Decision Letter

Budget Committee

Meeting No.	28	**Contact**	Kelly McCarthy, Committee Administrator
Meeting Date	Monday, September 24, 2012	**Phone**	416-397-7796
Start Time	9:30 AM	**E-mail**	buc@toronto.ca
Location	Committee Room 1, City Hall	**Chair**	Councillor Mike Del Grande

BU28.9	ACTION	Adopted		Ward:All

Toronto Water Capital Program Funding Pressures and Financing Options

Committee Decision

The Budget Committee recommends to the Executive Committee that:

1. The Deputy City Manager and Chief Financial Officer, and General Manager, Toronto Water, report back to Executive Committee, in advance of Toronto Water's 2014 Capital Budget submission, with a new financing strategy to support Toronto Water's long term Capital Plan, which includes a blend of the following financing options:

   a. Water Rate increases, beyond the existing plan of 3%, beginning in 2015;

   b. Debenture financing for large scale, long service period projects beginning in 2014, with all debt service costs to be paid from water rate revenue;

   c. Introducing a fixed charge to provide a dedicated reserve for wet weather flow control projects including basement flooding protection, beginning in 2015;

   d. Increasing development charge recoveries which may be realized through the forthcoming update to the 2013 Development Charges Background Study; and

   e. Opportunities to secure funding from the Federal and Provincial Governments for Lake Ontario water quality improvement projects.

Origin

(September 10, 2012) Report from the Deputy City Manager and Chief Financial Officer and General Manager, Toronto Water

Summary

Revenues are the lifeblood of all water utilities and without a long term plan for adequate revenue generation the quality of service will deteriorate over time from the lack of proper maintenance and system improvements. It is important for the City of Toronto to develop a

new financing strategy that generates enough revenue to ensure the water utility is financially and operationally sustainable.

While Toronto Water's Capital Program continues to be 100 percent self sustaining, largely through water revenues (with no debenture financing and no impact on the municipal property tax levy), declining water consumption trends and a number of competing priorities has placed significant pressure on the long term capital program.

In November 2011, City Council approved a decrease of $1.132 billion or 14 percent of the 2011-2020 Approved Toronto Water Capital Plan. This was due primarily to decreased revenue forecasts arising from a continued decreasing trend in water consumption. There was also a realignment of capital spending rates to reflect a higher spending capacity and the addition of capital projects through recent Council decisions.

Concurrently, with deferring over one billion dollars worth of projects, there is an estimated $540 million in project funding required to address unbudgeted projects being discussed at this time, while at the same time, public pressure is increasing to reinstate funding that was deferred for programs such as basement flooding protection and combined sewer overflow control projects.

In response to these capital funding pressures, City Council requested staff to consult with the City's major water stakeholders on funding options to address the capital funding deficiencies within Toronto Water, including potential changes to the water rate pricing structure and report back on these options. The feedback received from a number of recent stakeholder targeted public consultation sessions has been taken into consideration in the development of funding strategies recommended in this report.

Financial Impact

While a number of capital program financing strategies are presented, there are no immediate financial impacts arising from this report. The report recommends that a new financing strategy to fund Toronto Water's long term Capital Plan be prepared and submitted in advance of Toronto Water's 2014 Capital Budget submission with no impact on the property tax levy.

Background Information

(September 10, 2012) Report from the Deputy City Manager and Chief Financial Officer and General Manager, Toronto Water on Toronto Water Capital Program Funding Pressures and Financing Options
(http://www.toronto.ca/legdocs/mmis/2012/bu/bgrd/backgroundfile-50009.pdf)