



**STAFF REPORT
ACTION REQUIRED**

Feasibility of Introducing a Residential Private-Side Lead Water Service Connection Replacement Funding Program

Date:	July 29, 2014
To:	Public Works and Infrastructure Committee
From:	General Manager, Toronto Water Deputy City Manager and Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2014\Internal Services\Cf\Pw14021Cf (AFS #20194)

SUMMARY

This report is submitted in response to a direction from City Council to the General Manager, Toronto Water, and the Deputy City Manager and Chief Financial Officer to submit a report to the August 13, 2014 meeting of Public Works and Infrastructure Committee on the feasibility of developing a lead water service replacement loan program with installments paid through water bills or property taxes based on a model similar to the Home Energy Loan Program (HELP).

Previous concerns regarding providing a loan program for private property improvements have been recently lessened through changes in Provincial regulation that permit the use of local improvement charges to secure the recovery of funding provided by the City to the homeowner for work performed on private property.

Due to concerns over the health impacts of lead and calls from members of City Council and the public for City financial support to assist homeowners to finance the replacement of lead water service connections with copper piping, this report recommends that the General Manager, Toronto Water, and the Deputy City Manager and Chief Financial Officer submit in early 2015 the details of a program to provide secured loans to homeowners seeking to replace their lead service connections on private residential properties through a city-funded program secured as a local improvement charge on the property.

RECOMMENDATIONS

The General Manager, Toronto Water, and the Deputy City Manager and Chief Financial Officer recommend that:

1. City Council direct the General Manager, Toronto Water and the Deputy City Manager and Chief Financial Officer to develop a self-funded loan program as described in this report for City of Toronto homeowners wishing to replace lead water service connections situated on their properties.
2. The General Manager, Toronto Water and the Deputy City Manager and Chief Financial Officer report back to the Public Works and Infrastructure Committee by the second quarter of 2015 on the details of such program.

Financial Impact

There are no immediate financial implications with the recommendations in this report.

Changes to the Local Improvement Charges regulation provide municipalities with the ability to recover funding provided by the City to the homeowner for the costs of capital works on private property, such as the replacement of a lead water service connection. Changes to the Local Improvement Charges regulation provide municipalities with the ability to recover funding provided by the City to the homeowner for the costs of capital works on private property, such as the replacement of a lead water service connection. The funding would be provided with interest charged at the City's cost of borrowing and secured by a priority lien against the property, along with an administrative fee to cover the City's cost to administer the program, to ensure the program is self-funded.

The Deputy City Manager and Chief Financial Officer has reviewed the report and agrees with the financial impacts.

DECISION HISTORY

At its meeting of June 10, 2014, City Council adopted item MM52.4 *Lead in Drinking Water Mitigation Strategy* and in doing so, amongst other things, directed the General Manager, Toronto Water and the Deputy City Manager and Chief Financial Officer to submit a report on the feasibility of developing a Lead Service Replacement Loan program with installments paid through water bills or property taxes based on a model similar to the Home Energy Loan Program (HELP). This Council direction can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.MM52.4>

City Council had previously considered the feasibility of a loan program for the replacement of private-side lead water service connections in 2007 and 2010. In both instances, a loan program was not recommended due to various legislative and administrative policy reasons in effect at those times.

Those reports can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.PW30.1>
<http://www.toronto.ca/legdocs/mmis/2007/pw/bgrd/backgroundfile-8875.pdf>

ISSUE BACKGROUND

In 2007, the Ministry of the Environment (MOE) ordered municipalities in Ontario to conduct lead testing of the water supply system and submit the results for assessment. The Regulated Lead Testing Program required municipalities to collect samples in areas where the plumbing was suspected of being connected to lead water services, analyze these samples and submit results.

Subsequent testing of drinking water for lead showed that some samples taken by the City exceeded the Provincial water quality standard. In response, the City introduced in 2011 the Lead in Drinking Water Mitigation Strategy, a comprehensive strategy comprised of corrosion control, City-side lead service replacement, a faucet filter program and public education geared toward reducing exposure to lead in drinking water.

The report from the General Manager, Toronto Water titled "Lead in Drinking Water Mitigation Strategy – Update" dated July 28, 2014, also listed on the August 13, 2014 meeting agenda of Public Works & Infrastructure Committee, provides a comprehensive update on the Lead in Drinking Water Mitigation Strategy.

Toronto has 475,000 residential water service connections. In 2007, approximately 65,000 city-owned services were estimated to be lead. In 2014, there are approximately 35,000 remaining following the implementation of the Lead in Drinking Water Mitigation Strategy.

COMMENTS

Private-Side Water Service Connections

While the replacement of the lead service connection is helpful in reducing lead exposure from drinking water, the mechanisms currently available to the City to achieve this goal are limited when it comes to private property, as the responsibility is with the homeowner.

Homeowners with lead service can mitigate some of the contamination by running their water until it is very cold and letting it run for at least 1 minute before using, and/or through water filters, which are also available free from the City for low-income households.

To reduce the risk of health impacts, homeowners are encouraged to replace their portion of the lead water service connections on private property in conjunction with Toronto Water's effort to replace the City-side portion. Toronto Water and Toronto Public Health support the goal of reducing lead exposure by encouraging the complete replacement of lead service connections, preferably concurrently.

However, the cost to homeowners to replace the lead water service connection on their property costs approximately \$3,000 to hire a licensed plumber to undertake the work. Councillors and members of the public have voiced a concern that the cost can make the replacement prohibitive for residents, and particularly those on fixed and low incomes.

Local Improvement Charges can now be applied to Private Property Improvements

In 2012, the Province amended the Local Improvement Charges regulation under the *City of Toronto Act, 2006* and the *Municipal Act*, to provide municipalities with the ability to recover the costs of capital works on private property through a local improvement charge secured by a priority lien against the property.

This change has allowed the City to implement the Homeowner Energy Loan Program (HELP) wherein homeowners may obtain low-cost funding (up to \$20,000), by way of a loan from the City, to make energy and water conservation improvements.

Other municipalities such as Hamilton, London and Brantford have also implemented a Lead Water Service Replacement Loan Program with varying program requirements.

In all of these types of programs, the amount is transferred to property taxes for collection. As such, the registered property owners would have to authorize the work on their property and would be responsible for the funding repayment. If the property is sold, the priority lien status will ensure that the charge will run with the property and become the responsibility of the new owner.

Program Details and Administration

A follow up report in early 2015 will provide details of proposed loan program for the replacement of lead service connections on private property.

Key components of the proposed program will include:

- Funding up to the estimated cost for a private-side lead service replacement, for up to 10 years with interest at the City's borrowing rate, secured as a priority lien against the property using a local improvement charge;
- Consent from all mortgage lenders, if the property is subject to one or more mortgages;
- The local improvement charge is payable through the property owner's tax bill with annual payments due on one or more tax installment due dates as set out in the property owner's agreement;
- All property taxes and other municipal charges must be current at the time of application and at time of funding payment;

- Work must be performed by a contractor licensed to perform plumbing work in the City of Toronto and who has obtained a Building Permit for work on the property's water service; and,
- Confirmation that the work was completed and inspected.

In addition to interest payments, a one-time application fee will be included to cover the City's administrative costs for additional staff that would be required to administer applications, billings and inspections.

It is expected that such a funding program would operate on a cost recovery basis and thus have no financial impact to the City.

In the absence of interest charges and/or administrative fees, the City could be required to fund an estimated upside limit of \$165 million in loans (based on the estimated 55,000 private-side lead service connections in the City), and the cost of borrowing on such an amount would be approximately \$7 million annually. Additional staffing costs of approximately \$150,000 per year could be incurred in the absence of the proposed application fee.

From the program administration perspective, Toronto Water would be responsible for advertising the loan program and intake of applications and verification of eligibility requirements, and Revenue Services and Accounting Services would be responsible for the loan administration including ensuring taxes are in good standing required for application approval.

Based on the experience of other Ontario municipalities in providing support to homeowners to replace lead water services and the prevalent health concerns with exposure to lead, the General Manager, Toronto Water, and the Deputy City Manager and Chief Financial Officer have concluded that a lead service connection loan program is feasible and recommend that a subsequent staff report be provided in early 2015 that will carry details of the proposed program.

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