary staff positions to provide support for the water service replacement program, since it has been diverting operating positions from the ongoing maintenance work. The 2013 Recommended Operating Budget includes \$0.211 million to support capital program delivery work.
- Additional funding for maintenance of storm water ponds of \$0.360 million in 2013. There is an incremental impact of further \$0.360 million in 2014, that would provide a base budget

for the cleaning of up to 4 ponds. Currently there are 89 ponds, 7 of which were constructed under the Certificate of Approval (C of A) by the Ministry of Environment, requiring that excess debris be removed at certain frequencies in order to restore intended storm water capacity. The C of A ponds will have priority, although all ponds require some level of maintenance to ensure proper storm water management.

- As part of its Strategic Plan (2010-2020), Toronto Water identified that one of the main challenges facing the water and wastewater utility industry is the aging workforce and the need to replace retiring workers in key positions. In order to enhance recruiting strategies the following is recommended:
  - \$0.241 million to fund pilot and other research projects in the area of wastewater treatment technologies in partnership with University of Western Ontario and other academic institutions and agencies, including oversight and mentorship.
  - \$0.087 million for an additional 8 internships through the use of external internship programs and increased participation of external agencies such as Career Bridge/ Career Edge. This funding brings the number of internships up to 14.
- An increase of \$0.329 million to provide sufficient funding for Toronto Water to exercise additional contract options for grounds maintenance, winter maintenance and construction maintenance.
- An increase in funding for mandatory health and safety training for plant technicians and maintenance workers of \$0.182 million including necessary equipment for the Ashbridges Treatment Plant of \$0.099 million.
- An increase in the contribution to the Fleet Reserve of \$0.500 million is recommended in 2013, with an incremental contribution of \$1.200 million in 2014, based on the updated vehicle replacement schedule.
- The water metering function currently in Revenue Services, but fully funded by Toronto Water, will be transferred to Toronto Water in 2013. This transfer will include 31 positions as well as other related costs for a total of \$2.507 million resulting in a \$0 net change to both Programs' Operating Budgets. Savings of \$0.388 million will be realized in 2014 based on operational efficiencies and improved revenues due to more accurate readings.
- The establishment of a \$0.400 million budget to ensure sufficient funding for payment of the pavement degradation fees implemented by Transportation Services in 2011.
- Other base changes such as Insurance Reserve Fund contribution increases of \$0.053 million, and increased provision for doubtful accounts in the amount of \$0.125 million.

#### *Revenue Changes*

- Toronto Water collects and treats a small volume of wastewater from the Region of Peel. Lower revenues of \$0.437 million in each of the next two years, 2013 and 2014, for a total of \$0.873 million over two years, are anticipated.

- Toronto Water also supplies drinking water to a major portion of York Region under an agreement between the City and the Region. A revenue increase of \$1.458 million is included for 2013.
- \$0.459 million in increased revenues from surcharges on private water, ownership utility fees, and sales of water to Enwave, offset by estimated revenue decrease from water and sewer connection charges of \$1.546 million, will reduce revenues from these sources by \$1.087 million.
- \$0.195 million in Development Charges funding will be used to partially fund tree planting.

**Appendix 3**  
**Summary of 2013 Recommended Service Changes**

**Appendix 4**  
**Summary of 2013 Recommended New**  
**/Enhanced Service Priority Actions**

## Appendix 5

### Inflows / Outflows to / from Reserves & Reserve Funds (In \$000s)

#### Program Specific Reserve/Reserve Funds

Reserve / Reserve Fund Name (In \$000s)	Reserve / Reserve Fund Number	Description	Projected Balance as of December 31, 2012	2013	2014	2015
			\$		\$	\$
Water & Wastewater Capital Reserve	XR6003 & XR6004	Projected Beginning Balance	342,967.4	342,967.4	342,967.4	889,074.8
		Proposed Withdrawals (-)				
		Contributions (+)		546,107.4	546,107.4	546,107.4
<b>Balance at Year-End</b>			<b>342,967.4</b>	<b>889,074.8</b>	<b>889,074.8</b>	<b>1,435,182</b>

\* Based on 3rd Quarter Variance Report

\*\* The Future Year Contribution does not include planned water rate increases.

#### Corporate Reserve/Reserve Funds

Reserve / Reserve Fund Name (In \$000s)	Reserve / Reserve Fund Number	Projected Balance as of December 31, 2012 *	Proposed Withdrawals (-) / Contributions (+)		
			2013	2014	2015
			\$	\$	\$
Vehicle Replacement Reserve	XQ1012	2,575.3	1,903.0	3,103.0	3,103.0
Vehicle Replacement Reserve	XQ1012		1,497.0	1,497.0	1,497.0
Insurance Reserve Fund	XR1010	34,605.8	4,118.0	4,118.0	4,118.0
<b>Total Reserve / Reserve Fund Draws / Contributions</b>			<b>7,518.0</b>	<b>8,718.0</b>	<b>8,718.0</b>