



## City Budget 2012

## 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 City services.

# 2012 Operating Budget

## 2012 OPERATING BUDGET ANALYST BRIEFING NOTES BUDGET COMMITTEE NOVEMBER 10, 2011

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## PART I: RECOMMENDATIONS

2012 Recommended Operating Budget  
(In \$000s)

| (In \$000s)               | 2011               |                       | 2012 Recomm'd Operating Budget |                        |                  | Change - 2012 Recommended Operating Budget v. 2011 Appvd. Budget |       | FY Incremental Outlook |         |
|---------------------------|--------------------|-----------------------|--------------------------------|------------------------|------------------|--|-------|------------------------|---------|
|                           | 2011 Appvd. Budget | 2011 Projected Actual | 2012 Rec. Base                 | 2012 Rec. New/Enhanced | 2012 Rec. Budget |  |       | 2013                   | 2014    |
|                           | \$                 | \$                    | \$                             | \$                     | \$               |  |       | %                      | \$      |
| <b>GROSS EXP.</b>         | 389,992.5          | 375,000.3             | 381,553.2                      | 0.0                    | 381,553.2        | (8,439.3)  | (2.2) | 392.6                  | 248.0   |
| <b>REVENUE</b>            | 820,968.8          | 807,201.8             | 893,150.2                      | 182.7                  | 893,332.9        | 72,364.1   | 8.8   | 0.0                    | 0.0     |
| <b>CAPITAL CONTR.</b>     | 430,976.3          | 432,201.5             | 511,597.0                      | 182.7                  | 511,779.7        | 80,803.4   | 18.7  | (392.6)                | (248.0) |
| <b>Approved Positions</b> | 1,723.3            | 1,723.3               | 1,676.3                        | 0.0                    | 1,676.3          | (47.0)   | (2.7) | 0.0                    | 0.0     |

| Target Comparison      | 10% Reduction Target | 2012 Rec.'d Reduction | 2012 10% Reduction vs. 2012 Rec'd Reduction | Target % |
|------------------------|----------------------|-----------------------|---|----------|
| <b>2012 Reductions</b> | (38,999.3)           | (21,831.6)            | (17,167.7)                                  | 5.6%     |

## Recommendations

The City Manager and Chief Financial Officer recommend that:

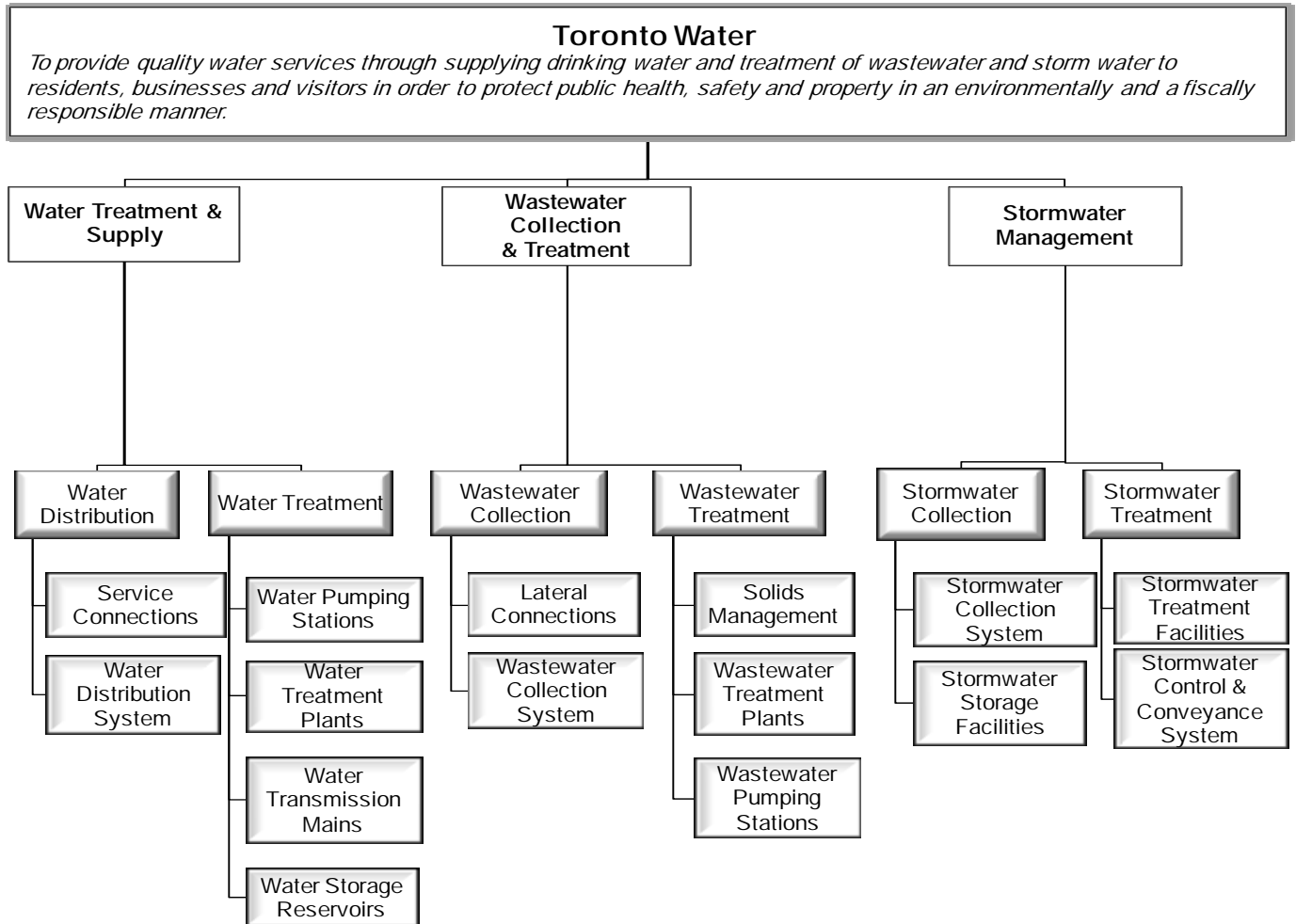
1. City Council approve the 2012 Recommended Operating Budget for Toronto Water of \$381.553 million gross and \$511.780 million in capital-from-current contribution, as funded by the water and wastewater user rates and other recoveries, comprised of the following services:

| Service(s)                        | Gross<br>(\$000s)       | Net<br>(\$000s) |
|-----------------------------------|-------------------------|-----------------|
| Water Supply & Treatment          | 66,916.0                | 0               |
| Wastewater Treatment              | 103,356.4               | 0               |
| District Operations               | 88,969.0                | 0               |
| Water Infrastructure Management   | 9,557.8                 | 0               |
| Business Operations Management    | 17,961.6                | 0               |
| Operational Support               | 36,398.1                | 0               |
| Program Support                   | 58,667.3                | 0               |
| Capital-from-Current Contribution | <u>511,779.7</u>        | <u>0</u>        |
| <b>Total Program Budget</b>       | <u><u>893,332.9</u></u> | <u><u>0</u></u> |

2. The information contained in Confidential Attachment 1 remain confidential until the outcome of Council's decision has been communicated to the Union and affected staff.
3. This report be considered concurrently with the 2012 Water and Wastewater Rate Report from the Deputy City Manager and Chief Financial Officer and General Manager for Toronto Water.

PART II: 2012 SERVICE OVERVIEW AND PLAN

Program Map and Service Profiles



**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 3.2 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 water mains; 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; 4,300 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.

#### *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.

## 2012 Recommended Service Levels

Toronto Water's 2011 Current Service Levels and 2012 Proposed Service Levels for its Services and Activities are detailed below:

| Service                           | Activity              | Type                            | 2011 Current Service Level  | 2012 Proposed Service Level                                       |  |
|-----------------------------------|-----------------------|---------------------------------|---|---|--|
| 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 |
| 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 \$1,232/km                      | Cost of storm pipes maintained is \$1,232/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 |

- The 2012 Recommended Operating Budget for Toronto Water includes service change savings of \$21.832 million that are comprised of service efficiency savings and revenue changes that will not impact the current level of service provided by Toronto Water.
- These savings can be achieved without impacts on service levels as a result of identified savings through a detailed line by line review of required expenditures, the deletion of vacant positions, increased user fee revenues and savings arising from the implementation of the final elements of the Works Best Practices Program (WBPP) and District Services Improvement Program (DSIP) restructuring.
- Further information on service level changes is discussed in Part III - "2012 Recommended Service Changes"

## 2012 Service Deliverables

- Approval of the 2012 Recommended Operating Budget for Toronto Water will ensure delivery of Water and Wastewater services for 3.2 million residents and business in Toronto. 2012 Services will include:
  - ✓ Treatment and supply 493 billion litres of water (includes York Regions);
  - ✓ Collection and treatment of 438 billion litres of wastewater;
  - ✓ Replacement of 7,000 lead services;
  - ✓ Repair of 10,000 blocked drains;
  - ✓ Cleaning of over 122,500 catch basins; and,
  - ✓ Repair of approximately 1,500 broken watermains.



## PART III: RECOMMENDED BASE BUDGET

### 2012 Recommended Base Budget (In \$000s)

| (In \$000s)               | 2011 Appvd.<br>Budget | 2012<br>Recommended<br>Base | Change<br>2012 Recommended Base v.<br>2011 Appvd. Budget |       | FY Incremental Outlook |            |
|---------------------------|-----------------------|-----------------------------|--|-------|------------------------|------------|
|                           | \$                    | \$                          | \$   | %     | 2013<br>\$             | 2014<br>\$ |
| <b>GROSS EXP.</b>         | 389,992.5             | 381,553.2                   | (8,439.3)  | (2.2) | 392.6                  | 248.0      |
| <b>REVENUE</b>            | 820,968.8             | 893,150.2                   | 72,181.4   | 8.8   | 0.0                    | 0.0        |
| <b>CAPITAL CONTR.</b>     | 430,976.3             | 511,597.0                   | 80,620.7   | 18.7  | (392.6)                | (248.0)    |
| <b>Approved Positions</b> | 1,723.3               | 1,676.3                     | (47.0)   | (2.7) | 0.0                    | 0.0        |

| Target Comparison      | 10%<br>Reduction<br>Target | 2012 Rec.'d<br>Reduction | 2012 1Rec'd<br>Reduction vs.<br>2012 10%<br>Reduction<br>Target | Target<br>% |
|------------------------|----------------------------|--------------------------|---|-------------|
| <b>2012 Reductions</b> | (38,999.3)                 | (21,831.6)               | (17,167.7)  | 5.6%        |

### 2012 Recommended Base Budget

- Toronto Water's 2012 Recommended Base Budget is below its budget target for additional Capital Contributions of \$38.999 million or the equivalent of 10% of the 2011 Approved Operating Budget by \$17.168 million or 4.4%.
- Recommended service changes of \$21.832 million include base budget savings of \$6.505 million net, savings from efficiencies of \$13.637 million and revenue changes of \$1.690 million net.
  - As a direct result of recommended service change savings for Toronto Water, \$1.110 million in annualized reductions savings will be realized in the 2013 and 2014 Operating Budgets.
- The 2012 Recommended Base Budget gross expenditures of \$381.553 million reflects a decrease of 2.2% or \$8.439 million compared to Toronto Water's 2011 approved gross expenditures of \$389.993 million.
- 2012 Recommended Base Budget Capital Contributions of \$511.597 million have increased by \$80.621 million or 18.7% from the 2011 Approved Capital Contribution level as a result of \$72.181 million or an 8.8% increase in Toronto Water revenues, along with gross expenditure reductions of \$8.439 million.

- Additional funding of \$5.247 million for gross expenditures (prior to recommended reductions) is required for:
  1. Increased costs for OMERS and benefits (\$2.624 million);
  2. Projected increases based on economic factors for fixed non-labour expenses (\$1.331 million);
  3. Anticipated Hydro rate increases (\$0.939 million); and,
  4. Other base budget changes required for the delivery of Toronto Water services, including \$0.457 million arising from an additional 2012 working day, \$0.770 million for increased chemical requirements and \$0.850 million in increased costs for previously under budgeted plumbing supplies.
- Additional revenues of \$80.621 million reflects:
  1. A 9% effective Water and Wastewater service rate increase (\$51.744 million);
  2. Increases in user fees to reflect full cost recovery and support capital project delivery (\$1.363 million); and,
  3. The transfer of \$16.500 million in existing user fee revenue to the Toronto Water Operating Budget from previous budgeted direct contributions to capital projects.
- The 2012 Recommended Base Budget reflects a decrease of 47 positions that will be reduced through recommended service changes. 2012 decreases from the 2011 Approved Staff Complement are highlighted below:

#### 2012 Recommended Staff Complement – Base Budget Summary

| Changes  | Staff Complement |
|--|------------------|
| <b>2011 Approved Positions</b>                         | 1,718.3          |
| - 2011 In-year Adjustments                             | 5.0              |
| 2011 Approved Staff Complement                         | <b>1,723.3</b>   |
| <b>2012 Recommended Staff Complement Changes</b>       |                  |
| - 2012 Temporary Positions - Capital Project Delivery  |                  |
| - 2012 Operating Impacts of completed Capital Projects |                  |
| - 2012 Service Changes                                 | (47.0)           |
| <b>Total Recommended Positions</b>                     | <b>1,676.3</b>   |

## 2012 Recommended Service Change Summary

(In \$000s)

| Description   | 2012 Recommended Service Changes |                   |                      |                                   | Net Incremental Impact    |        |                           |        |
|---|----------------------------------|-------------------|----------------------|-----------------------------------|---------------------------|--------|---------------------------|--------|
|   | Position Changes                 | Gross Expense     | Capital Contribution | % of 2012 Budget Reduction Target | 2013 Capital Contribution |        | 2014 Capital Contribution |        |
|   | #                                | \$                | \$                   | %                                 | \$                        | # Pos. | \$                        | # Pos. |
| <b>Base Changes:</b>  |                                  |                   |                      |                                   |                           |        |                           |        |
| <b>Base Expenditure Changes</b>   |                                  |                   |                      |                                   |                           |        |                           |        |
| Annualized Impact of the 2011 Approved Drain Grants Reduction               |                                  | (2,185.6)         | 2,185.6              | 0.6%                              |                           |        |                           |        |
| In-Year Organizational & Salary Savings                                     |                                  | (368.0)           | 368.0                | 0.1%                              |                           |        |                           |        |
| Absorb Econ. Factors (non-labour) within base budget                        |                                  | (601.2)           | 601.2                | 0.2%                              |                           |        |                           |        |
| Line by Line Review Reductions  |                                  | (763.6)           | 1,063.6              | 0.3%                              |                           |        |                           |        |
| <b>Base Expenditure Changes</b>   |                                  | <b>(3,918.4)</b>  | <b>4,218.4</b>       | <b>1.1%</b>                       |                           |        |                           |        |
| <b>Base Revenue Changes</b>   |                                  |                   |                      |                                   |                           |        |                           |        |
| Annualized Impact of the 2011 Approved Utility Account Ownership Update Fee |                                  |                   | 286.1                | 0.1%                              |                           |        |                           |        |
| Industrial Waste Revenue Increase   |                                  |                   | 2,000.0              | 0.5%                              |                           |        |                           |        |
| <b>Base Revenue Changes</b>   |                                  |                   | <b>2,286.1</b>       | <b>0.6%</b>                       |                           |        |                           |        |
| <b>Sub-Total Base Budget Changes</b>  |                                  | <b>(3,918.4)</b>  | <b>6,504.5</b>       | <b>1.7%</b>                       |                           |        |                           |        |
| <b>Service Efficiencies</b>   |                                  |                   |                      |                                   |                           |        |                           |        |
| Water Treatment & Supply - Service Efficiencies                             | (1.0)                            | (1,569.3)         | 1,569.3              | 0.4%                              | 200.0                     |        |                           |        |
| Wastewater Treatment - Service Efficiencies                                 | (7.0)                            | (3,837.8)         | 3,837.8              | 1.0%                              | 90.7                      |        |                           |        |
| District Operations - Service Efficiencies                                  | (2.0)                            | (2,019.4)         | 2,019.4              | 0.5%                              | 529.1                     |        |                           |        |
| Water Infrastructure Management - Service Efficiencies                      | (4.5)                            | (546.6)           | 546.6                | 0.1%                              |                           |        |                           |        |
| Business Operations Management - Service Efficiencies                       | (12.0)                           | (1,062.6)         | 1,013.6              | 0.3%                              | 189.8                     |        |                           |        |
| Operational Support - Service Efficiencies                                  | (20.5)                           | (3,284.3)         | 3,284.3              | 0.8%                              | 50.0                      |        | 50.0                      |        |
| Program Support - Service Efficiencies                                      |                                  | (1,246.0)         | 1,246.0              | 0.3%                              |                           |        |                           |        |
| Core Service Review - Paid Duty Savings                                     |                                  | (120.0)           | 120.0                | 0.0%                              |                           |        |                           |        |
| <b>Sub-Total Service Efficiencies</b>                                       | <b>(47.0)</b>                    | <b>(13,686.0)</b> | <b>13,637.0</b>      | <b>3.2%</b>                       | <b>1,059.6</b>            |        | <b>50.0</b>               |        |
| <b>Revenue Adjustments:</b>   |                                  |                   |                      |                                   |                           |        |                           |        |
| Revised Service Level Agreement for Lab Service with Solid Waste            |                                  |                   | 144.0                | 0.0%                              |                           |        |                           |        |
| User Fee Increases  |                                  |                   | 1,363.4              | 0.3%                              |                           |        |                           |        |
| New User Fees   |                                  |                   | 182.7                | 0.0%                              |                           |        |                           |        |
| <b>Sub-Total Revenue Adjustments</b>  |                                  |                   | <b>1,690.1</b>       | <b>0.4%</b>                       |                           |        |                           |        |
| <b>Total Service Changes</b>  | <b>(47.0)</b>                    | <b>(17,604.4)</b> | <b>21,831.6</b>      | <b>5.6%</b>                       | <b>1,059.6</b>            |        | <b>50.0</b>               |        |

## 2012 Recommended Service Changes

- The 2012 Recommended Base Budget includes 59 recommended service changes that result in savings of \$21.832 million in 2012 and incremental savings in 2013 of \$1.060 million and \$0.050 million in 2014.
- Approval of the recommended service changes will result in a reduction of 47 approved positions reducing Toronto Water's staffing complement to 1,676.3.
- Recommended service change savings can be achieved without impacting service levels as a result of identified savings through a detailed line by line review of expenditures based on actual experience and projected requirements, the deletion of vacant positions, increased user fee revenues and savings arising from the implementation of the final elements of the Works Best Practices Program (WBPP) and District Services Improvement Program (DSIP), which are in line with Council's Core Service Review Approval directing Toronto Water to continue the final implementation of these reviews.

## Base Expenditure Changes

### *Base Budget Reductions*

- The 2012 Recommended Base Budget includes various base budget savings totaling \$3.155 million primarily arising from the annualized impact of the 2011 approved Drain Grant reduction, as well as efficiencies through in-year organizational and salary savings and absorbed non-labour economic factors.

### *Line by Line Review Reductions*

- \$1.064 million in reductions are included in the 2012 Recommended Base Budget as a result of a line by line review of Toronto Water's operating expenses and revenues.
  - Savings in materials, supplies, travel, membership fees, utilities and under-budgeted admin revenues have been identified following a review of historical spending, 2011 projected year-end spending and 2012 anticipated requirements.

## Base Revenue Changes

### *Base Budget Revenue Increases*

- The 2012 Recommended Base Budget includes revenue increases totaling \$2.286 million arising from the annualized impact of the 2011 approved Utility Account Ownership Update Fee, as well as increased revenues based on an increased uptake in the Industrial Waste Surcharge Program. Industrial waste surcharge revenues offset Toronto Water increased operational costs for treatable discharge at water treatment plants.

## Service Efficiencies

### *Water Treatment & Supply – Service Efficiencies*

- The 2012 Recommended Operating Budget for Toronto Water's Water Treatment and Supply services reflects service efficiency savings of \$1.569 million in 2012 and incremental savings of \$0.200 million in 2013 resulting in the deletion of 1 permanent position, arising from the implementation of 7 service efficiency measures. These measures include:

#### *Reduce Staff Training (\$0.050 million in 2012)*

- Staff training, which currently exceeds the legislated requirement under regulation 128 of the Safe Drinking Water Act will be reduced while still adhering to legislated requirement of 52 hours of training per year.

#### *Chemical Optimization (\$0.325 million in 2012)*

- Service efficiency savings will be realized with the optimization of chemical dosages for Disinfection, Fluoridation and Coagulation by changing Toronto Water's operating practices slightly and reducing the chemical dosing by approximately 0.5%.
- A fairly conservative safety factor is used when adding chemicals. This factor can be reduced slightly and Toronto Water will still comply with the Safe Drinking Water Act.

#### *Reduce Overtime – Treatment Plants (\$0.230 million in 2012)*

- Overtime savings can be realized at Water Treatment Plants as a result of changes in practices. Additional staff will no longer be called in on nights when someone is sick, on vacation or on training.
- A risk assessment was completed and has received union acceptance.
- Funding remains for overtime that will still be required for days where several staff are off (sick or otherwise).

#### *Hydro Efficiencies (\$0.500 million in 2012 and \$0.200 million in 2013)*

- Savings in hydro costs will be realized as a result of various process and equipment optimizations at Water Treatment Plants.

#### *Reduce Parts & Materials (\$0.200 million in 2012)*

- Recommended savings result from a 10% reduction in all Parts & Materials for Water Treatment Facilities. These expenses had been budgeted with a contingency in the past, which can be reduced with minimal risk.

*Reduce Research Grants & Partnerships (\$0.115 million in 2012)*

- Toronto Water partners with numerous research organizations world-wide to leverage provincial and federal grants as well as to tap into their knowledge and experience.
- These research projects have yielded many innovations in Toronto Water and staff have benefited from having unlimited global access to research partners for ongoing studies in other municipalities.
- Toronto Water can reduce the amount spent on research by \$0.115 million from \$0.487 million in 2012 while maintaining beneficial research grant and partnership funding.

*Water Treatment & Supply – Confidential Program Savings (\$0.149 million in 2012)*

- Details on these savings resulting in the elimination of 1 position are available for review in Confidential Attachment 1.

*Wastewater Treatment – Service Efficiencies*

- The 2012 Recommended Operating Budget for Toronto Water includes 13 service efficiency measures that will generate savings of \$3.838 million net in 2012 and incremental savings of \$0.091 million in 2013 resulting in the deletion of 7 approved permanent positions, as detailed below.
- Wastewater Treatment service efficiency changes include:

*Utility Efficiencies (\$1.153 million in 2012)*

- Process and equipment optimizations will result in a 5% reduction in hydro usage at Humber and Ashbridges Bay Treatment Plants and natural gas cost savings at the Humber Treatment Plant.
- Water consumption savings can be achieved at Humber and Ashbridges Bay Treatment Plants arising from reduced consumption and corrected flow metering.

*Reduction in Biosolids Disposal Contracted Services (\$1.700 million in 2012)*

- Ashbridges Bay Treatment Plant budgets and relies on three outlets for disposal of biosolids – Pelletizer, Green Lane and haulage to third party sites.
- Following the Pelletizer failure in 2006, a contingency has been budgeted in the event of a future failure of loss of a service provider.

- It is recommended that the contingency allowance in the biosolids program be reduced by \$1.7 million based on good performance of external service providers over the last two years.
- Adequate funding will remain in place to address the recent Pelletizer failure. In the event additional funding is required, they can be made available from within the Water Stabilization Reserve.

*Humber Treatment Plant – Thickening Polymer (\$0.222 million in 2012)*

- Service efficiency savings are recommended as a result of process efficiencies at the Humber Treatment Plant arising from the operation of two sludge thickening centrifuges utilizing polymer instead of three centrifuges without polymer.

*Reduction of Lubricants for Heavy Equipment (\$0.007 million in 2012)*

- Savings at the Highland Creek Treatment Plant will be realized following the substitution of regular oil in lieu of food-grade oil for the lubrication of process equipment.
- This change will not result in any performance or environmental impacts.

*Reduction of Permanent Overtime (\$0.080 million in 2012)*

- Recommended savings can be realized by limiting the Highland Creek Treatment Plants overtime to emergencies only and revising the scheduled cleaning of tanks only on weekdays.

*Humber Treatment Plant – Maintenance Savings (\$0.200 million in 2012)*

- The procurement of parts for preventative maintenance activities can be reduced based on historical spending. The reduced funding levels will continue to ensure that any equipment failures that risk Environmental/Regulatory performance will be completed.

*Eliminate Night Shift at North Toronto Treatment Plant (\$0.091 million and incremental savings of \$0.091 million in 2013)*

- Following the implementation of capital upgrades at the Ashbridges Bay Treatment Plant, the night shift at North Toronto Treatment Plant can be eliminated, effective July 1, 2012 as night time monitoring can be performed electronically from the Ashbridges Bay Treatment Plant control room.
- This will result in the elimination of 2 permanent, filled positions; however impacted staff can be relocated to vacancies within the Ashbridges Bay Treatment Plant.

*Ashbridges Bay Treatment Plant – Eliminate 2 Labourer 2 Vacancies (\$0.121 million in 2012)*

- It is recommended that Toronto Water eliminate 2 vacant Labourer 2 positions from the Ashbridges Bay Treatment Plant complement.
- Existing Labourer 2 positions are in the process of being converted to Wastewater Plant Worker with a new more flexible job profile. This will improve efficiency thereby reducing the need to fill these vacancies.

*Wastewater Treatment – Confidential Program Savings (\$0.265 million in 2012)*

- Details on these savings resulting in the elimination of 3 positions are available for review in Confidential Attachment 1.

*District Operations – Service Efficiencies*

- The 2012 Recommended Operating Budget for Toronto Water includes 4 service efficiency savings of \$2.019 million net in 2012 and annualized savings of \$0.529 million in 2013 resulting in the deletion of 2 approved permanent positions.
- District Operations service efficiency changes include:

*Overall Budget Efficiencies (\$0.820 million in 2012)*

- A line by line review of various District Operations expenses with significant recommended reductions, including savings in contracted services of \$0.479 million, computer hardware of \$0.045 million and general equipment of \$0.112 million.

*Fleet Reduction (\$0.526 million in 2012)*

- District Operations fleet reductions of \$0.285 million for regular maintenance, \$0.094 million for special maintenance and \$0.147 million for fuel are recommended following an inventory of District Operations current fleet against their program needs, where a gap analysis has found a surplus of certain vehicle categories that can be reduced without impacting service levels.

*Surface Restoration of Excavation Savings (\$0.529 million in 2012 and incremental savings of \$0.529 million in 2013)*

- Surface restoration of all excavations done by Toronto Water staff and its contractors are temporarily repaired, monitored and maintained by Toronto Water until Transportation Services completes the final surface restoration.



- It is recommended that some of the permanent surface restoration be performed by District Operations to Transportation standards. The time to complete the final restoration will be reduced to between 6 and 12 months. District Operations will be the single point of contact for all Toronto Water excavations. Customer service level will be improved by providing this single point of contact and savings will be achieved through reductions in contract administration costs.

*District Operations – Confidential Program Savings (\$0.144 million in 2012)*

- Details on these savings resulting in the elimination of 2 positions are available for review in Confidential Attachment 1.

*Water Infrastructure Management – Service Efficiencies*

- The 2012 Recommended Operating Budget for Toronto Water's Water Infrastructure Management includes 5 service efficiency measures that will generate savings of \$0.547 million net in 2012, resulting in the deletion of 3 approved permanent positions and 1.5 approved temporary seasonal positions effective January 1, 2012.
- A line by line review of gross expenditures against program requirements and actual experience will provide savings of \$0.180 million.
- A further \$0.367 million in service efficiency savings are recommended based on the elimination of 3.5 vacant positions, comprised of a research analyst, an engineering technologist and summer students, as well as the elimination of 1 position detailed in Confidential Attachment 1. These positions are all responsible for assisting in the delivery of Toronto Water's capital program.
  - Existing staff will continue to provide the services of these deleted vacant positions.

*Business Operations Management – Service Efficiencies*

- The 2012 Recommended Operating Budget for Toronto Water includes 10 service efficiency measures that will generate savings of \$1.014 million net in 2012 and incremental savings of \$0.190 million in 2013 resulting in the deletion of 12 approved permanent positions.
- These recommended service efficiencies will not impact current service levels and delivery standards for Toronto Water. These efficiency savings will be achieved through the deletion of vacant positions and/or the restructuring of existing units that optimized service delivery following the implementation of the Works Best Practices Program (WBPP) and District Services Improvement Program (DSIP).
- Business Operations Management service efficiency changes include:

*Training and Development Savings (\$0.389 million in 2012)*

- Efficiency savings will arise from a decreased use of external training resources while maintaining adequate training for Ministry of the Environment regulations, and the reorganization of the Skills and Development unit, and the centralization of training staff currently co-located at divisional facilities.
- These efficiency measures will result in the net reduction of 2 permanent vacant technical trainer positions effective January 1, 2012.

*Unit Reorganization & Merging (\$0.251 million in 2012)*

- The reorganization of the Environmental Health & Safety Compliance Unit that establishes, implements, maintains and coordinates processes and frameworks to monitor compliance systems, will result in efficiency savings by focusing the unit on its core service areas; Environment; Industrial Health and Safety; and Construction Health and Safety. This service efficiency will result in the net reduction of 1 permanent vacant Environmental Health and Safety Compliance position effective January 1, 2012.
- Further efficiency savings will be achieved as a result of merging the Strategic Business Management & Service Programs units.
  - The Strategic Business Management Unit is responsible for strategic planning, business planning, internal audit, policy development, revenue management, business practices development and providing advice and support to the Division.
  - The Service Programs Unit is responsible for administering applications for Water Efficiency and Sewer Rebate Drain Grant Programs, the Basement Flooding Home Isolation Program, the Protection Subsidy Program, the Lead Water Service Replacement Program and the Lead in Drinking Water Mitigation Strategy.
  - This reduction will result in the deletion of 1 permanent vacant management position effective January 1, 2012.

*Business Operations Management – Confidential Program Savings (\$0.374 million in 2012 and incremental savings of \$0.190 million in 2013)*

- Details on these savings resulting in the elimination of 8 positions are available for review in Confidential Attachment 1.

*Operational Support – Service Efficiencies*

- The 2012 Recommended Operating Budget for Toronto Water includes 11 service efficiency measures that will generate savings of \$3.284 million net in 2012 and

incremental savings of \$0.050 million in 2013 and \$0.050 million in 2014; resulting in the deletion of 14 approved permanent positions and 6.5 approved temporary position.

- These savings will be achieved through the deletion of vacant positions and/or the restructuring of existing units that will optimize service delivery following the implementation of the Works Best Practices Program (WBPP) and District Services Improvement Program (DSIP) restructuring. These recommended service efficiencies will not impact current service levels and delivery standards for Toronto Water. They include:

*Reduce Inspection, Operations & Maintenance for Trunk Sewers (0.269 million in 2012)*

- Trunk Sewer inspection, operations and maintenance savings are recommended to align the recommended budget with historical spending and projected requirements.

*Reduction of ITM Services & Support (\$0.035 million in 2012)*

- Recommended savings within the Integrated Technology Management unit can be achieved by reducing overtime and stand-by pay cost; external training and development expenses; and the elimination of conferences and seminar expenses.

*Eliminate Machine and Welding Shops (\$0.266 million in 2012)*

- It is recommended that the Divisional Operations Services machine and welding shops that were approved in 2010, but are yet to be created, be eliminated resulting in the reduction of 3 permanent, vacant positions effective January 1, 2012.

*Complex Systems Reduction (\$1.142 million in 2012)*

- The recent reorganization in the Complex Systems unit, the filling of newly created positions and the implementation of efficiency measures allow for the deletion of 2 permanent vacant non-union Supervisor positions effective January 1, 2012; the deletion of 6.5 temporary casual positions effective January 1, 2012; a reduction to the general equipment budget of \$0.075 million; and a reduction to contracted services (general & electrical) costs of \$0.460 million, without any impact on service levels.

*Reduction in Amount of Water Meters Ordered (\$0.456 million in 2012 and incremental reductions of \$0.050 million in 2013 and \$0.050 million in 2014)*

- Water Meters are primarily being replaced through Toronto Water's Water Metering capital program that will allow for the installation of meters for the remaining flat rate customers; and the City-wide water meter replacement program coupled with the concurrent installation of automated meter reading technology (i.e. a radio frequency based fixed area network), with completion anticipated within 4.5 years.

- Fewer new meters funded from the operating budget are now required arising from the implementation of the Water Metering capital program and operating savings can be achieved.

*Central Water Servicer 2 Staff Reduction (\$0.145 million in 2012)*

- The 2012 Recommended Operating Budget includes a reduction in meter installation expenses that can be achieved with changes to scheduling and work practice efficiencies resulting in the elimination of 2 permanent vacant positions effective January 1, 2012.

*Toronto Water Security Efficiencies (\$0.353 million in 2012)*

- Corporate Security cost savings are recommended through the elimination of 1 front desk security guard at a Toronto Water facility and the reduction in the number of hours per day security at the Ashbridges Bay Treatment Plant at the Guard House effective January 1, 2012.
- Staff within the Treatment Plant will continue to monitor the grounds through cameras when no guard is on site and operate the gates when no guards are on duty.

*Operational Support – Confidential Program Savings (\$0.618 million in 2012)*

- Details on these savings resulting in the elimination of 7 positions are available for review in Confidential Attachment 1.

*Program Support – Service Efficiencies*

- The 2012 Recommended Operating Budget for Toronto Water's Program Support services includes 2 service efficiency measures that will generate savings of \$1.246 million in 2012 that do not impact on the Program's service delivery levels. These reductions include:

*Contribution to the Fleet Reserve Reduction (\$1.100 million)*

- The Programs Vehicle and Equipment Reserve contribution can be reduced by \$1.100 million as a result of a fleet rationalization identified within the District Operations service.

*Communication Efficiencies (\$0.146 million)*

- Toronto Water's communications budget will be reduced for advertising and promotion; vehicle rental; external reproduction (printing) and rental of properties costs based on a review of 2012 savings that could be achieved without impacting service levels.

*Core Service Review – Paid Duty Savings*

- At its meeting of September 26, 2011 Council adopted the report entitled, EX10.1 Core Service Review – Final Report to Executive Committee, and directed the General Manager of Transportation Services to eliminate the requirement for paid duty Police officers at construction sites where possible, and report to the Public Works and Infrastructure Committee with any necessary changes to City by-laws, policies, and criteria to effect this change.
- In reporting to the Public Works and Infrastructure Committee on November 3, 2011, the General Manager of Transportation Services identified \$0.120 million in operating savings for Toronto Water arising from the recommended:
  - Elimination of the specific requirement for hiring paid duty officers in the Transportation Services Division's permits, documents, and policies.
  - That the previous policy of requiring a paid duty officer(s) whenever there is construction within 30 metres of a signalized intersection be eliminated; and
  - To ensure safety of all road and right-of-way users, Transportation Services and Toronto Police Service staff and the applicant will discuss and determine the appropriate traffic control measures for the proposed construction project or street event.
- These savings of \$0.120 million are included in Toronto Water's 2012 Recommended Operating Budget.

**Revenue Adjustments***Renegotiate Service Level Agreement with Solid Waste Management for Lab Services*

- The 2012 Recommended Operating Budget includes an increase in revenue of \$0.144 million within the Laboratory Services area, effective January 1, 2012.
- Solid Waste Management has agreed to a revised service level agreement for the monitoring of closed landfills. Toronto Water will continue to recover the annual cost for 4 staff and will begin to recover non-salary costs and capital costs based on a 10 year equipment life cycle.

*Increases to Existing User Fees*

- In accordance with Council's approved User Fee Policy that directs staff to recover the full costs for private services that benefit specific individuals, groups or businesses, the 2012 Recommended Operating Budget includes revenue increases totaling \$1.363 million arising from the January 1, 2012 implementation of 7 fee increases to the following existing user fees:

- Water Meter Accuracy Test
  - 2011 Fee – \$60
  - 2012 Recommended Fee \$150 (\$0.024 million Revenue Increase)
- Install New Residential Sanitary Sewer Service Connection in the Road Allowance
  - 2011 Fee – \$6,750
  - 2012 Recommended Fee \$7,150 (\$0.400 million Revenue Increase)
- Install New Residential Storm Sewer Service Connection in Road Allowance
  - 2011 Fee – \$6,750
  - 2012 Recommended Fee \$7,150 (\$0.040 million Revenue Increase)
- To Disconnect Residential Sanitary Sewer Service Connection in Road Allowance
  - 2011 Fee – \$650
  - 2012 Recommended Fee \$750 (\$0.100 million Revenue Increase)
- Installing 19 mm New Water Service and Meter
  - 2011 Fee – \$2,175
  - 2012 Recommended Fee \$2,575 (\$0.080 million Revenue Increase)
- Installing 25 mm New Residential Water Service and Meter
  - 2011 Fee – \$2,450
  - 2012 Recommended Fee \$3,050 (\$0.600 million Revenue Increase)
- Residential Water Service Disconnection less than or equal to 25 mm
  - 2011 Fee – \$300
  - 2012 Recommended Fee \$400 (\$0.120 million Revenue Increase)
- The recommended fee increase for a Water Meter Accuracy Test will ensure Toronto Water is recovering a greater percentage of cost recovery. The 2011 approved fee of \$60 recovers approximately 17% of the full cost of this service. The 2012 recommended fee increase to \$150 will result in the recovery of approximately 43% of the full cost.
  - Toronto Water will continue to review the Water Meter Accuracy Test in future budget processes, with the aim to achieve full cost recovery by 2014 through stepped user fee increases.
- The recommended fee increases for the remaining water and sewer installation, connection and disconnection services will ensure the full recovery of operating and capital cost for these services, including construction cost increases in 2012 and the impact of Council approved pavement degradation fees on service costs.

*New User Fees*

- The 2012 Recommended Budget includes revenue increases totaling \$0.183 million arising from the January 1, 2012 implementation of 5 new user fees to recover Toronto Water costs for technical reviews and inspections.
- Further information on new user fees is discussed in Part IV – "2012 New/Enhanced Service Priority Actions".

**2013 and 2014 Outlook:**

- Approval of the 2012 Recommended Operating Budget for Toronto Water will result in incremental pressures of \$0.393 million in 2013 and increased costs of \$0.248 million in 2014.
- In 2013:
  - Incremental gross expenditures of \$0.393 million are projected for Toronto Water primarily as a result of \$1.071 million in OMERS and Benefit increases and \$0.381 million in step and progressions pay increases.
  - These costs will be somewhat offset by \$1.060 million in annualized savings to be generated from the implementation of 2012 recommended service changes.
- In 2014:
  - Incremental gross expenditures of \$0.248 million are projected for Toronto Water as a result of step and progressions pay increases. These costs will be somewhat offset by \$0.050 million in savings to be generated from the implementation of 2012 recommended service changes.

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

## 2012 Recommended New/Enhanced Service Priority Actions

(In \$000s)

| Description   | 2012 Recommended |              |              | Net Incremental Impact |            |            |            |
|---|------------------|--------------|--------------|------------------------|------------|------------|------------|
|   | Gross Exp.       | Cap Cont.    | New Position | 2013                   |            | 2014       |            |
|   | \$               | \$           | #            | \$                     | # Pos      | \$         | # Pos      |
| <b>New Services:</b>  |                  |              |              |                        |            |            |            |
| <b>New Fees</b>   |                  |              |              |                        |            |            |            |
| New Reuse of Residential Sanitary Sewer Service Connection up to 150 mm Fee             |                  | 75.0         |              |                        |            |            |            |
| New Technical Review Fee – Permission to Construct a Reverse Slope Driveway             |                  | 78.0         |              |                        |            |            |            |
| New Technical Review Fee – Requests to Encroach within a Toronto Water Easement         |                  | 9.0          |              |                        |            |            |            |
| New Technical Review Fee – Direct Connections   |                  | 18.0         |              |                        |            |            |            |
| New Technical Review Fee – Requests to have a Toronto Water Easement Removed from Title |                  | 2.7          |              |                        |            |            |            |
| <b>Sub-Total New Services</b>   | <b>0.0</b>       | <b>182.7</b> | <b>0.0</b>   | <b>0.0</b>             | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |
| <b>Total Enhanced/New Services</b>  | <b>0.0</b>       | <b>182.7</b> | <b>0.0</b>   | <b>0.0</b>             | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

## 2012 Recommended New/Enhanced Service Priority Actions

## New Fees

In accordance with Council's approved User Fee Policy that directs staff to recover the full costs for private services that benefit specific individuals, groups or businesses, the 2012 Recommended Operating Budget includes revenue increases totaling \$0.183 million arising from a January 1, 2012 implementation of 5 new user fees for services previously provided, which have been fully subsidized through water rates.

*New Reuse of Residential Sanitary Sewer Service Connection up to 150 mm Fee*

- In 2010, Chapter 681 (Sewers) of the Municipal Code was amended to allow for the reuse of sanitary service connections (up to and including 150 mm in diameter) for a reconstructed building.
- Approval for reuse is subject to a CCTV inspection to confirm that the service connection is in good condition and meets current City standards and specifications.



- A fee of \$500 per service to be reused, effective January 1, 2012 is recommended in order to fully recover the costs associated with the service connection inspection, as well as the administration and review by City staff.
- It is estimated that the annual demand for this service would be 150 requests resulting in a revenue increase for 2012 of \$0.075 million.

#### *New Technical Review Fee – Permission to Construct a Reverse Slope Driveway*

- Under Chapter 681 (Sewers) of the Municipal Code, direct connections to the storm sewer from catch basins on private property at the base of a proposed reverse slope driveway, are not permitted.
- Under the by-law, an Applicant may make an application to Toronto Water for an exemption from this provision in cases where compliance would create a hazardous situation, or is not technically feasible.
- Toronto Water staff are required to perform a technical review to determine if an exemption should be allowed.
- A Technical Review fee of \$1,500 per application effective January 1, 2012 is recommended. This fee will ensure that the full cost of a Toronto Water Engineer spending an average of 20 hours reviewing a typical application will be recovered.
- It is estimated that the annual demand for this service would be 52 requests resulting in a revenue increase for 2012 of \$0.078 million.

#### *New Technical Review Fee – Requests to Encroach within a Toronto Water Easement*

- Toronto Water occasionally receives requests from individual property owners to allow for encroachment within a Toronto Water easement.
- Toronto Water's position is that encroachments are not permitted, however there are instances where encroachments cannot be avoided, or where the property owner has already encroached without City approval.
- In either case, Toronto Water staff must undertake a technical review to ensure that the encroachment will not impact on Toronto Water's infrastructure or their operation and maintenance abilities. Staff are also required to prepare a report to Community Council seeking authority for the encroachment.
- A Technical Review fee of \$300 per request and an hourly rate of \$74 after the first 4 hours up to a maximum of \$1,500 is recommended effective January 1, 2012 to fully recover the cost of a Toronto Water Engineer spending an average of 20 hours reviewing a typical application.

- It is estimated that the annual demand for this service would be 10 requests resulting in a revenue increase for 2012 of \$0.009 million.

*New Technical Review Fee – Direct Connections*

- Toronto Water staff review applications for direct connections to a storm and/or sanitary sewer to sites not reviewed under site plan approval.
- Toronto Water reviews approximately 20 direct connection applications per year, with an average of 14 hours spent on each application. For each application, staff is required to liaison with the Applicant, conduct a site visit and undertake a technical review to ensure that the proposed works meet City guidelines, by-laws and standards.
- A Technical Review fee of \$300 per request and an hourly rate of \$74 after the first 4 hours up to a maximum of \$1,500 is recommended effective January 1, 2012 to fully recover the cost of a Toronto Water Engineer spending an average of 20 hours reviewing a typical application.
- It is estimated that the annual demand for this service would be 20 requests resulting in a revenue increase for 2012 of \$0.018 million.

*New Technical Review Fee – Requests to have a Toronto Water Easement Removed from Title*

- Toronto Water also receives non-Development Engineering circulated requests to have a Toronto Water easement released from title.
- Toronto Water staff are required to undertake a review, including a site visit, to determine if the easement is required for present or future infrastructure.
- A Technical Review fee of \$300 per request and an hourly rate of \$74 after the first 4 hours up to a maximum of \$1,500 is recommended effective January 1, 2012 to ensure the full cost recovery staff time estimated at an average of 20 hours reviewing a typical application.
- It is estimated that the annual demand for this service would be 2 to 3 requests resulting in a revenue increase for 2012 of \$0.009 million.

## PART V: ISSUES FOR DISCUSSION

### 2012 and Future Year Issues

#### 2012 Issues

##### *2012 Recommended Operating Budget Funding*

- Toronto Water is fully self-sustaining and does not rely on the municipal property tax levy. 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 2012 Recommended Operating Budget and the capital program set out in the 2012 Recommended Capital Budget and 2013–2021 Recommended Capital Plan, while maintaining modest Water and Wastewater Capital Reserve balances.
- Incremental rate funding from the 2012 Recommended Water and Wastewater Rate increase of 9% and other sources of funding will generate an additional \$72.364 million. The recommended decrease in the 2012 Recommended Gross Operating Budget expenditures of \$8.439 million will increase the 2012 Capital Contribution by the same amount, resulting in net revenue of \$80.803 million that will be used to fund Toronto Water's capital program.

##### *Core Service Review Approvals*

- At its meeting of September 26, 2011 Council approved the report entitled, EX10.1 Core Service Review – Final Report to Executive Committee, and directed the General Manager of Transportation Services to eliminate the requirement for paid duty Police officers at construction sites where possible, and report to the Public Works and Infrastructure Committee with any necessary changes to City by-laws, policies, and criteria to effect this change.
- In reporting to the Public Works and Infrastructure Committee on November 3, 2011, the General Manager of Transportation Services recommended:
  - The elimination of the specific requirement for hiring paid duty officers in the Transportation Services Division's permits, documents, and policies.
  - That the previous policy of requiring a paid duty officer(s) whenever there is construction within 30 metres of a signalized intersection be eliminated; and

- To ensure safety of all road and right-of-way users, Transportation Services and Toronto Police Service staff and the applicant will discuss and determine the appropriate traffic control measures for the proposed construction project or street event.
- The 2012 Recommended Operating Budget for Toronto Water includes service efficiency savings of \$0.120 million for contracted services with District Operations arising from the reduction in paid duty requirements for Toronto Water excavation activities.

## Future Year Issues

### *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.
  - 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.
- 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.
- 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.

### *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 planned annual multi-year rate increase generates revenues required to fund Toronto Water's Operations and its Capital program, balancing infrastructure renewal needs for state of good repair, new service improvement projects, 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.
- The effectiveness of Toronto Water's Water Efficiency Plan, directed at reducing water consumption has contributed to lower annual water consumption.
- The additional revenues to be generated by an annual 9% rate increase have reduced by the steady decline in water consumption of 2% per year since 2003.
- Toronto Water's 2012 - 2021 Recommended Capital Plan has been adjusted from the 2011 - 2020 Approved Capital Plan by \$1.132 billion, in part, due to lowered consumption forecasts generating \$686.8 million in lower revenue available to fund the capital program over the 10-year planning period.
- 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 2012 Water and Wastewater Rates report.

## Issues Referred to the 2012 Operating Budget Process

### *Core Service Review - KPMG Opportunities Related to Service Efficiencies (Appendix E)*

- 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 Recommended Operating Budget for Toronto Water includes 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. The WBPP and DSIP savings included in the 2012 Recommended Operating Budget include:
  - ✓ Skills and Development Unit Reorganization (\$0.139 million)
  - ✓ Environmental Health & Safety Compliance Unit Reorganization (\$0.102 million)
  - ✓ Merge Strategic Business Management & Service Programs Unit (\$0.149 million)

- ✓ Complex Systems 2012 Operating Budget Reduction (\$1.142 million)
- ✓ Operational Support Central Water Servicer Staff Reduction (\$0.145 million)
- ✓ Water Meter Program – Staff Reduction (\$0.076 million)
- ✓ Ashbridges Bay Treatment Plant – Labourer 2 Staff Reductions (\$0.121 million)
- ✓ Confidential Position Reductions – Available in Attachment 1 (\$0.156 million)
- A more detailed description of the above service efficiencies can be found in Part III – "2012 Recommended Service Changes" in these notes. (Pages 11 – 21)
- Future savings identified by Toronto Water from the final implementation of the WBPP and DSIP initiatives will be submitted for consideration with the 2013 and future year budget processes.

## Appendix 1

### 2011 Performance

#### 2011 Key Accomplishments:

In 2011 Toronto Water:

- ✓ 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.
- ✓ Successfully completed on-site Audit by CGSB as a pre-requisite for obtaining Full Scope Accreditation status conducted at Metro Hall, Water Supply, R. L. Clark Water Treatment Plant and the R. C. Harris Water Treatment Plant;
- ✓ Conducted numerous Energy Optimization initiatives at various locations to reduce the overall cost of energy and reduce our carbon footprint;
- ✓ Created a new service delivery model for Beaches sampling through the use of Toronto Police Services Lifeguards to conduct daily beach sampling;
- ✓ Completed the Water Efficiency Plan Update;
- ✓ Selected as the recipient of the 2011 Cities Initiative Water Conservation Framework Most Innovative Conservation Method Award. The nomination was based off the City's 2011 annual report for the Cities Initiative Water Conservation Framework;
- ✓ Rolled out the Mandatory Downspout Disconnection Program; and,
- ✓ Rolled out the Lead Mitigation Strategy that includes: Corrosion Control Plan, Priority Lead Service Replacement Program and a Faucet Filter Program.

## 2011 Budget Variance Analysis

### 2011 Budget Variance Review (In \$000s)

| (In \$000s)               | 2009<br>Actuals | 2010<br>Actuals | 2011<br>Approved<br>Budget | 2011<br>Projected<br>Actuals* | 2011 Appvd. Budget vs Projected<br>Actuals Variance |       |
|---------------------------|-----------------|-----------------|----------------------------|-------------------------------|---|-------|
|                           | \$              | \$              | \$                         | \$                            | \$  | %     |
| <b>GROSS EXP.</b>         | 371,270.6       | 352,884.8       | 389,992.5                  | 375,000.3                     | (14,992.2)  | (3.8) |
| <b>REVENUES</b>           | 705,518.1       | 758,000.1       | 820,968.8                  | 807,201.8                     | (13,767.0)  | (1.7) |
| <b>CAPITAL CONTR.</b>     | 334,247.5       | 405,115.3       | 430,976.3                  | 432,201.5                     | 1,225.2   | 0.3   |
| <b>Approved Positions</b> | 1,744.5         | 1,731.4         | 1,723.3                    | 1,723.3                       | -   | -     |

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

## 2011 Experience

- Toronto Water is projecting that budgeted year-end water sales and sewer surcharges will not be achieved and are forecasted to be 1.7% or \$13.767 million below the 2011 Approved Operating Budget Revenues of \$820.969 million.
  - The projected revenue loss reflects lower consumption arising from continued reductions in water consumption, occurring primarily through water efficiency measures.
- Forecasted year-end gross expenditures are expected to be \$14.992 million or 3.8% lower than the 2011 Approved Gross Operating Budget of \$389.993 million.
  - This favourable variance reflects savings from unfilled vacancies and lower than anticipated Hydro costs.
  - The contribution to capital is projected to be \$1.225 million or 0.3% above plan, largely as a result of gross expenditure savings partially offset by revenue losses.

## Impact of 2011 Operating Variance on the 2012 Recommended Budget

- The projected year-end net revenue short-fall for lower than planned water sales and sewer surcharges of \$13.767 million has been taken into account in developing the current and future year consumption projections in the 2012 Water Rate Model.



## Appendix 2

## 2012 Recommended Operating Budget by Expenditure Category and Key Cost Drivers

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

| Category of Expense                | 2009             | 2010             | 2011             | 2011             | 2012               | 2012 Change from     |              | 2013             | 2014             |
|------------------------------------|------------------|------------------|------------------|------------------|--------------------|----------------------|--------------|------------------|------------------|
|                                    | Actual           | Actual           | Budget           | Projected Actual | Recommended Budget | 2011 Approved Budget | %            | Outlook          | Outlook          |
|                                    | \$               | \$               | \$               | \$               | \$                 | \$                   | %            | \$               | \$               |
| Salaries and Benefits              | 137,097.0        | 141,791.7        | 157,626.6        | 148,444.2        | 156,842.7          | (783.9)              | -0.5%        | 158,014.5        | 158,312.5        |
| Materials and Supplies             | 83,426.8         | 84,784.6         | 90,542.3         | 85,582.2         | 91,588.7           | 1,046.4              | 1.2%         | 91,388.7         | 91,388.7         |
| Equipment                          | 2,998.2          | 2,908.4          | 2,642.8          | 3,613.2          | 2,330.7            | (312.1)              | -11.8%       | 2,280.7          | 2,230.7          |
| Services & Rents                   | 39,708.7         | 35,594.7         | 41,430.9         | 42,568.2         | 38,842.8           | (2,588.1)            | -6.2%        | 38,842.8         | 38,842.8         |
| Contributions to Capital           | 334,247.5        | 405,115.3        | 430,976.3        | 432,201.5        | 511,779.7          | 80,803.4             | 18.7%        | 511,779.7        | 511,779.7        |
| Contributions to Reserve/Res Funds | 9,088.7          | 7,748.3          | 8,050.4          | 8,050.4          | 6,965.5            | (1,084.9)            | -13.5%       | 6,965.5          | 6,965.5          |
| Other Expenditures                 | 25,793.4         | 17,631.2         | 20,951.2         | 21,467.3         | 18,805.2           | (2,146.0)            | -10.2%       | 18,805.2         | 18,805.2         |
| Interdivisional Charges            | 73,157.8         | 62,425.8         | 68,748.3         | 65,274.7         | 66,177.6           | (2,570.7)            | -3.7%        | 65,648.5         | 65,648.5         |
| <b>TOTAL GROSS EXPENDITURES</b>    | <b>705,518.1</b> | <b>758,000.0</b> | <b>820,968.8</b> | <b>807,201.7</b> | <b>893,332.9</b>   | <b>72,364.1</b>      | <b>8.8%</b>  | <b>893,725.6</b> | <b>893,973.6</b> |
| Interdivisional Recoveries         | 9,552.9          | 83.0             | 52.2             | 25.5             | 3.2                | (49.0)               | -93.9%       | 3.2              | 3.2              |
| Provincial Subsidies               |                  |                  |                  |                  |                    |                      |              |                  |                  |
| Federal Subsidies                  |                  |                  |                  |                  |                    |                      |              |                  |                  |
| Other Subsidies                    |                  | 68.1             |                  | 13.1             |                    |                      |              |                  |                  |
| User Fees & Donations              | 12,370.2         | 14,300.7         | 12,619.5         | 15,269.0         | 33,349.1           | 20,729.6             | 164.3%       | 33,349.1         | 33,349.1         |
| Transfers from Capital Fund        | 746.7            | 1,413.5          | 1,973.8          | 1,973.8          | 2,178.5            | 204.7                | 10.4%        | 2,178.5          | 2,178.5          |
| Contribution from Res/Res Funds    |                  |                  |                  |                  |                    |                      |              |                  |                  |
| Other Revenue                      | 4,175.6          | 3,577.3          | 2,957.4          | 2,802.8          | 2,692.1            | (265.3)              | -9.0%        | 2,692.1          | 2,692.1          |
| Sale of Water                      | 678,672.7        | 738,557.4        | 803,365.9        | 787,117.5        | 855,110.0          | 51,744.1             | 6.4%         | 855,110.0        | 855,110.0        |
| <b>TOTAL REVENUE</b>               | <b>705,518.1</b> | <b>758,000.0</b> | <b>820,968.8</b> | <b>807,201.7</b> | <b>893,332.9</b>   | <b>72,364.1</b>      | <b>8.8%</b>  | <b>893,332.9</b> | <b>893,332.9</b> |
| <b>TOTAL NET EXPENDITURES</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>392.7</b>     | <b>640.7</b>     |
| <b>APPROVED POSITIONS</b>          | <b>1,744.5</b>   | <b>1,731.4</b>   | <b>1,723.3</b>   | <b>1,723.3</b>   | <b>1,676.3</b>     | <b>(47.0)</b>        | <b>-2.7%</b> | <b>1,676.3</b>   | <b>1,676.3</b>   |

## 2012 Key Cost Drivers

- Toronto Water's actual annual salary and benefits costs have increased by 3.4% in 2010, they are projected to increase by 4.7% in 2011 and are budgeted to decrease by 0.5% in 2012.
  - Salary and benefit costs have historically increased with contractually obligated wage increases, increased benefit costs and step and progression pay increases.
    - With the exception of a contractually obligated wage increase, which is subject to future negotiations, these expenses continue to impact the Program in 2012 requiring a \$3.567 million or a 2.3% increase from 2011 budgeted salaries and benefits for OMERS and benefit increases, costs for an additional working day and step and progression pay increases.

- In 2012, the budget for salaries and benefits decreases and is below previous year trends due to the reduction of 47 positions from recommended service changes that will reduce salary and benefit costs by \$4.012 million in 2012.
- Inflationary increases in materials, chemicals and utility costs are continuing to result in significant increases in material and supplies expenses. These costs, which represent 24.0% of Toronto Water's gross expenditures less capital contributions, increased by 1.6% in 2010, costs are projected to increase by 0.9% in 2011 and are budgeted to increase by 1.2% or \$1.046 million in 2012 due to:
  - 2012 budgeted increase in material and supplies, which is predominately driven by an anticipated 2012 Hydro Rate increase of an average of 10.4 cents per kw at an incremental cost of \$0.939 million. Anticipated inflationary increases for all other materials and supplies result in \$1.331 million in increased 2012 pressures. These inflationary pressures include increases for water consumption (\$0.254 million); chlorine (\$0.235 million); machinery and equipment parts (\$0.157 million); and various other chemicals (\$0.278 million).
  - Recommended inflationary increases in material and supplies have been somewhat offset by process efficiency and line by line reductions that are included in Toronto Water's recommended service changes.
- A decrease in the Contribution to Reserves of \$1.085 million and decreases to City-wide Interdivisional Charges (IDCs) of \$2.571 million reflects decreased fleet requirements resulting in a \$1.100 million reduction in their contribution to the Vehicle and Equipment Reserve and \$0.526 million reduction in Fleet charges for maintenance and fuel.
- As a result of reduced water consumption levels, Toronto Water's actual annual revenues increases have not increased in direct proportion with the 9% annual rate increase.
  - Actual revenues, excluding transfers from the Capital Budget, have increased by 7.4% in 2010, 5.9% in 2011 and are budgeted to increase by 9.0% or \$72.159 million in 2012. The increase in 2012 arises from \$1.546 million increase in user fees and the transfer of \$16.500 million in user fees that had previously been budgeted directly to applicable capital projects.
  - The 2011 Water and Wastewater 9% service rate increase is anticipated to generate the following additional revenue:
    - \$48.602 million from the sale of water within the City of Toronto, representing a 6.2% increase from the 2011 approved sale of water revenues; and
    - \$3.142 million from the sale of water to the Region of York, representing a 14.2% increase from the 2011 approved sale of water revenues for the Region of York.

## Appendix 3

### Summary of 2012 Recommended Service Changes

## Appendix 4

### Summary of 2012 Recommended New/Enhanced Service Priority Actions

## Appendix 5

### Inflows/Outflows to/from Reserves & Reserve Funds

#### Corporate Reserve / Reserve Funds

| Reserve / Reserve Fund Name<br>(In \$000s)                | Reserve / Reserve Fund Number | Projected Balance as of December 31, 2011 * | Proposed Withdrawals (-) / Contributions (+) |                |                |
|---|-------------------------------|---|--|----------------|----------------|
|   |                               |   | 2012   | 2013           | 2014           |
|   |                               |   | \$   | \$             | \$             |
| Vehicle Equipment Reserve (Water)                         | XQ1012                        | 5,976.1                                     | 1,247.0                                      | 1,247.0        | 1,247.0        |
| Vehicle Equipment Reserve (Wastewater)                    | XQ1012                        |   | 1,653.0                                      | 1,653.0        | 1,653.0        |
| Insurance Reserve Fund                                    | XR1010                        | 40,714.1                                    | 4,065.4                                      | 4,065.4        | 4,065.4        |
| Water & Wastewater Capital Reserves                       | XR6003 & XR6004               | 0.0*  | 511,779.7                                    | 511,779.7**    | 511,779.7**    |
| <b>Total Reserve / Reserve Fund Draws / Contributions</b> |                               |   | <b>518,745.1</b>                             | <b>6,965.4</b> | <b>6,965.4</b> |

\* Based on 3rd Quarter Variance Report

\*\* The Future Year Contribution does not include Planned Water Rate Increases