

A wide-angle photograph of the Toronto skyline, featuring the CN Tower and several skyscrapers, viewed from a distance across a lush green park with trees and a golf course. The sky is clear and blue.

CITY OF TORONTO
Toronto Water
2011 Recommended Operating Budget &
2011 – 2020 Capital Plan
January 10, 2011

DEDICATED TO PROVIDING SERVICE EXCELLENCE: QUALITY DRINKING WATER - WASTEWATER TREATMENT - STORMWATER MANAGEMENT

Program Overview



Program Overview



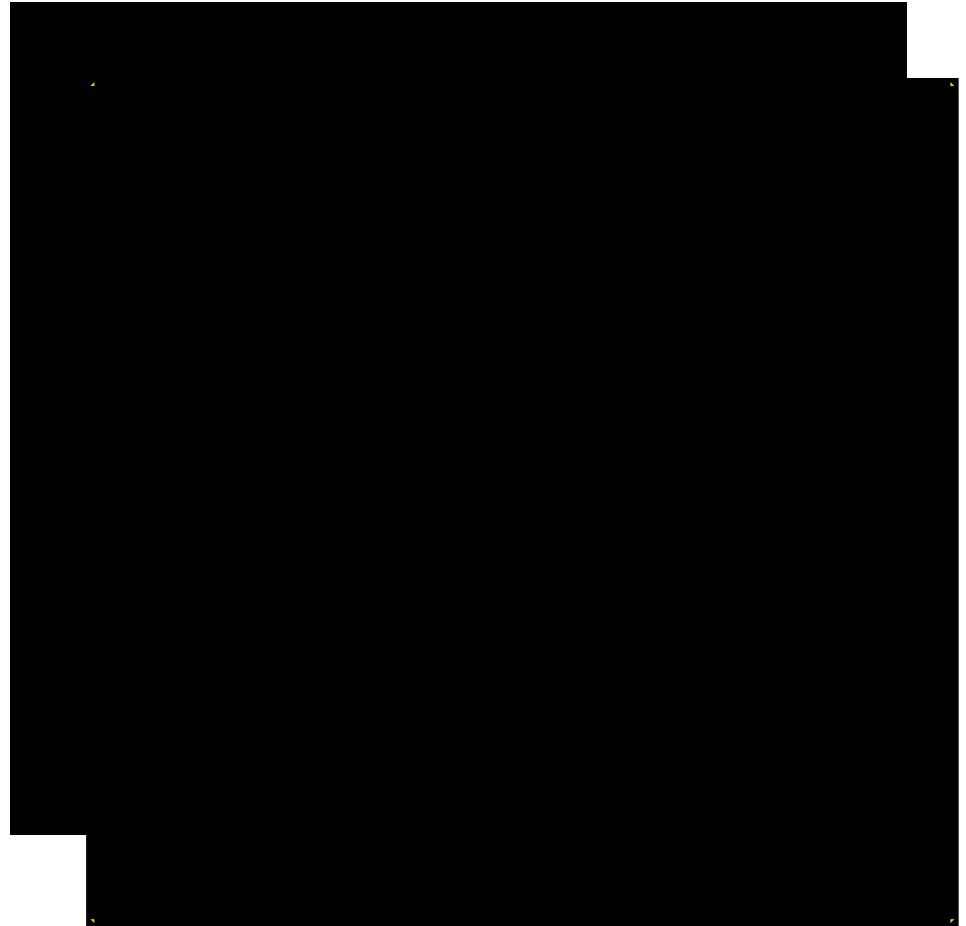
R.C. Harris Water Treatment Plant



Ashbridges Bay Wastewater Treatment Plant

- Serves 3.2 million residents and businesses in Toronto, and portions of York and Peel
- Over \$27.9 billion in infrastructure (replacement value)
- Infrastructure renewal and state of good repair supported by multi-year business plan
- Program is 100% rate-supported and no reliance on the property tax base to support Toronto Water operating and capital budgets.

Inventory of Assets - Replacement Value of \$27.9 Billion



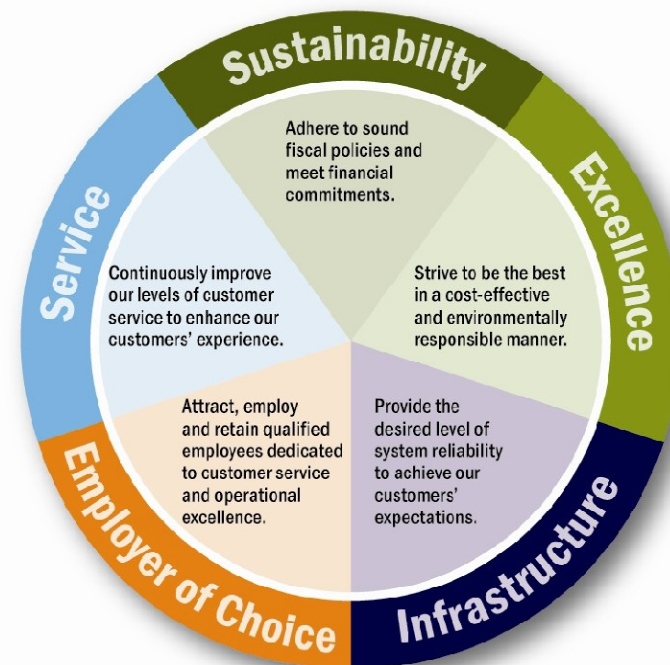
Toronto Water Strategic Plan 2010-2020

Mission Statement

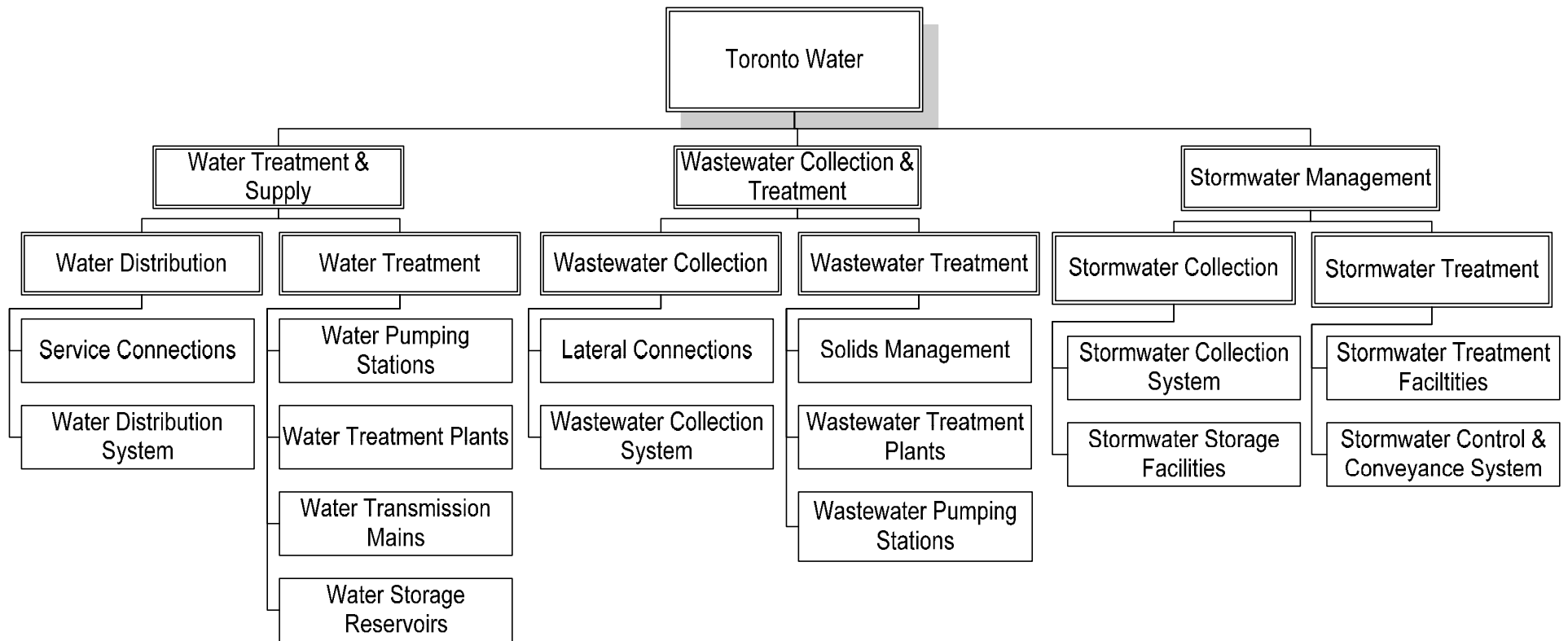
To provide quality water services through supplying drinking water and the treatment of wastewater and stormwater to residents, businesses and visitors in order to protect public health, safety and property in an environmentally and a fiscally responsible manner.

Guiding Principles

- I. Continuous Service Delivery Improvement
- II. Financial Vitality, Viability and Sustainability
- III. Operational Excellence
- IV. Infrastructure Management
- V. Employer of Choice



Toronto Water Program Map



Program Opportunities

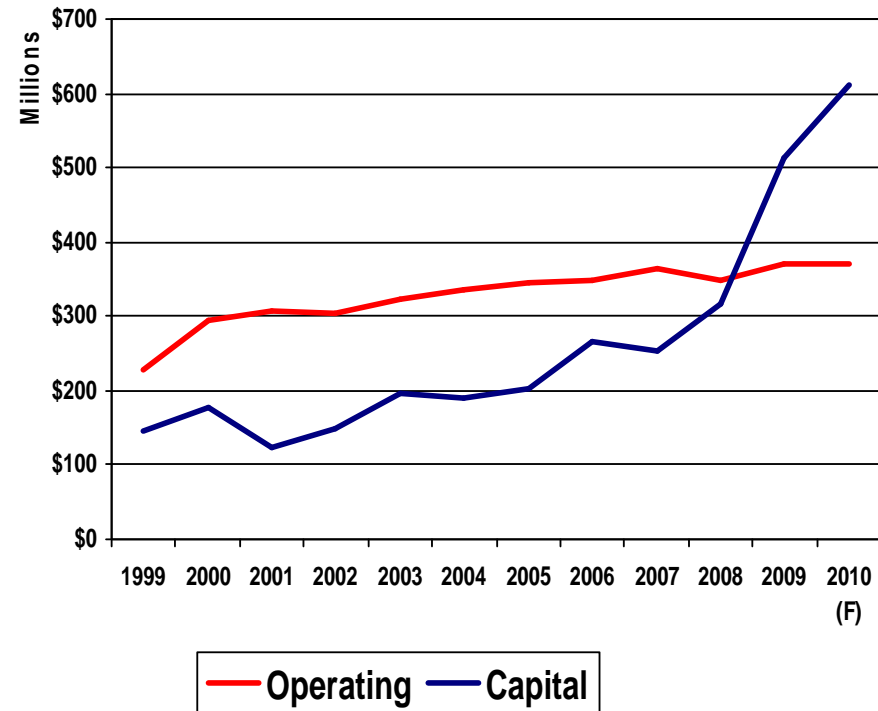
Stable Operating Costs

- Since amalgamation, staffing has been reduced by over 300 net positions
- Optimization of utility and chemical cost is ongoing

Increased Capital Spending

- Increased revenue generated by rate increases have been reinvested in infrastructure
- Capital investment has more than tripled over the last ten years

Toronto Water
Operating and Capital Expenses Review



Program Challenges

Strict Regulatory Control & Oversight

- The water and wastewater industry continues to experience increased legislative and regulatory reform since the post-Walkerton era impacting both operating and capital budgets for Toronto Water.
- New requirements include a Statutory Standard of Care to be exercised by Council and Senior Managers while operating a drinking water system, including preparing sustainable financial plans and providing mandatory training to qualified and competent staff.



Aging Infrastructure and Capital Renewal Rates

- \$1.72 billion backlog (\$1.1 billion for underground assets; \$600 million for water/wastewater treatment plants and facilities).



Program Challenges (cont'd.)



Inadequate Reserve Balances

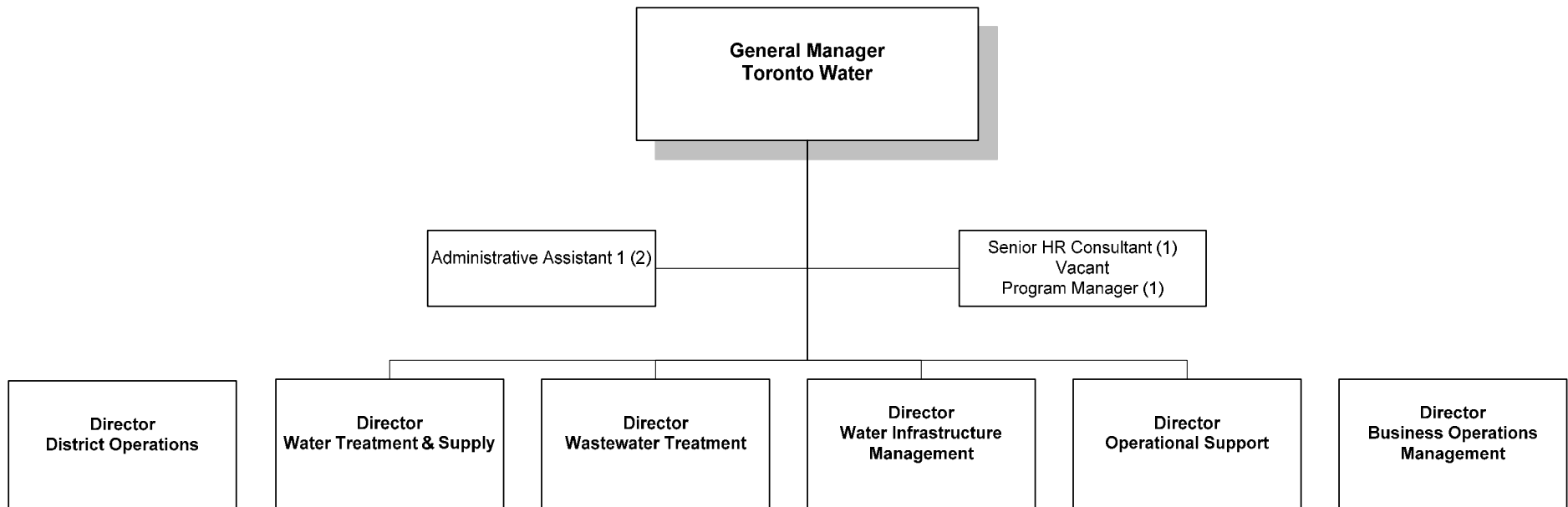
- In the past five years Toronto Water has almost doubled spending on infrastructure renewal projects beginning the process of reducing the backlog, but it has put significant pressure on existing reserve balances.



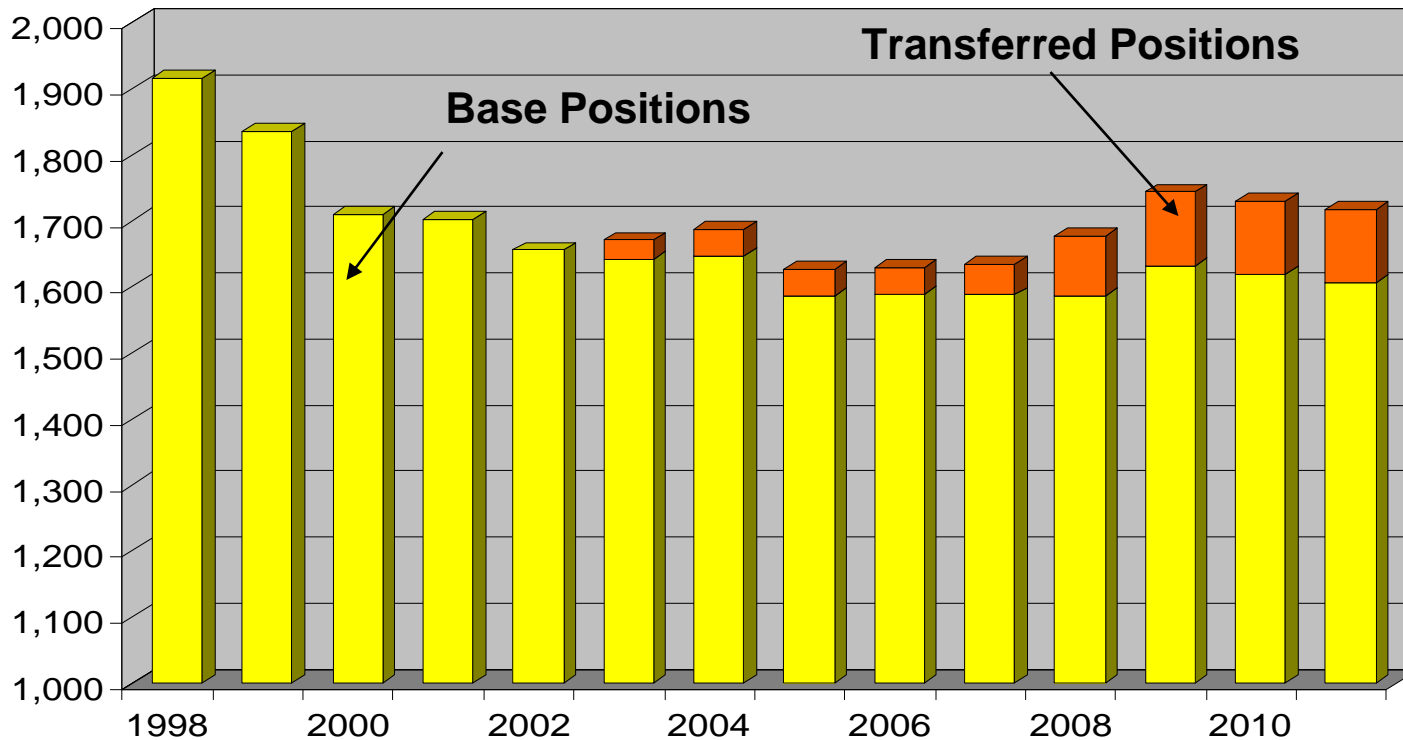
Long-term Financial Stability

- Existing 10-year financial plan relies primarily on successive water rate increases to fund continued infrastructure investment to conform with pay-as-you-go financing strategy.

Organizational Structure



Staffing Trends – Approved Positions



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Base Positions	1,916	1,836	1,711	1,703	1,656	1,642	1,648	1,586	1,589	1,588	1,587	1,632	1,619	1,606
Transfers	0	0	0	0	0	29	40	40	40	46	91	112	112	112
Total Positions	1,916	1,836	1,711	1,703	1,656	1,671	1,688	1,626	1,629	1,634	1,678	1,744	1,731	1,718

2010 Service Performance

2010 Key Accomplishments

- ✓ **Aging Infrastructure and Capital Renewal Rates:** In the past five years, Toronto Water has almost doubled spending on infrastructure renewal projects.
- ✓ **Long-term Financial Stability:** Successive water rate increases have allowed for the investment in infrastructure while ensuring long-term financial sustainability for Toronto Water assets and services.
- ✓ **Compliance:** 100% full compliance rating for all water and wastewater treatment facilities with respect to Ministry of Environment inspections.



Tunnel Boring Machine-Coxwell Sanitary Trunk Sewer Bypass

2010 Key Accomplishments (cont'd.)



R.L. Clark Water Treatment Plant



Humber Wastewater Treatment Plant

✓ Operational Initiatives

- Energy Optimization initiatives to reduce the overall costs of energy and reduce carbon footprint.
- Completion and implementation of Drinking Water Quality Management System Operational Plan to ensure consistent reliable drinking water and comply with Legislation.
- Achieved approximately 66% beneficial use of biosolids at the Ashbridges Bay Treatment Plant.
- Implementation of Reliability Centered Maintenance program at water treatment facilities to effectively and proactively maintain plant equipment.

Key Performance Metrics By Service

- **Efficiency Measures**

- Cost per mega-litre of water treated and distributed
- Cost per mega-litre of wastewater collected and treated

- **Effectiveness Measures**

- 100% Compliance with MOE drinking water inspections
- 100% Compliance with MOE waste water inspections

- **Outcome Measures**

- Mega-litre of drinking water treated and distributed
- Mega-litre of wastewater collected and treated



R.C. Harris Water Treatment Plant



Ashbridges Bay Wastewater Treatment Plant

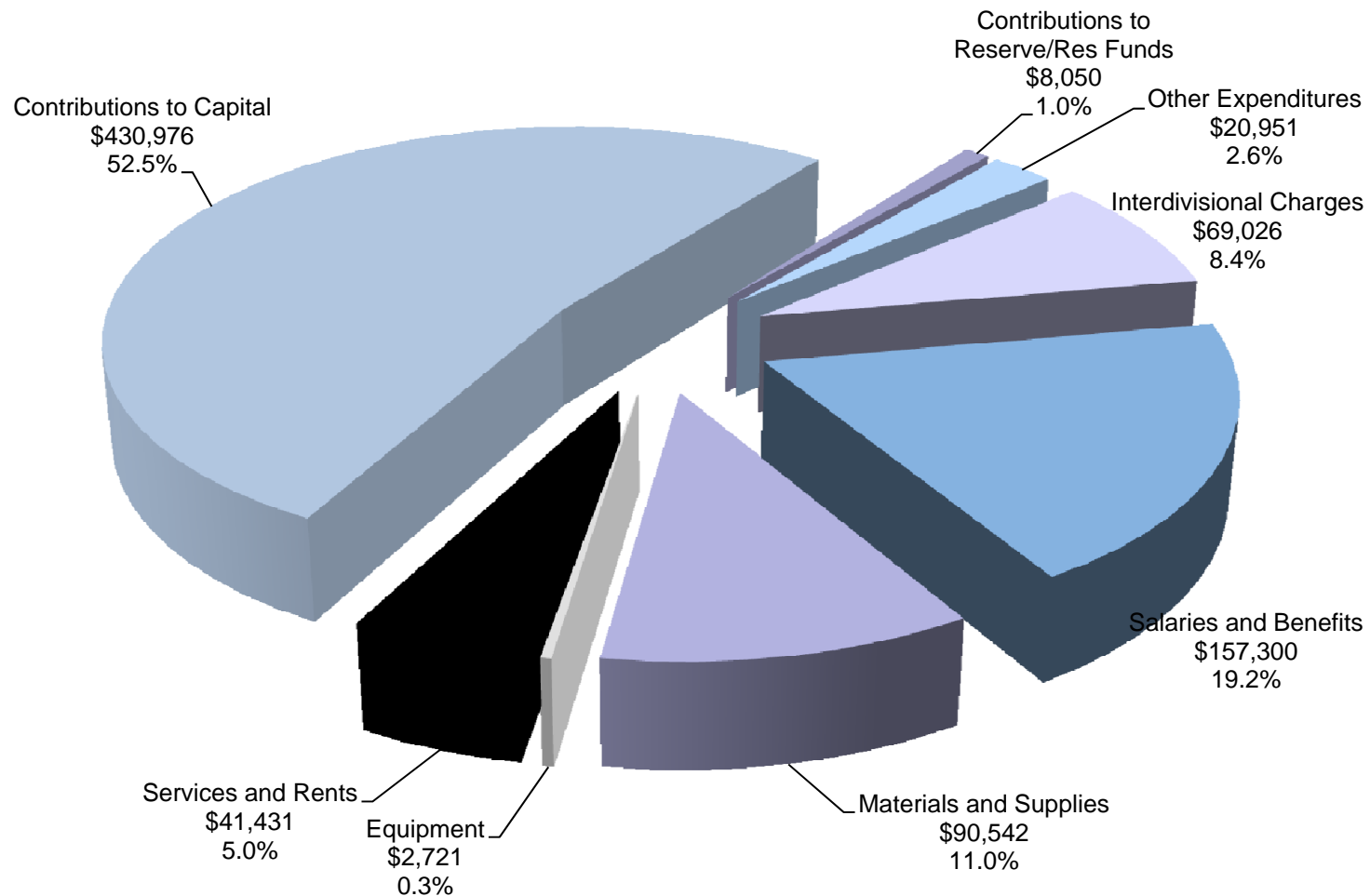
2011 Recommended Operating Budget

2011 Key Issues – Operating Budget Challenges

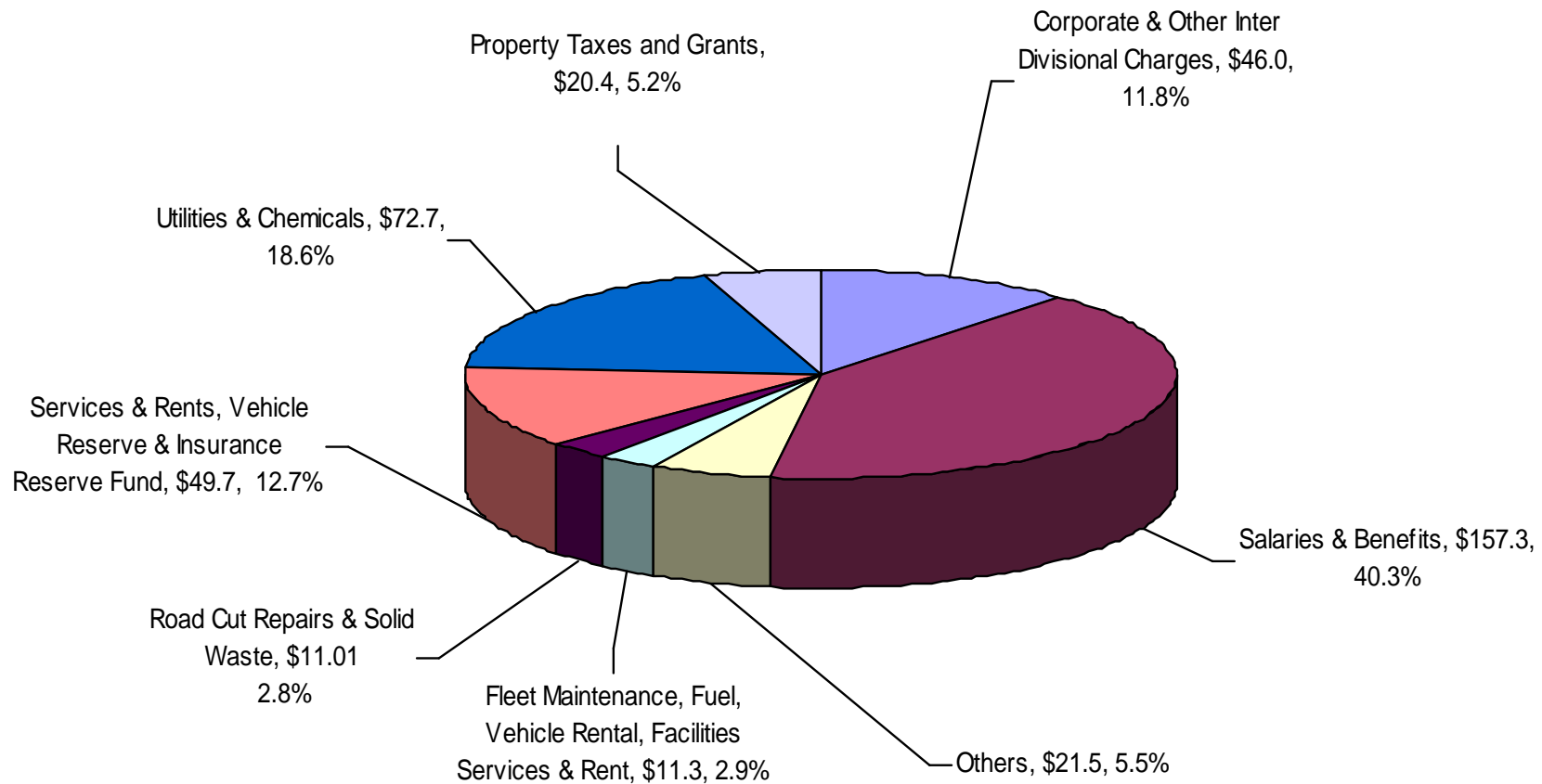
- **Managing the continuous increase in costs from internal and external sources:** personnel costs, internal service providers and inflationary pressures on materials and supplies (electricity, chemicals, parts and machinery).
- **Managing the impact of increased regulations and legislation:** increased resources are required to maintain legislative compliance with MOE and MOL issues.
- **Ongoing service priorities:** completing basement flooding environmental assessments, coordinating lead service replacement program and ensuring efficient and effective response time to all customer service demands.
- **Provision of Safe Drinking Water:** achieve full accreditation of Drinking Water Quality Management System.



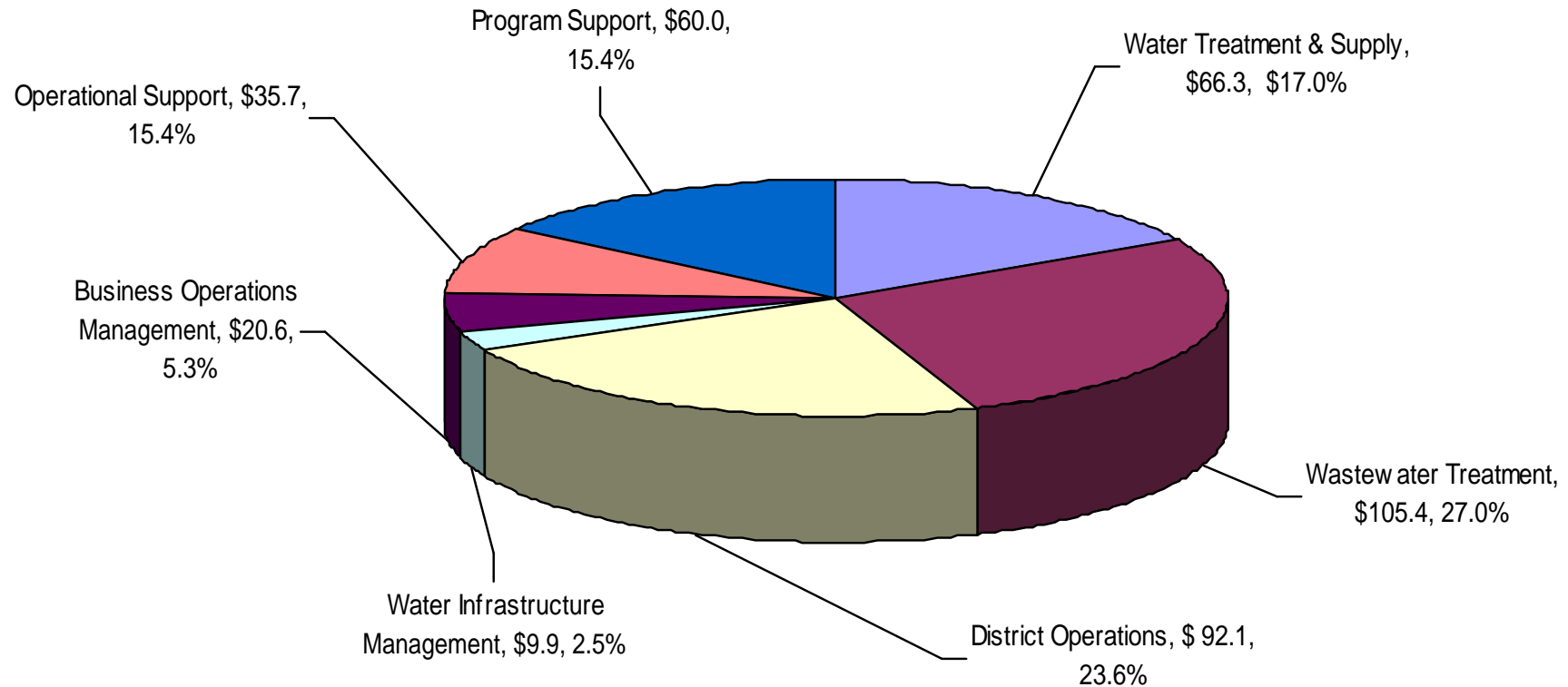
2011 Recommended Operating Budget by Expenditure Category \$820.997 Million (Gross)



2011 Recommended Operating Budget by Expenditure Type – Gross Expenditure \$390M (\$ millions)



2011 Recommended Operating Budget by Service \$390M (\$ millions)



2011 Recommended Operating Budget by Expenditure Category(\$000s)

Category of Expense	2008 Actual	2009 Actual	2010 Budget	2010 Projected Actual	2011 Recommended Budget	2011 Change from 2010 Approved Budget		2012 Outlook	2013 Outlook
	\$	\$	\$	\$	\$	\$	%	\$	\$
Salaries and Benefits	130,636.5	137,097.0	153,409.1	143,625.5	157,300.1	3,891.0	2.5%	157,168.9	157,508.1
Materials and Supplies	75,632.0	83,426.8	84,241.5	93,953.3	90,542.4	6,300.9	7.5%	90,542.4	90,542.4
Equipment	3,214.3	2,998.2	3,252.9	3,096.2	2,720.7	(532.2)	(16.4%)	2,672.4	2,672.4
Services & Rents	34,433.6	39,708.7	39,503.9	36,135.8	41,430.7	1,926.8	4.9%	41,797.0	41,797.0
Contributions to Capital	302,185.9	312,298.4	383,192.1	383,281.7	430,976.3	47,784.2	12.5%	430,976.3	430,976.3
Contributions to Reserve/Res Funds	21,362.5	31,037.8	7,748.3	7,748.3	8,050.4	302.1	3.9%	8,050.4	8,050.4
Other Expenditures	28,082.3	25,793.4	22,433.1	18,087.0	20,951.2	(1,481.9)	(6.6%)	18,951.2	18,951.2
Interdivisional Charges	68,384.5	73,157.8	73,967.1	67,473.3	69,026.0	(4,941.1)	(6.7%)	68,986.9	68,986.9
TOTAL GROSS EXPENDITURES	663,931.6	705,518.1	767,748.0	753,401.1	820,997.8	53,249.8	6.9%	819,145.5	819,484.7
Interdivisional Recoveries	66.3	9,552.9	3.2		3.2	0.0	0.0%	3.2	3.2
Provincial Subsidies			40.3	40.3		(40.3)	n/a	0.0	0.0
Federal Subsidies						0.0	n/a	0.0	0.0
Other Subsidies						0.0	n/a	0.0	0.0
User Fees & Donations	654,885.6	691,041.9	764,205.6	749,963.7	816,235.5	52,029.9	6.8%	816,521.6	816,521.6
Transfers from Capital Fund	729.3	746.7	463.6		1,973.8	1,510.2	325.8%	1,973.8	1,973.8
Contribution from Reserve Funds						0.0	n/a	0.0	0.0
Contribution from Reserve						0.0	n/a	0.0	0.0
Sundry Revenues	8,250.4	4,176.6	3,035.3	3,397.1	2,785.3	(250.0)	(8.2%)	2,785.3	2,785.3
TOTAL REVENUE	663,931.6	705,518.1	767,748.0	753,401.1	820,997.8	53,249.8	6.9%	821,283.9	821,283.9
TOTAL NET EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	(2,138.4)	(1,799.2)
APPROVED POSITIONS	1,675.5	1,744.5	1,731.4	1,634.4	1,718.3	(13.1)	(0.8%)	1,718.3	1,718.3

* Future Year Outlooks do not include planned rate increases.

2011 Operating Budget Changes (\$ millions)

Significant Budget Changes for 2011

Reductions:		Increases:	
Energy and other Utilities	(\$1.265)	Machinery Parts	\$0.330
Chemicals	(\$0.578)	Regulatory Training	\$0.391
Billing/Collection Services	(\$0.687)	Property Taxes	\$0.455
Road Repair Cuts	(\$2.668)	Insurance Reserve Fund	\$0.302
Waste Disposal (Solid Waste)	(\$1.899)	Harmonized Sales Tax	\$0.462
Reversal of salaries for 1 additional day in 2010	(\$0.545)	Addition of 11 Temporary staff for Meter Project	\$1.021
		Economic Factors:	
		Increase in Hydro Rates	\$7.695
		Other Non-Labour Inflationary increases	\$0.951
		Staff cost Increases per Settlement	\$4.925

2011 Recommended Service Change Summary – Base Budget (\$000s)

Description	2011 Recommended Service Changes				Capital Contributions Incremental Impact			
	Position Change	Gross Exp.	Capital Contributions	% Change over 2010 Budget	2012		2013	
	#	\$	\$	#	\$	# Pos	\$	# Pos
Base Budget Changes:								
Base Budget Reductions		(2,382.0)	2,382.0	0.62%				
Line by Line Review Reductions		(339.5)	339.5	0.09%				
Sub-Total Base Budget Changes	0.0	(2,721.5)	2,721.5	0.71%	0.0	0.0	0.0	0.0
Service Efficiencies:								
Reduction in Costs due to Reduction in Water Demand		(240.0)	240.0	0.06%				
Reduction in Biosolids Disposal Contracted Services		(500.0)	500.0	0.13%				
Reduction in Natural Gas Consumption at Ashbridges Bay		(500.0)	500.0	0.13%				
Reduction in Hydro Costs at Complex Systems		(447.3)	447.3	0.12%				
Centralization of Locate Services		(228.8)	228.8	0.06%	228.8			
Realignment of Staffing Services	(9.1)	(555.9)	555.9	0.14%				
Complete Process Optimization at F.J. Horgan Plant		(115.0)	115.0	0.03%				
IT Service Efficiencies		(126.8)	126.8	0.03%				

2011 Recommended Service Change Summary – Base Budget (\$000s) (cont'd.)

Description	2011 Recommended Service Changes				Capital Contributions Incremental Impact			
	Position Change	Gross Exp.	Capital Contributions	% Change over 2010 Budget	2012		2013	
	#	\$	\$	#	\$	# Pos	\$	# Pos
Minor Service Impact:								
Eliminate Water Efficiency Program (Less ICI Component)	(5.0)	(496.8)	496.8	0.13%				
Eliminate Drain Grants	(4.0)	(2,185.6)	2,185.6	0.57%	2,185.6			
Eliminate Voluntary Downspout Disconnection Program	(8.0)	(673.1)	673.1	0.18%				
Sub-Total Service Changes	(26.1)	(6,069.3)	6,069.3	1.58%	2,414.4	0.0	0.0	0.0
Total Changes	(26.1)	(8,790.8)	8,790.8	2.29%	2,414.4	0.0	0.0	0.0

Total Toronto Water Budget Reductions (2011-2012)

As a result of 2011 recommended service changes an additional \$20.353M or 5.29% in savings that do not form part of the 2011 Recommended Base Operating Budget will be realized as follows:

- \$0.41M in new 2011 revenue and \$0.286M in 2012 revenue generated from the new Utility Account Ownership Update fee;
- \$2.41M in additional annualized reductions savings in 2012 as a result of recommended 2011 base budget service changes; and
- \$17.25M in capital expenditure reductions in the 2011–2020 Recommended Capital Plan from 2011 base budget service changes.

Combined reductions equal \$29.144 million or 7.6% of 2010 expenditures.

2011 Recommended Service Changes – Service Level Impacts

Description	Service Level Impact
Base Budget Changes: Base Budget Reductions Line by Line Review Reductions	None None
Service Efficiencies: Reduction in Costs due to Reduction in Water Demand Reduction in Biosolids Disposal Contracted Services Reduction in Natural Gas Consumption at Ashbridges Bay Reduction in Hydro Costs at Complex Systems Centralization of Locate Services Realignment of Staffing Services Complete Process Optimization at F.J. Horgan Plant Information Technology (IT) Service Efficiencies	None None None None None Reduction of 9 Casual Staff Positions - No other Impact on Service None None

2011 Recommended Service Changes – Service Level Impacts

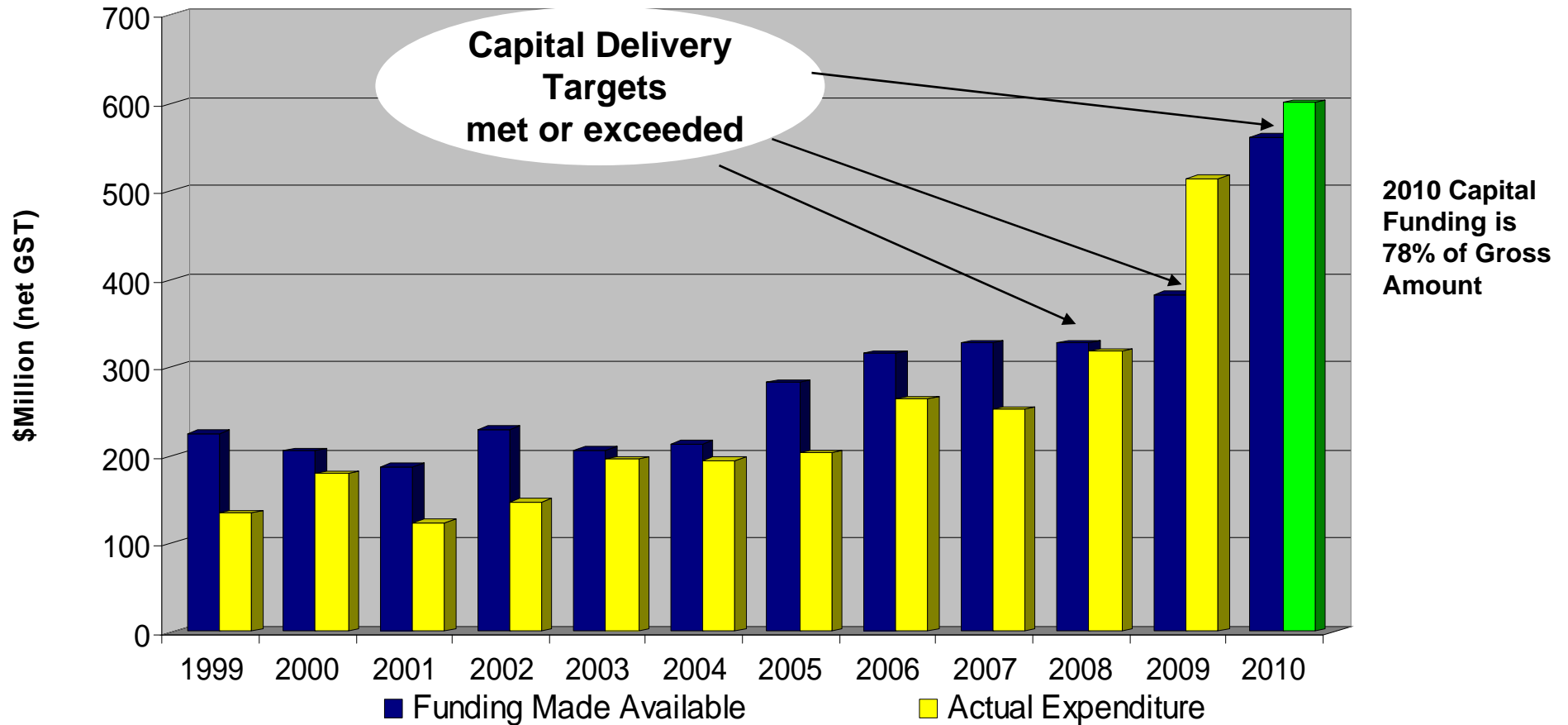
Description	Service Level Impact
<p>Minor Service Impact:</p> <p>Eliminate Water Efficiency Program (Less ICI Component)</p> <p>Eliminate Drain Grants</p> <p>Eliminate Voluntary Downspout Disconnection Program</p>	<p>Discontinuation of the following rebates offered to residential and multi-unit customers:</p> <p>Toronto Water's residential programs currently include toilet rebates of \$60 or \$75; washer rebates of \$60; and summer water saver visits and the multi-unit programs include toilet rebates of \$150 and washer rebates of \$125; and</p> <p>Reduction of 5 Permanent FTEs</p> <p>City would no longer provide financial assistance to property owners for blocked sewer drain repairs or replacement on private property that had been infiltrated by tree roots from a City owned tree; and</p> <p>Reduction of 4 Permanent FTEs</p> <p>Discontinuation of the Voluntary Downspout Disconnection Program for 'City paid' disconnections. The discontinuation of the Program will also apply to the existing 13,000 outstanding applications for disconnection</p> <p>Reduction of 8 Permanent FTEs</p>

2011 New / Enhanced Service Priority Actions: Summary (\$000s)

Description	2011 Recommended			Capital Contribution Incremental Impact			
	Gross Exp.	Cap. Contr.	New Position	2012		2013	
	\$	\$	#	\$	# Pos	\$	# Pos
Enhanced Services:							
(a) Enhanced Services - Council Approved							
(b) Enhanced Services - Program Initiated Additional Electronic & Instrumentation Control Technician and Industrial Millwright Positions - Highland Creek	94.8	(94.8)	2.0	(94.9)			
Sub-Total Enhanced Services	94.8	(94.8)	2.0	(94.9)	0.0	0.0	0.0
New Services:							
(a) New Services - Council Approved							
(b) New Services - Program Initiated New Utility Account Ownership Update Fee		400.5		286.1			
Sub-Total New Services	0.0	400.5	0.0	286.1	0.0	0.0	0.0
Total Enhanced/New Services	94.8	305.7	2.0	191.2	0.0	0.0	0.0

2011 – 2020 Recommended Capital Budget & Plan

1999-2010 Capital Budget Expenditure Rates (\$millions)

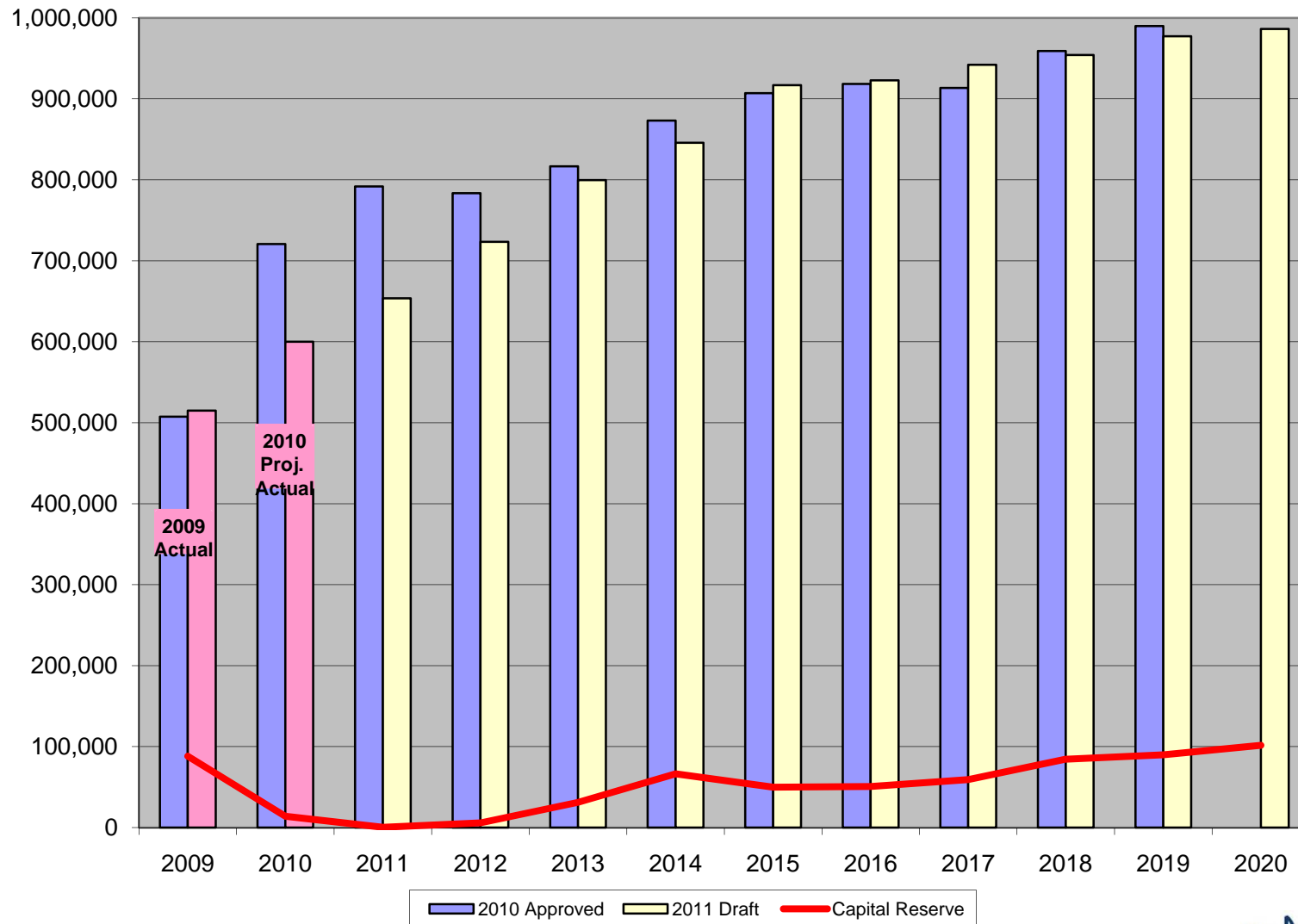


2011 Capital Budget Challenges

- **Aging infrastructure:** requires significant long-term investment and significant increases to capital budgets.
- **Compliance with regulations:** increases to capital budgets caused by Provincial and Federal regulations.
- **Managing impact of growth program:** increased resources to manage infrastructure renewal programs and to operate and maintain new equipment & facilities (Toronto Water and Technical Services).
- **Inflationary pressures:** significant increases in commodity pricing for capital projects.



10-year Capital Plan Comparison (\$000s)

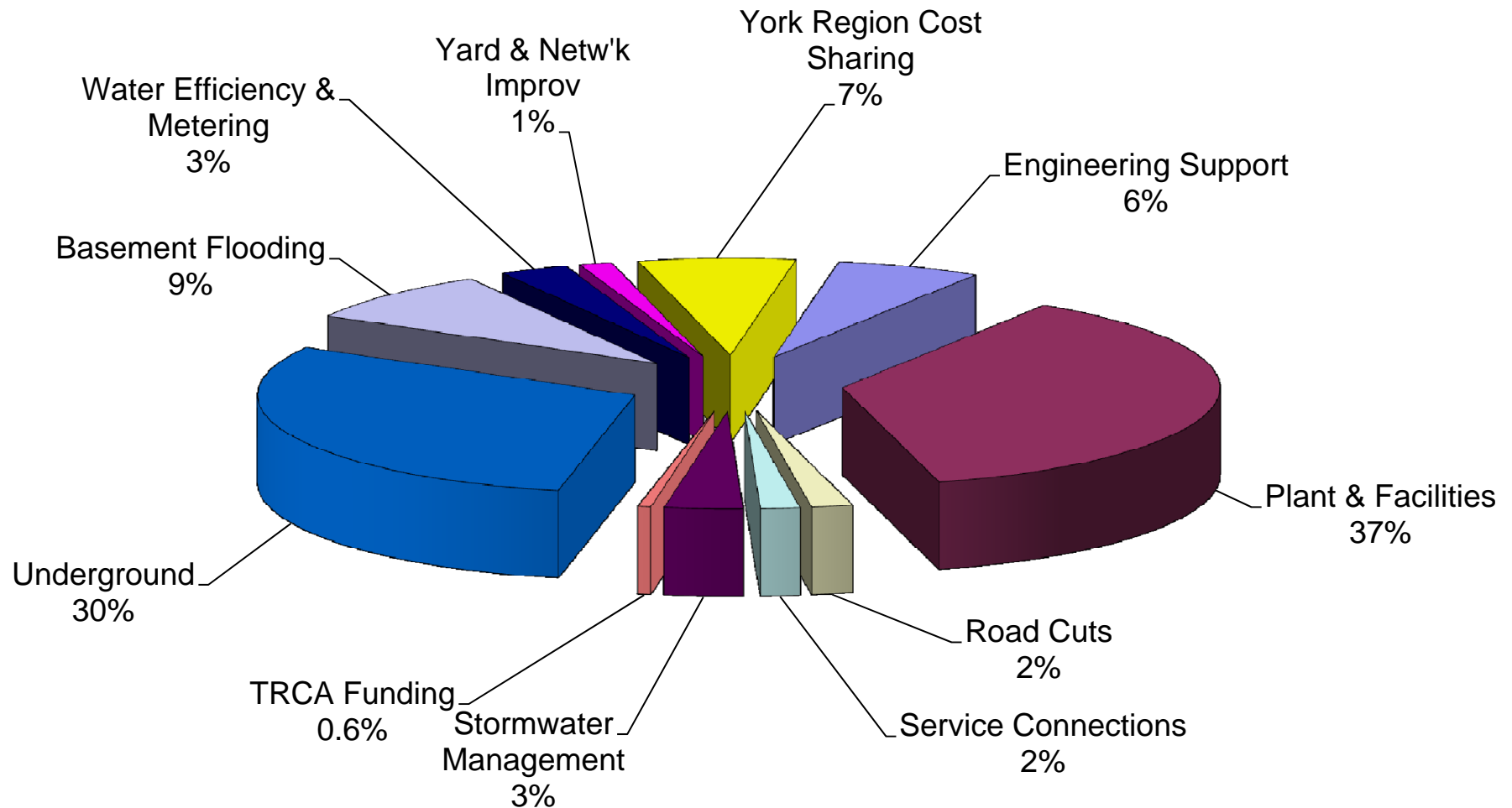


5-Year Plan Changes

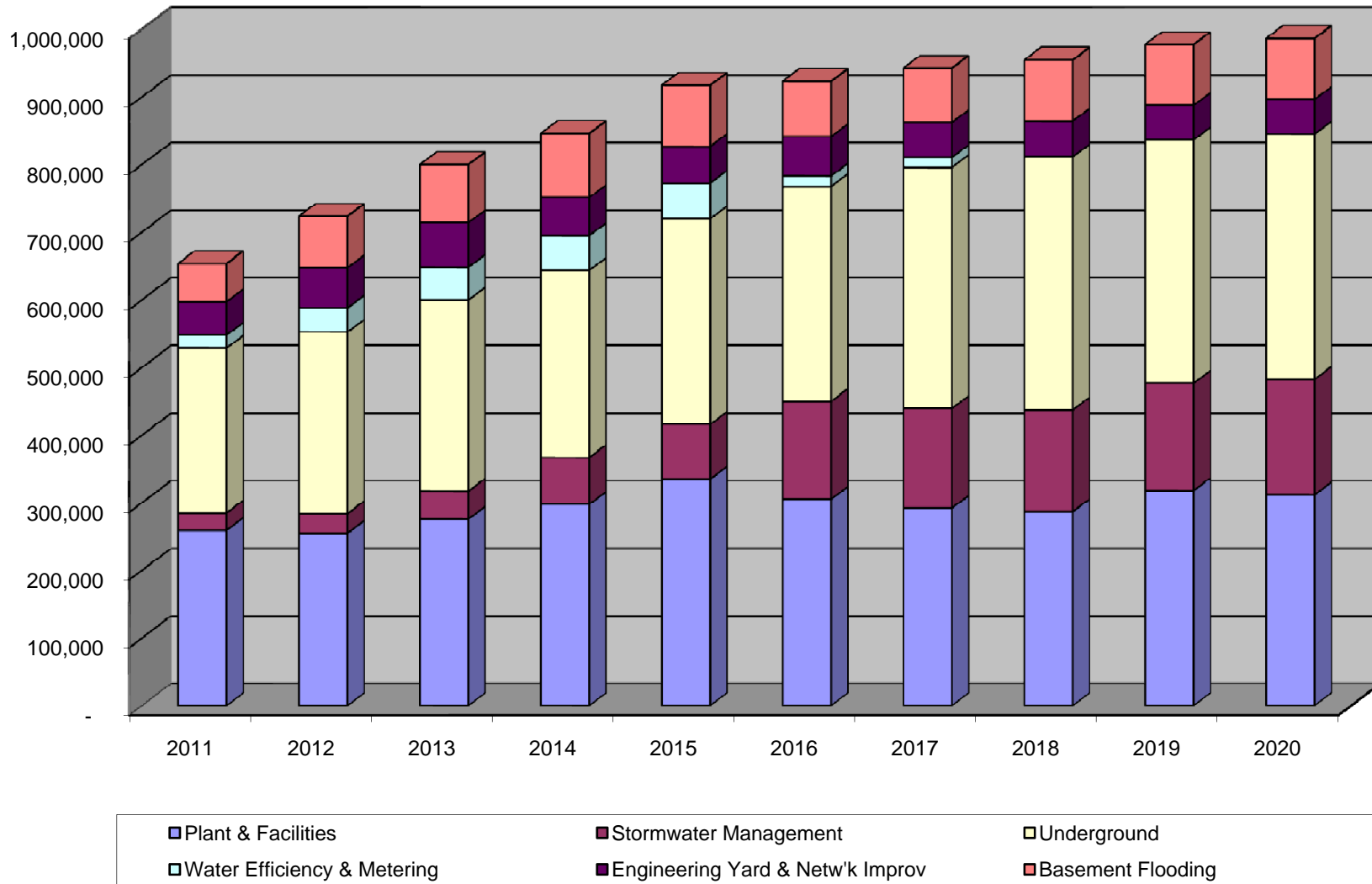
	2011-2015 TOTAL	INCREASE		COMMENT
	\$ 000	\$ 000	%	
2010 Submission	4,172,387			
2011 Submission*	3,939,278	-233,109	-5.6%	<ul style="list-style-type: none"> Decreases are due to deferrals in the watermain and sewer renewal program

*Includes 93.915 million in funds carried forward from 2010 into 2011.

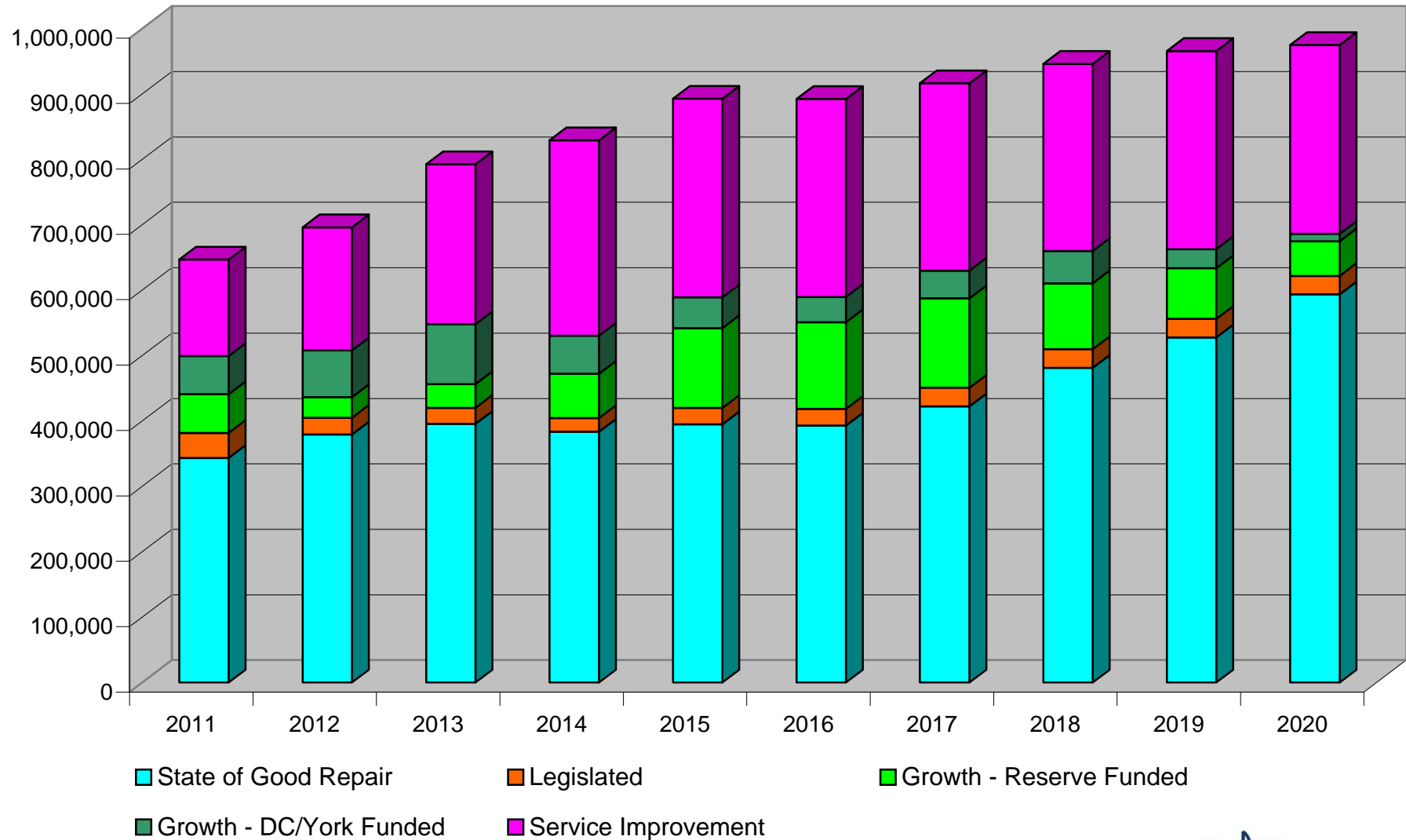
2011 Capital Budget \$653 Million (Gross)



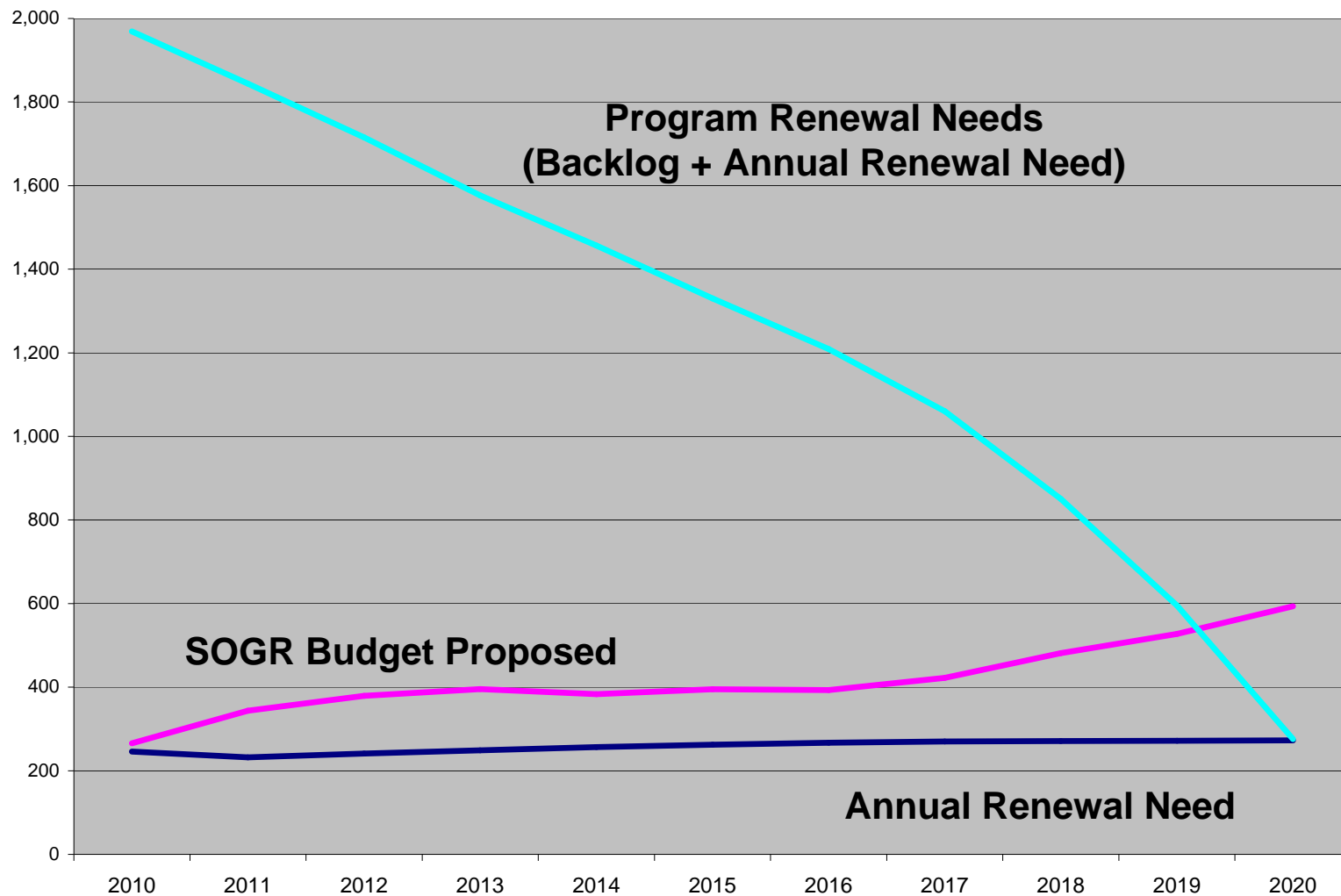
2011-2020 Capital Plan by Asset Class (\$000s)



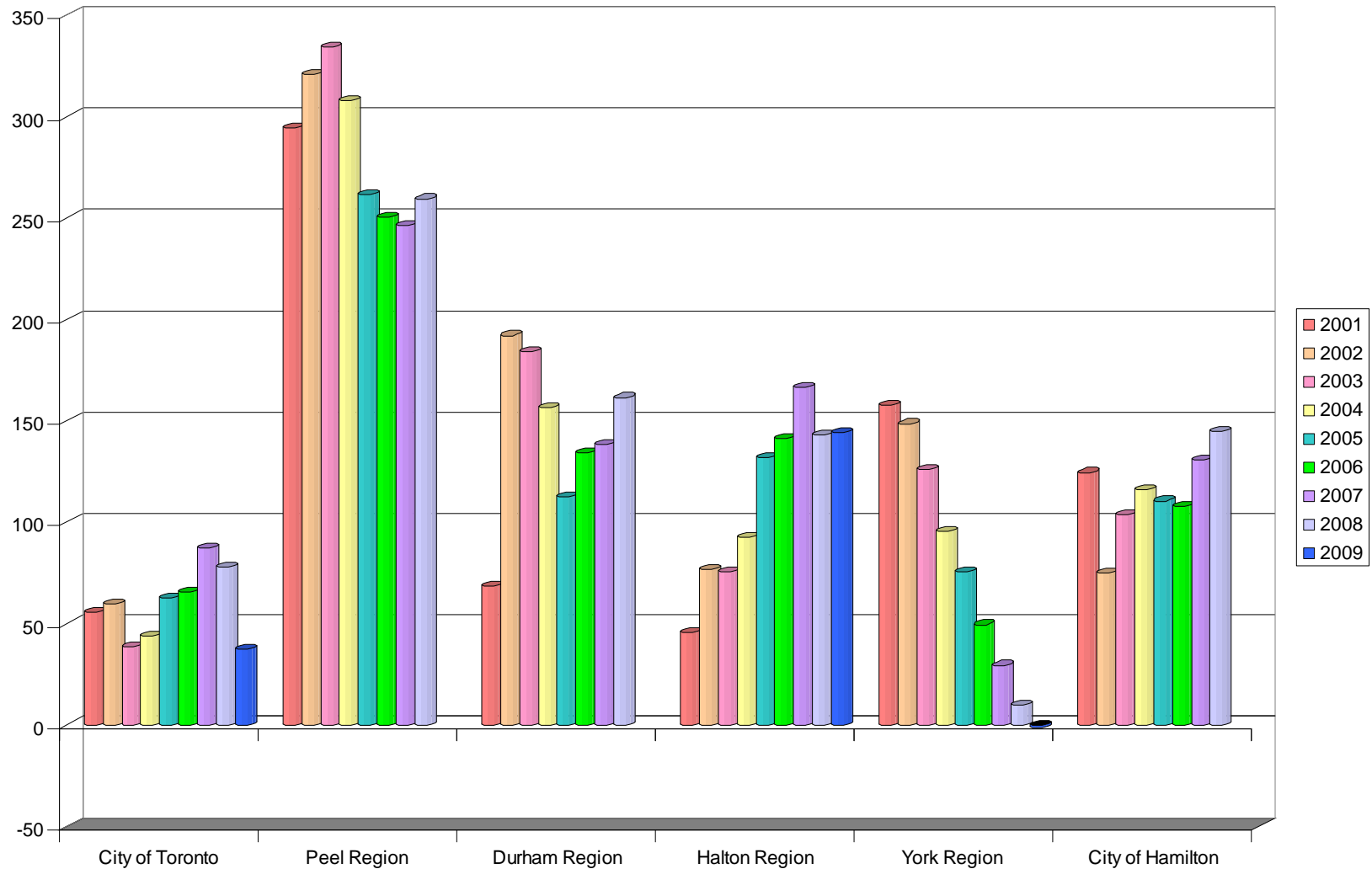
2011-2020 Capital Plan by Category (000s)



State of Good Repair Funding & Backlog



Water & Wastewater Reserve Balances (per Capita Comparison)



Unbudgeted Pressures

- Larger and more complex basement flooding protection projects (in a few study areas)
- Lawrence Heights Redevelopment
- Transit Projects/Metrolinx Georgetown Utility Relocation Costs
- Waterfront Toronto
 - Pan Am Games Servicing
 - Queens Quay Utility Relocation
 - North Keating SWM
- Lakeshore Storm/Overland Flows

Summary of Major Capital Initiatives



Dufferin Reservoir



Entry Shaft-Coxwell Sanitary Trunk Sewer Bypass

For 2011

- Increased infrastructure renewal funding that will reduce backlog by a further \$126M (backlog forecasted to be \$1.597B by end of 2011)
- Increased budget for basement flooding protection projects by 60.5% year-over-year
- Completion of Infrastructure Stimulus Funding projects
- Completion of major capital projects:
 - Coxwell Sanitary Trunk Sewer By-pass
 - Horgan Water Treatment Plant Expansion
 - Dufferin and Milliken Water Reservoirs
 - Earl Bales Park Stormwater Facility
- Completion of major servicing studies and Environmental Assessments

2011 Water Rate

Assumptions for 2011

Consumption

- 2010 Forecast: equal to 2009 actual
- 2011 and forward Forecast: flat-lined to 2009 actual

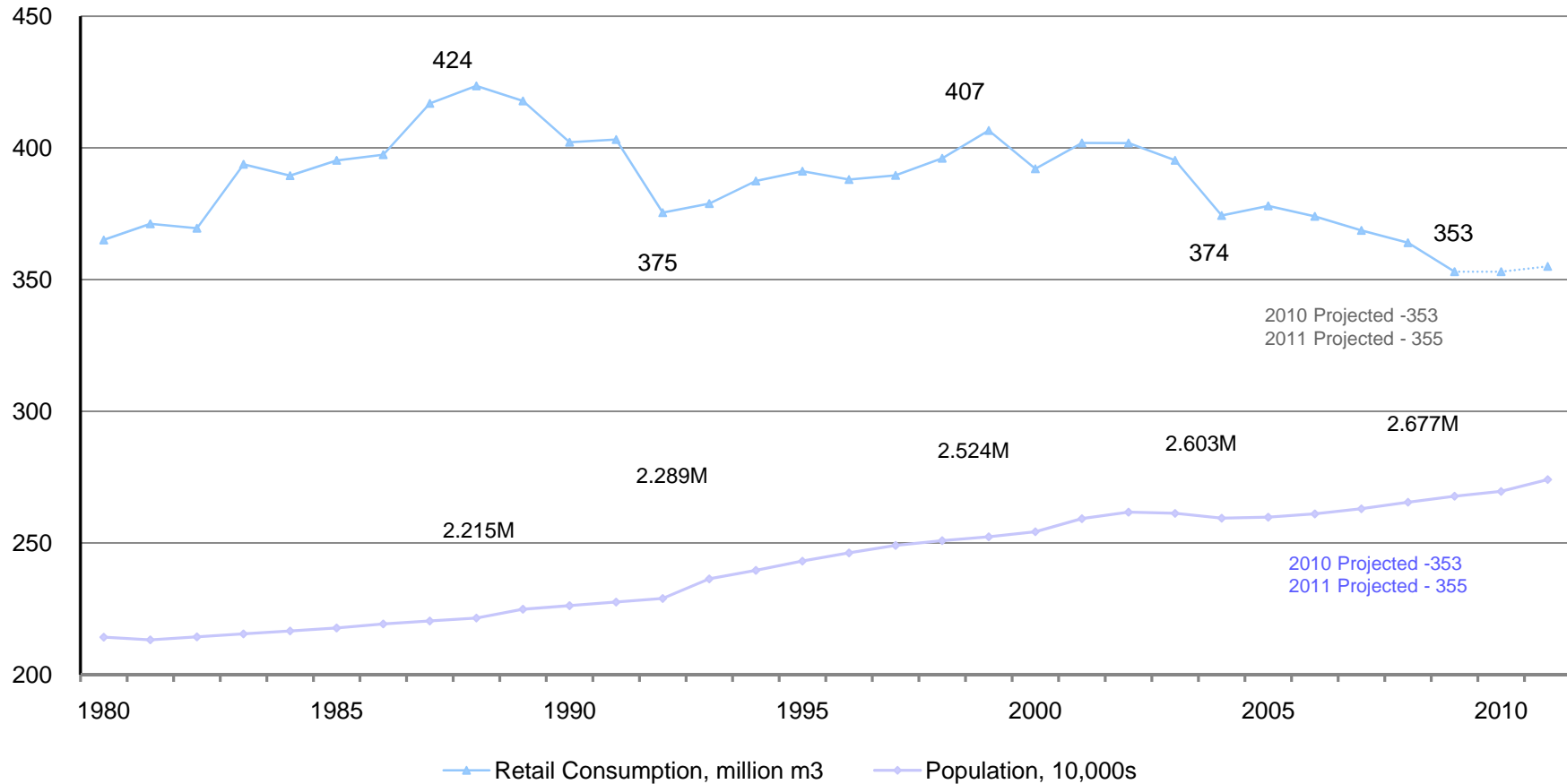
Capital Expenditure Rate Forecast

- 2009: 100%
- 2010: 80%
- 2011: 80%
- 2012: 80%

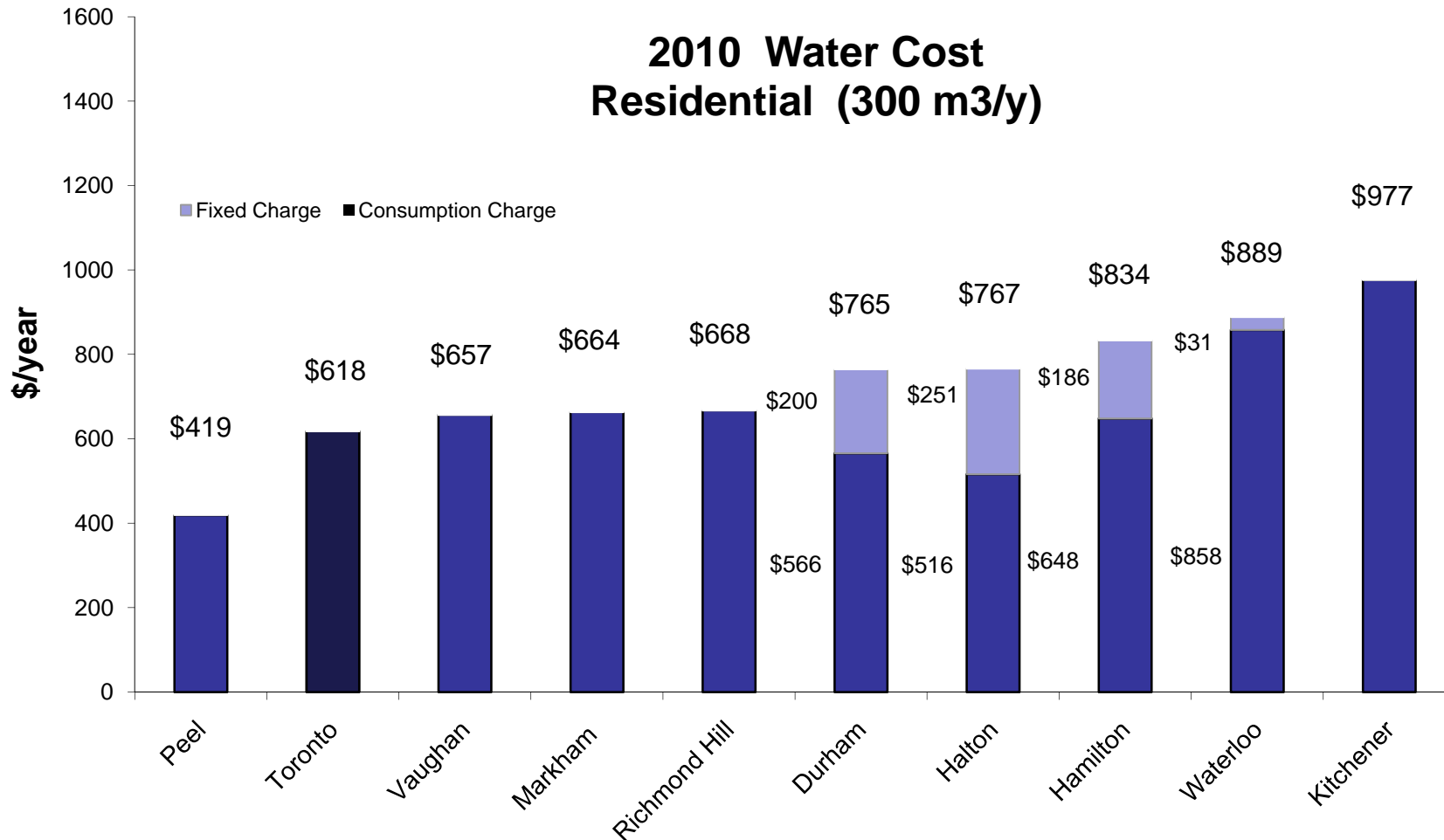
Operating Cost Increases

- 2011 – 1.4% higher than 2010 budget

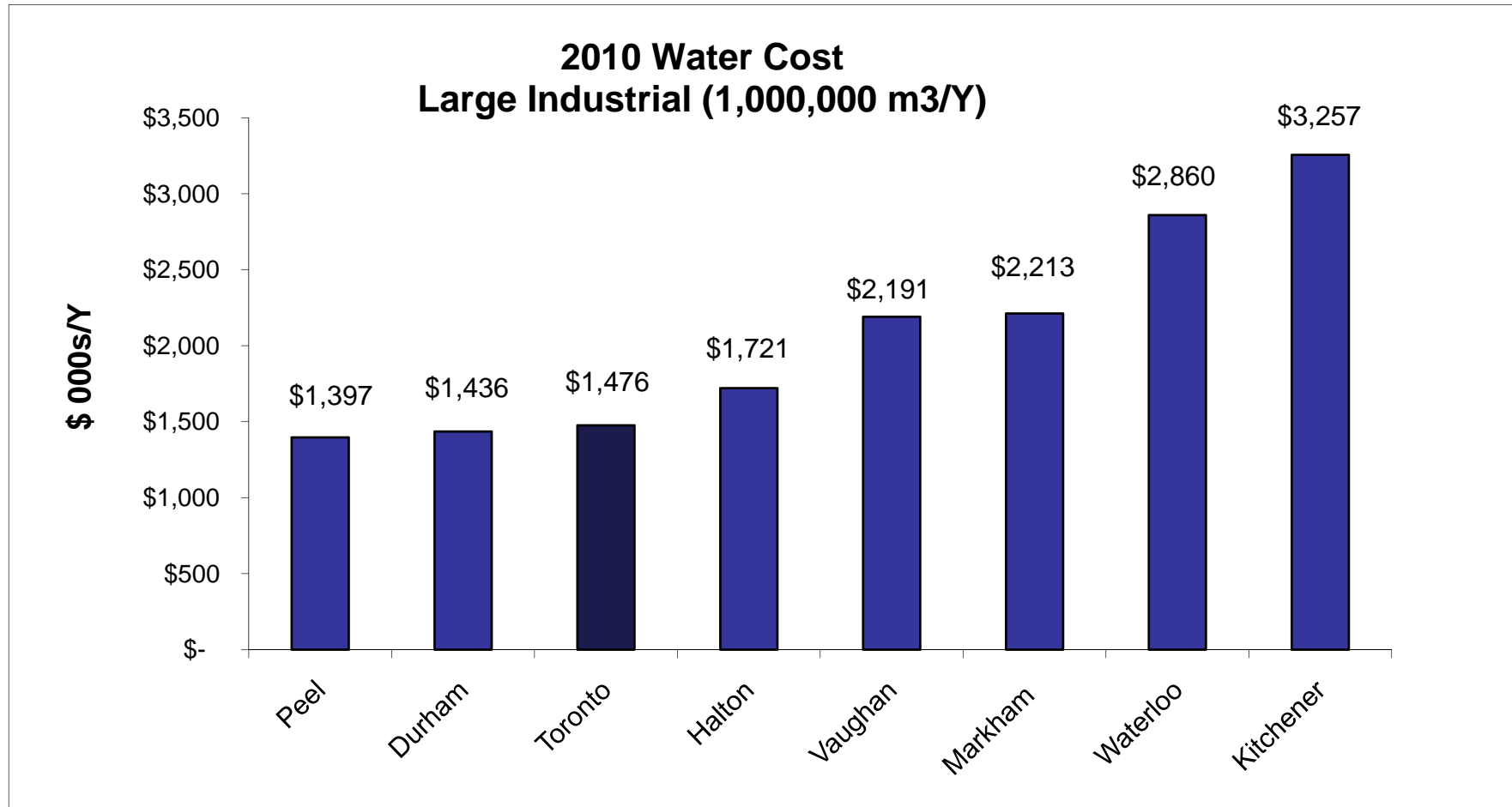
Population and Water Consumption



How Does Toronto Compare?



How Does Toronto Compare?



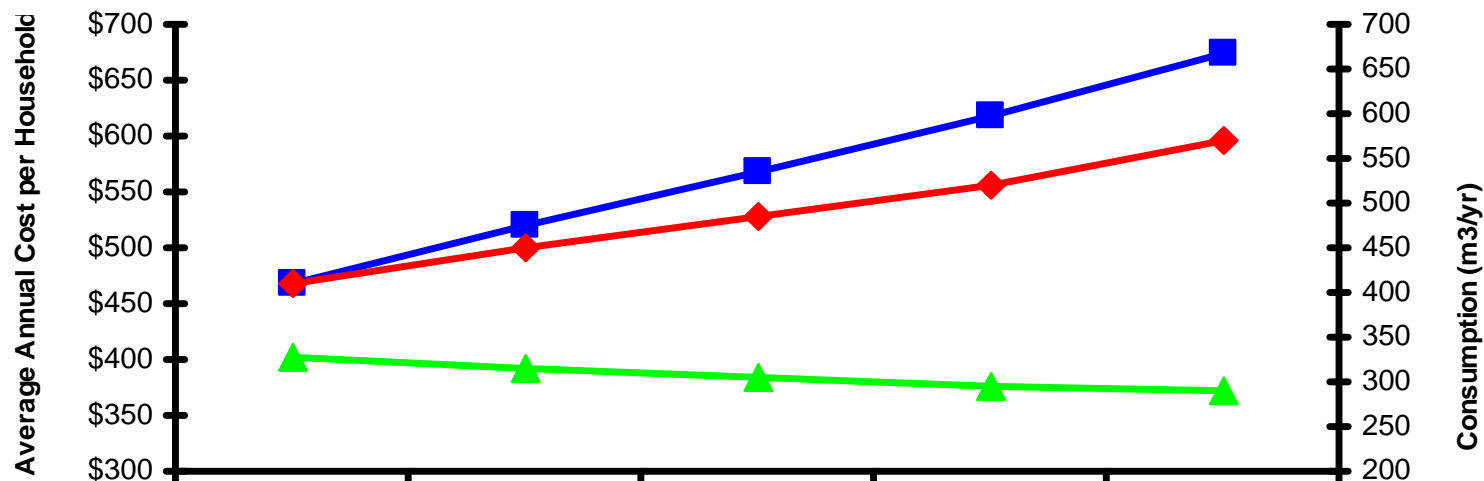
2011 Water Rate Increase Impact

Type of property	Consumption	2010 Cost	Projected 2011 cost	2011 Impact	
	m ³ /y	\$/y	\$/y	\$/y	%
Residential	300	\$618	\$674	\$56	9.00%
Industrial	100,000	\$150,797	\$162,219	\$11,422	7.57%
	1,000,000	\$1,476,169	\$1,581,930	\$105,761	7.16%

- Daily cost for all residential water, wastewater and stormwater services only **\$1.85** per day.
- An increase of: **15¢** per household per day.

Impact of Rate Increases

Average Residential Costs



	2006	2007	2008	2009	2010
■ Average Residential Costs with Approved Rate Increases at 2006 Consumption Levels	\$469	\$520	\$568	\$619	\$675
◆ Actual Residential Costs with Approved Rate Increases at Actual Consumption Levels	\$469	\$500	\$528	\$556	\$596
▲ Average Annual Household Consumption (m3/yr)	327	315	304	294	289

Projected Water Rate Increase

2011 Projections	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Increase - Block 1 and Flat Rate	9.0%	10.8%	9.0%	9.0%	9.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Increase - Block 2	3.0%	8.6%	9.0%	9.0%	9.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<i>Reduction over Block 1 Rate</i>	28.6%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Rate Revenue \$Million	712.8	781.2	878.1	953.7	1,037.7	1,063.8	1,100.8	1,133.4	1,167.0	1,195.8	1,237.3
<i>Effective Rate Revenue Increase</i>	8.68%	8.9%	9.0%	9.0%	9.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<i>Reserve Closing Balance \$M</i>	13.901	0.293	5.807	31.060	66.368	49.892	50.700	59.292	84.317	89.893	101.672



DEDICATED TO PROVIDING SERVICE EXCELLENCE: QUALITY DRINKING WATER - WASTEWATER TREATMENT - STORMWATER MANAGEMENT