

Analyst Briefing Notes

Budget Committee

(October 17, 2008)

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PART I: 2009 OPERATING BUDGET**Executive Summary**

- The Toronto Water 2008 projected year-end contribution to capital of \$290.084 million is \$12.102 million or 4.0% below the 2008 Approved Operating Budget of \$302.186 million net, as at June 30th, 2008. The contribution to capital represents the net water and wastewater rate revenue used to fund the Program's capital works program.
 - Toronto Water is forecasting a decrease in year-end gross expenditures of \$16.744 million or 4.5% compared to the 2008 Approved Operating Budget of \$375.207 million, as at June 30th, 2008. The favourable variance is primarily attributed to salary savings from unfilled vacancies in District Operations and reduced utility costs from lower than anticipated water production.
 - Toronto Water is reporting that year-end revenue will not be achieved and is forecasted to be approximately \$28.846 million or 4.3% below the 2008 Approved Operating Budget of \$677.393 million. The projected decline in water sales revenue is attributed to lower consumption throughout the summer months. Toronto experienced the wettest summer on record.
- The 3-Year Operating Budget provides funding for a broad range of services and activities that advance the Mayor's Mandate and Council's policy agenda.
 - Climate Change Adaptation, Clean Air and Sustainable Energy Action Plan: The 2009 Recommended Operating Budget provides base and new funding of \$7.214 million for the Action Plan.
 - Help to Clean Up Lake Ontario to Make Toronto's Beaches More Swimmable: Funding of \$3.380 million is provided in the 2009 Recommended Operating Budget for various programs to help clean up Lake Ontario and make Toronto's beaches more swimmable.
 - Implementation of a Ravine Improvement Team that will Clean, Beautify, and Improve Access and Stewardship to Toronto's Ravines: Dedicated base funding of \$0.233 million is provided in the 2009 Recommended Operating Budget for the Improvement Team.
- Toronto Water is self-sustaining and does not impact the municipal property tax levy. Operating and capital investments are funded through water and sewage rates established each year by Council. 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.
- Water production has been adjusted downward by 4.4% for 2009 and beyond to reflect lower future demand resulting from the Water Efficiency Plan; weather change; and, consumer sensitivity to water consumption.

Table 1: 2009 Recommended Budget

(In \$000s)	2008		2009 Recomm'd Operating Budget			Change - 2009 Recommended Operating Budget v. 2008 Appvd. Budget		FY Incremental Outlook	
	2008 Appvd. Budget	2008 Projected Actual	2009 Base	2009 New/Enhanced	2009 Operating Budget			2010	2011
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	375,207	358,463	382,278	4,046	386,324	11,117	3.0	11,590	11,937
REVENUE	677,393	648,547	698,703	0	698,703	21,310	3.1	61,914	67,183
CAP. CONTR.	302,186	290,084	316,425	(4,046)	312,380	10,194	3.4	50,324	55,246
Approved Positions	1,678.4	1,678.4	1,675.4	48.0	1,723.4	45.0	2.7	0.0	0.0

- The 2009 Recommended Operating Budget gross expenditure is comprised of base funding of \$382.278 million and new/enhanced priority actions of \$4.046 million and revenues of \$698.703 million. The budgeted contribution to capital of \$312.380 million represents an increase of \$10.194 million or 3.4% over the 2008 Approved Operating Budget contribution to capital of \$302.186 million.
 - The 2010 and 2011 Outlook maintains the projected 2009 level of water supply and wastewater treatment services while managing the operating impact of the capital program; non-labour economic pressures; and, merit/step increments.
- The 2009 Recommended Base Budget provides funding for the following key cost drivers:
 - Reclassification of positions of \$2.698 million.
 - Drain Grant Program funding increases of \$0.771 million.
 - Overtime cost increase of \$0.465 million to reflect actual experience.
 - Transfer of tree plant funding of \$2.000 million from the capital budget.
 - Fleet Services' maintenance and fuel interdivisional charges are anticipated to increase by approximately \$1.761 million.
 - Facilities and Real Estate Services' interdivisional charges are projected to grow by \$0.400 million for the rental of Metro Hall and \$0.816 million for maintenance and custodial services.
 - Solid Waste Management Services' interdivisional charges are forecasted to increase by \$3.212 million for disposal of biosolids; grits and screening; and, red ash from wastewater treatment plants and sludge residue from the Clark and Harris Wastewater Treatment Plants.
- The cost drivers noted above will be partially off-set by the following savings included in the 2009 Recommended Base Budget:
 - Transfer; haulage; and, disposal of by-products from water and wastewater treatment plants at private landfill sites are projected to decline by \$4.509 million.
 - Hydro usage at water supply and wastewater treatment plants is anticipated to decrease by \$4.789 million. The reduction in hydro usage reflects a decline in water production of 4.4% for 2009 and beyond from implementation of the Water Efficiency Plan; weather change; and, consumer sensitivity to water consumption.

- Transfer of water and wastewater new service connection contractor charges to the Program's 2009 Recommended Capital Budget estimated at \$2.100 million.
- Realignment of interdivisional charges from Revenue Services for the shared billing and collection system that will be fully implemented in 2009 for Solid Waste Management Services; water sales; and, sewer surcharges is projected to save \$0.298 million.
- The 2009 Recommended Operating Budget requires funding of \$4.046 million for 2009 and incremental funding of \$2.544 million in 2010 for new/enhanced service priority actions. The new/enhanced service priority actions address the following challenges for Toronto Water:
 - **Downspout Disconnection Program and Basement Flooding:** The 2009 Recommended Operating Budget provides funding for 21 new permanent positions of \$1.186 million for 6 months, effective July 1, 2009, with incremental funding in 2010 of \$1.013 million. Recommended changes to the approved complement include: 11 positions for the Downspout Disconnection Program; 5 positions for the Drain Grant/Basement Flooding Subsidy Program; and, 5 engineering support staff for priority construction projects.
 - **Management Response to the Auditor General's Recommendations:** Funding of \$1.746 million is provided in the 2009 Recommended Operating Budget in response to the Auditor General's recommendations regarding Toronto Water operations, with incremental funding in 2010 of \$0.742 million. Recommended changes to the approved complement for the Program include: 7 Site Inspectors and 3 Contract Management Support positions. In addition, funding is provided for 13 Policy, Planning, Finance and Administration staff for additional purchasing; financial; payroll; and, general administrative support.
 - **Operational Requirements:** The 2009 Recommended Operating Budget provides funding for 17 new permanent positions of \$1.111 million for 6 months, effective July 1, 2009, with incremental funding in 2010 of \$0.788 million. Recommended changes to the approved complement include: 9 operational staff for maintaining on-going compliance with regulations in District Operations; 3 technical staff to support implementation and management of the new Water Supply By-law and increased state of good repair capital projects; 1 position to support the Lead Water Service Connection Replacement Program; and, 4 staff for treatment plant and pumping station computer operating systems.

Recommendations

The City Manager and Acting Chief Financial Officer recommended that:

1. the 2009 Recommended Operating Budget of \$698.703 million with gross operating expenditures of \$386.324 million and a capital-from-current contribution of \$312.380 million, as funded by the water and wastewater user rates and other recoveries, comprised of the following services be approved:

Services:	Gross (\$Thousands)	Net (\$Thousands)
Water Supply & Treatment	65,935	0.0
Wastewater Treatment	111,553	0.0
District Operations	102,474	0.0
Water Infrastructure Management	9,455	0.0
Capital-from-Current Contribution	312,380	0.0
Business Support	15,382	0.0
Operational Support	20,151	0.0
Program Support	61,373	0.0
Total Toronto Water	698,703	0.0

2. this report be considered concurrently with the 2009 Water and Wastewater Service Rate Report (October 2008) from the Acting Deputy City Manager and Chief Financial Officer and General Manager for Toronto Water.

PART II: 2009 OPERATING BUDGET OVERVIEW**3-Year Operating Budget Overview**

- Over the next 3 years, funding for Toronto Water's Operating Budget will advance the strategic direction and service priorities outlined in the Program's Multi-Year Business Plan.
- Toronto Water delivers drinking water and wastewater treatment services within a highly complex set of service challenges and opportunities. The provision of these services is vital to the health and economic well being of the City and must be provided 24 hours a day, 7 days a week. The following highlights the key service drivers:
 - **Mayor/Council Priorities:** Toronto Water experiences challenges in balancing a range of emerging priorities. Examples include the recently Council approved Basement Flooding Remediation Work Plan; Automated Meter Reading System; and, Mandatory Downspout Disconnection Program.
 - **Legislative Changes:** Water supply and wastewater disposal services in Ontario are in the midst of an unprecedented period of regulatory reform following the Walkerton tragedy. Frequent changes in legislation are challenging Toronto Water in terms of planning and allocating staff resources to meet new and emerging regulatory requirements.
 - **Approved Strategic Plans:** Toronto Water continues to implement the commitments outlined within strategic plans of the Division, such as the Wet Weather Flow Master Plan and Water Efficiency Plan. Insufficient resources, can at times, redirect efforts away from core business responsibilities.
 - **Service Demands:** Additional capacity for water supply and wastewater treatment will be required to service a projected population of 3 million people by 2031. These demands will put increased pressure on limited resources for the delivery of services.
 - **Human Resources:** Significant changes in staffing levels have been implemented as a result of municipal amalgamation in 1998 and the Works Best Practices program. The reduction of human resources under the Works Best Practices program required Toronto Water technical staff to assume certain administrative duties such as payroll and purchasing. The management of water and sewer emergency repairs and maintenance contracts has also suffered as a result of insufficient human resources.
- The service objectives for Toronto Water reflect the stringent regulatory environment which governs the provision of water supply and wastewater treatment in Ontario.

- The 2009 Recommended Operating Budget provides base and new funding for the following priority actions to advance the Mayor's Mandate and Council's policy agenda:
 - Climate Change Adaptation, Clean Air and Sustainable Energy Action Plan: The 2009 Recommended Operating Budget provides new and base funding of \$7.214 million for the Action Plan. Funding will be used for the: Mandatory Downspout Disconnection Program; Basement Flooding Remediation Work Plan; creation of a Grant Administration Office; tree planting; and, the Toronto and Region Conservation Authority's 2009 Operating Budget.
 - Help to Clean Up Lake Ontario to Make Toronto's Beaches More Swimmable: Funding of \$3.380 million is provided in the 2009 Recommended Operating Budget for various programs to help clean up Lake Ontario and make Toronto's beaches more swimmable.
 - Implementation of a Ravine Improvement Team that will Clean, Beautify, and Improve Access and Stewardship to Toronto's Ravines: Dedicated base funding of \$0.233 million is provided in the 2009 Recommended Operating Budget for the Improvement Team.
- The 2009 Recommended Operating Budget provides new funding of \$0.210 million in 2009 and \$0.170 million in 2010 to address increased regulations and legislation, which include the Safe Drinking Water Act for the Lead Water Service Connection Replacement Program and the Occupational Health and Safety Act which established new criteria for confined space entry work.
- New funding of \$1.748 million in 2009 and \$0.742 million in 2010 is recommended to enable Toronto Water to implement the Auditor General's recommendations, which includes additional contract management; purchasing; financial; payroll; and, general administrative support.

Service Challenges and Opportunities

Toronto Water delivers drinking water and wastewater treatment services within a highly complex set of service challenges and opportunities. The provision of these services is vital to the health and economic well being of the City and must be provided 24 hours a day, 7 days a week. The Program operates an extensive network of water and sewer lines serving the residential and commercial needs of the City. There are 470,000 water service connections and 463,000 sewer service connections within the City. In addition, the drinking water requirements of a major portion of York Region are supplied under an agreement between the City and the Region. With 12 facilities located across the City, Toronto Water inspects; maintains; operates; and, rehabilitates the existing water distribution; wastewater collection; and, storm water management systems.

The next section summarizes the internal and external service environments, with attention given to the following key service drivers: a) Mayor/Council's policy agenda; b) legislative changes; c) approved strategic plans; d) service demands; and, e) human resources.

- **Mayor/Council's Policy Agenda**

Toronto Water experiences challenges in balancing the range of emerging priorities, such as the Mandatory Downspout Disconnection Program; Automated Meter Reading System; and, the Basement Flooding Remediation Work Plan. Planning and ranking changing priorities will assist

the Program in ensuring that resources are allocated more consistently with core service delivery responsibilities.

- **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. There remain a number of very significant changes in the regulatory framework of the industry about which little are presently known. The Province is 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.

- **Approved Strategic Plans**

Toronto Water continues to implement the commitments outlined within its strategic plans. Insufficient resources, can at times, redirect efforts away from core service responsibilities. Council approved the Wet Weather Flow Master Plan which is designed to reduce combined sewer overflows to the environment from the City's sewer system. The Water Efficiency Plan also approved by Council, reflects Toronto Water's strong commitment to reducing chemical and energy use in supplying water and wastewater services. In addition, a Master Plan for Biosolids Treatment and Disposal has been drafted and the Plan is proceeding with public consultation. The updated Master Plan will be released for a 30 day public review period upon completion, anticipated for late-Fall 2009.

- **Service Demands**

Additional capacity for water supply and wastewater treatment will be required to service a projected population of 3 million people by 2031. Increased customer service pressure requires Toronto Water to meet the needs of City residents through public consultation; public meetings; and/or unplanned maintenance activities.

- **Human Resources**

Significant changes in staffing levels and operating processes have been implemented over the past number of years as a result of municipal amalgamation in 1998 and the Works Best Practices program. The Works Best Practices program was a long-term initiative that began in 1996, to achieve cost savings by automating plant processes; making organizational changes; introducing new operational tools; and, significantly reducing the number of staff.

As noted in the Auditor General's recommendations, the reduction of staff from the Works Best Practices program required technical staff assume certain administrative duties such as payroll and purchasing. As a result, these administrative duties have generally received less attention than those duties directly relating to day-to-day operations. In addition, the management of water and sewer

emergency repairs and maintenance contracts has also suffered due to the redirection of existing resources to administrative responsibilities.

Service Objectives and Priority Actions

Service Objectives

The service objectives for Toronto Water address the challenges and opportunities outlined above, and primarily reflect the need to manage within the strong regulatory environment which governs the provision of water supply and wastewater treatment in Ontario. Ensuring that water supply and wastewater treatment services meet or exceed Provincial regulations and legislation, reflects Toronto Water's strong commitment to the social; economic; and environmental sustainability of the City. The following section provides Toronto Water's measurable service objective targets for 2009 and beyond.

Water Treatment and Supply Services:

- 1. Maintain 100% compliance with Ministry of the Environment drinking water standards while operating in an efficient manner.*

Toronto Water is forecasting for 2009 and beyond 100% compliance with the Ministry of the Environment standards for drinking water quality.

- 2. Reduce watermain breaks per 100 km of watermain by 10% from the 2000-2005 average of 27.60 to 24.84 in 2010.*

Toronto Water is anticipating that watermain breaks will be gradually reduced by 10% in 2010. This will require the renewal and rehabilitation of aging infrastructure with significant long-term investment.

Wastewater Collection and Treatment Services:

- 3. Maintain 100% compliance with Ministry of the Environment Wastewater Certificates of Approval for wastewater while operating in an efficient manner.*

Toronto Water is forecasting for 2009 and beyond 100% compliance with the Ministry of the Environment standards for wastewater collection and treatment.

- 4. Reduce the number of secondary treatment by-passes to 30 or less by 2010.*

Toronto Water is projecting that the percentage of wastewater that by-passes treatment will be gradually decreased from 0.62% in 2006 to 0.50% in 2010. However, the by-pass treatment targets will be partially dependent on weather conditions.

Priority Actions

The 2009 Recommended Operating Budget provides approximately \$10.827 million in base and new funding for a broad range of services and activities that advance the Mayor's Mandate and Council's policy agenda.

- *Climate Change Adaptation , Clean Air and Sustainable Energy Action Plan*

The 2009 Recommended Operating Budget provides base and new funding of \$7.214 million for the Climate Change Adaptation, Clean Air and Sustainable Energy Action Plan. The following highlights funding provided in the 2009 Recommended Operating Budget for these purposes:

Mandatory Downspout Disconnection Program: Council at its meeting of September 24 and 25, 2008, approved the Mandatory Downspout Disconnection Program. An increase of 11 permanent positions for implementation of the Program is included in the 2009 Recommended Operating Budget. The new resources will enable Toronto Water to process all applications to the City's former Voluntary Downspout Disconnection Program received by November 20, 2007. This enhanced service priority action requires funding of \$0.677 million for 6 months, effective July 1, 2009. The incremental funding of \$0.504 million is required for 2010.

Basement Flooding Remediation Work Plan: Council at its meeting of September 24 and 25, 2008, approved the Basement Flooding Remediation Work Plan. The addition of 5 permanent positions will support and prevent delay of the Work Plan. The Work Plan requires a comprehensive engineering review to address chronic basement flooding problems in 31 separate study areas. Priority projects to relieve basement flooding in study areas 14, 28, 29 and 30 will commence on the first set of projects in 2009. Funding of \$0.274 million is required for this enhanced service priority action for 6 months, effective July 1, 2009. Incremental funding of \$0.274 million is required for 2010.

Grant Administration Office: The increase of 5 permanent positions will create a centralized Grant Administration Office within Toronto Water to manage the approximately \$8 million in annual financial assistance provided to residential customers from a variety of incentive programs which support water and energy conservation. This enhanced priority action requires funding of \$0.235 million for 6 months, effective July 1, 2009, with incremental funding in 2010 of \$0.235 million.

Tree Planting: The 2009 Recommended Base Budget requires funding of \$2.000 million for tree planting to improve the retainment of rainwater to reduce surface run-off. The planting of trees will also contribute to the reduction of CO₂ and other green house gases in the atmosphere.

Funding for the Toronto and Region Conservation Authority: The Program's 2009 Recommended Base Budget provides \$4.028 million in funding to support the Toronto and Region Conservation Authority's 2009 Operating Budget. Funding will be used to advance source water protection activities in member municipalities throughout the Greater Toronto Area.

- ***Help to Clean Up Lake Ontario to Make Toronto's Beaches More Swimmable***

The 2009 Recommended Operating Budget provides base funding of \$3.380 million for various monitoring programs, such as outflow; backflow prevention; and, beaches to help clean up Lake Ontario to make Toronto's beaches more swimmable. In addition, funding is also provided for continued implementation of the Wet Weather Flow Master Plan to improve water quality in watercourses and the waterfront. The successful implementation and management of these monitoring programs were a key factor contributing to the improvement of water quality at Toronto's beaches experienced in 2007, for example:

- 6 beaches met the internationally recognized Blue Flag standard.
- 93% of the days Blue Flag beaches were safe for swimming.
- 82% of the days total beaches were safe for swimming.

To ensure compliance and better enforcement of the Sewer Use By-law, increased monitoring of influent, untreated wastewater that flows into the treatment plants, will commence in early 2009 pending assessment of health and safety training issues. There are no financial implications for the 2009 Recommended Operating Budget. These enhanced services will be provided through efficiencies gained from restructuring.

- ***Implementation of a Ravine Improvement Team that will Clean, Beautify, and Improve Access and Stewardship to Toronto's Ravines***

Toronto Water has dedicated base funding of \$0.233 million for cleaning, beautifying and improving access to Toronto's ravines in the 2009 Recommended Operating Budget. The ravine and watercourse improvement will be managed by the Parks, Forestry and Recreation staff.

Legislative Requirements and Compliance with Provincial Regulations

The 2009 Recommended Operating Budget provides base and new funding to manage increased regulations and legislation, which include amendments to the Safe Drinking Water Act for the Lead Water Service Connection Replacement Program and the Occupational Health and Safety Act which established new criteria for confined space entry work.

Lead Water Service Connection Replacement Program, Safe Drinking Water Act: The addition of 1 position will assist with the Council approved Lead Water Service Connection Replacement Program. Funding for this priority action is \$0.036 million for 6 months, effective July 1, 2009. The incremental funding in 2010 will be \$0.036 million.

Ministry of Labour's Occupational Health and Safety Act, RSO 1990: An increase of 4 positions will ensure that Toronto Water complies with 2006 changes to the Ministry of Labour's Occupational Health and Safety Act, RSO 1990, concerning staffing requirements for confined space entry work. Funding for this priority action is \$0.174 million for 6 months, effective July 1, 2009, with incremental funding of \$0.134 million in 2010.

Management Response to the Auditor General's Recommendations

In 2007, the Auditor General conducted 3 reviews of Toronto Water operations. The reviews assessed the existing internal controls for payroll processing; overtime; attendance management; and, contract management. The following summarizes the recommended service priority actions included in the 2009 Recommended Operating Budget in response to the Auditor General's recommendations.

Contract Management: An increase of 10 permanent positions within Toronto Water will provide contract management support, which includes 7 Site Inspectors and 3 Contract Management Support positions. This priority action requires funding of \$0.550 million for 6 months, effective July 1, 2009. The incremental funding in 2010 will be \$0.483 million.

Payroll Processing; Overtime; and, Attendance Management: The 2009 Recommended Operating Budget requires funding of \$0.842 million for 13 Policy, Planning, Finance and Administrative positions to provide additional purchasing; financial; payroll; and, general administrative support to Toronto Water operations, effective April 1, 2009. The incremental funding of \$0.259 million is required for 2010.

PART III: 2008 BUDGET VARIANCE ANALYSIS

Table 2: 2008 Budget Variance Review

(In \$000s)	2007 Actuals	2008 Approved Budget	2008 Projected Actuals*	2008 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
GROSS EXP.	388,034	375,207	358,463	(16,744)	(4.5)
REVENUES	656,918	677,393	648,547	(28,846)	(4.3)
CAP. CONTR.	268,884	302,186	290,084	(12,102)	(4.0)
Approved Positions	1,634.5	1,678.4	1,678.4	0.0	0.0

Note: *Source Toronto Water 2008 Second Quarter Operating Budget Variance Report.

2008 Experience

Toronto Water does not have a direct impact on the municipal property tax levy. The 2008 Approved Operating Budget is financed from water and wastewater rates and other service charges.

The 2008 year-end gross expenditure projection for Toronto Water is \$16.744 million or 4.5% below the 2008 Approved Operating Budget of \$375.207 million, as at June 30th, 2008. The favourable variance is largely attributed to salary savings from unfilled vacancies in District Operations and reduced utility costs from lower than planned water production.

Toronto Water is reporting that year-end water sales revenue and sewer surcharges will not be achieved and is approximately \$28.846 million or 4.3% below the 2008 Approved Operating Budget of \$677.393 million. The projected decline in water sales revenue is attributed to lower consumption throughout the summer months. Toronto experienced the wettest summer on record. Toronto's daily water consumption declined this summer by as much as 300 million litres.

Toronto Water is forecasting a year-end decrease in the contribution to capital of \$12.102 million or 4.0% compared to the 2008 Approved Operating Budget of \$302.186 million. The decrease, as noted above, primarily reflects lower than budgeted gross revenues which are partially mitigated by salary savings from unfilled vacancies and reduced utility costs. The net revenue from water and wastewater rates funds the contribution to capital account that is used to finance Toronto Water's capital works program.

Impact of 2008 Operating Variance on the 2009 Recommended Budget

A small proportion of Toronto Water's favourable variance in 2008 gross expenditures of \$16.744 million from unfilled vacancies and reduced utility costs will be maintained in the 2009 Recommended Operating Budget. The reorganization of District Operations currently in progress will have a substantial impact on the number of unfilled vacancies. It is anticipated that the reorganization and final assessment of personnel requirements for District Operations will be completed by mid-2009.

The projected year-end net revenue short-fall for lower than planned water sales and sewer surcharges of \$12.102 million or 4.0% compared to the 2008 Approved Operating Budget of \$302.186 million will be managed at year-end with a draw from the Water and Wastewater Rate Stabilization Reserves. In addition, to lessen future pressure on the water and wastewater rates, water production has been adjusted downward by 4.4% to reflect lower future demand resulting from the Water Efficiency Plan; weather change; and, consumer sensitivity to water consumption.

PART IV: 2009 RECOMMENDED BASE BUDGET

Table 3: 2009 Recommended Base Budget

(In \$000s)	2008 Appvd. Budget	2009 Recommended Base	Change 2009 Recommended Base v. 2008 Appvd. Budget		FY Incremental Outlook	
					2010	2011
	\$	\$	\$	%	\$	\$
GROSS EXP.	375,207	382,278	7,071	1.9	9,046	11,937
REVENUE	677,393	698,703	21,310	3.1	61,914	67,183
CAP. CONTR.	302,186	316,425	14,239	4.7	52,868	55,246
Approved Positions	1,678.4	1,675.4	(3.0)	(0.2)	0.0	0.0

2009 Recommended Base Budget

The additional \$7.071 million in gross expenditures recommended for the 2009 Base Budget reflects an increase of 1.9% compared to the 2008 Approved Operating Budget of \$375.207 million. The additional funding is required for annualized costs from partially funded 2008 approvals; merit and step increases; non-salary economic factors; and, other base changes required to maintain service delivery standards for water supply and wastewater treatment.

The 2009 Recommended Base Budget revenues of \$698.703 million are \$21.310 million or 3.1% higher than the 2008 Approved Operating Budget of \$677.393 million. Revenues for 2009 will be recovered from the following:

- Water sales and wastewater surcharges in Toronto, budgeted at \$660.300 million.
- Revenue from industrial waste surcharges; private water agreements; service charges; and, sundry revenue, forecasted at \$15.630 million.
- Sale of water to York Region, estimated at \$22.773 million.

The 2009 Recommended Base Budget contribution to capital of \$316.425 million represents an increase of \$14.239 million or 4.7% compared to the 2008 Approved Operating Budget of \$302.186 million.

Please refer to the 2009 Water and Wastewater Service Rate Report (October 2008) from the Acting Deputy City Manager and Chief Financial Officer and General Manager for Toronto Water, for a detailed discussion regarding the methodology used to establish water and wastewater rates.

The 2009 Recommended Base Budget approved complement is 1,675.4 positions and includes the decline of 3 vacant positions or 0.2% compared to the 2008 Approved Operating Budget complement of 1,678.4 positions. The decrease reflects the reduction of 3 vacant positions due to

an internal re-organization of electrical support staff within water supply and wastewater treatment plants.

2009 Key Cost Drivers

The 2009 Recommended Base Budget provides funding for the following key cost drivers:

- Reclassification of positions of \$2.698 million.
- Drain Grant Program funding increases of \$0.771 million.
- Overtime cost increase of \$0.465 million to reflect actual experience.
- Transfer of tree plant funding of \$2.000 million from the capital budget.
- Fleet Services' maintenance and fuel interdivisional charges are anticipated to increase by approximately \$1.761 million.
- Facilities and Real Estate Services' interdivisional charges are projected to grow by \$0.400 million for the rental of Metro Hall and \$0.816 million for maintenance and custodial services.
- Solid Waste Management Services' interdivisional charges are forecasted to increase by \$3.212 million for disposal of biosolids; grits and screening; and, red ash from wastewater treatment plants and sludge residue from the Clark and Harris Wastewater Treatment Plants.

The cost drivers noted above will be partially off-set by the following savings included in the 2009 Recommended Base Budget:

- Transfer; haulage; and, disposal of by-products from water and wastewater treatment plants at private landfill sites are projected to decline by \$4.509 million.
- Hydro usage at water supply and wastewater treatment plants is anticipated to decrease by \$4.789 million. The reduction in hydro usage reflects a decline in water production of 4.4% for 2009 and beyond from implementation of the Water Efficiency Plan; weather change; and, consumer sensitivity to water consumption.
- Transfer of water and wastewater new service connection contractor charges to the Program's 2009 Recommended Capital Budget estimated at \$2.100 million. This represents the final phase of the reallocation of new service connection charges to the capital budget which commenced in 2008.
- Realignment of interdivisional charges from Revenue Services for the shared billing and collection system that will be fully implemented in 2009 for Solid Waste Management Services; water sales; and, sewer surcharges are projected to save \$0.298 million.

2010 and 2011 Outlook: Net Incremental Impact

The 2010 and 2011 Outlook maintains the projected 2009 level of water and wastewater treatment services while managing the operating impact of the capital program; non-labour economic pressures; and, merit/step increases. The 2010 incremental gross expenditure funding is \$9.046 million and \$11.937 million in 2011.

2009 Base Budget Issues**2009 Recommended Operating Budget vs. Guideline**

The Program is self-sustaining and does not impact the municipal property tax levy. Operating and capital investments are funded through 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.

Please refer to the 2009 Water and Wastewater Service Rate Report (October 2008) from the Acting Deputy City Manager and Chief Financial Officer and General Manager for Toronto Water concerning 2009 recommended water and wastewater rate increases.

Overtime Costs

Overtime costs to ensure the delivery of water supply and wastewater treatment services have increased in the last 8 years. Numerous factors, both controllable and uncontrollable, have contributed to the increase in overtime costs, which include:

- Unpredictability of extreme weather events and their subsequent pressure on Toronto Water's infrastructure.
- Increase in Provincial regulations and legislation which governs water supply and wastewater treatment in recent years.
- Emergency maintenance due to equipment breakdowns at water supply and wastewater treatment facilities.
- Staff reductions from municipal amalgamation in 1998 and the Works Best Practices program.
- Unfilled vacancies stemming primary from the reorganization of District Operations currently in progress.

Many of the new/enhanced priority actions recommended for 2009 will reduce the current level of overtime costs, as detailed in the Recommended New/Enhanced Service Priority section. In addition, the reorganization and final assessment of personnel requirements for District Operations, projected to be completed by mid-2009, will also lower overtime costs for 2010 and beyond.

Issues Referred to the 2009 Operating Budget Process

Implementing Water Efficiency Measures within Parks, Forestry and Recreation Facilities

City Council at its meeting of January 29 and 30 2008, adopted the implementation of water efficiency measures within Parks, Forestry and Recreation facilities. The purpose of this initiative is to implement measures required by Parks, Forestry and Recreation to successfully achieve the objectives of the City's Water Efficiency Plan and Toronto Water's Water Loss Reduction Strategy. The motion recommended the following:

As part of the annual Capital and Operating Budget submission, the General Manager, Parks, Forestry and Recreation, in collaboration with the General Manager, Toronto Water, and the Deputy City Manager and Chief Financial Officer develop a water conservation strategy for the implementation of water efficiency measures at specific sites proposed in the forthcoming year; and,

The Deputy City Manager and Chief Financial Officer and General Manager of Toronto Water report annually through Toronto Water's Capital and Operating Budget approval process on the aggregate annual water consumption from all Parks, Forestry and Recreation Division sites and facilities, tracking changes in consumption as water efficiency measures are implemented.

Toronto Water in collaboration with the Parks, Forestry and Recreation Division staff is currently undertaking a water use and consumption audit of all Parks, Forestry and Recreation facilities and sites. The audit includes: a) confirmation of whether water consumption is metered at each site; b) estimates of annual water consumption for indoor and outdoor water uses, respectively, at each site; c) a listing off all sites, in order of priority based on anticipated water reduction potential, for implementation of water efficiency measures; and, d) listing of unmetered sites, in order of priority based on estimated annual water consumption. Completion of the water use and consumption audit is preliminary scheduled for early Fall-2009. For 2010 and beyond, the General Manager, Parks, Forestry and Recreation, in collaboration with the General Manager, Toronto Water, and the Deputy City Manager and Chief Financial Officer, will identify specific sites proposed in the forthcoming year for implementation of water efficiency measures as part of their annual capital and operating budget submissions. In addition, Toronto Water will provide, as part of the 2010 capital budget and operating budget approval process, the aggregate annual water consumption from all Parks, Forestry and Recreation Division sites and facilities, including changes in consumption as water efficiency measures are implemented.

Outstanding Issues from 2008 and Prior Years

There are no issues outstanding from 2008 and prior years for Toronto Water.

PART V: RECOMMENDED NEW SERVICE PRIORITY ACTIONS

Table 4
2009 New / Enhanced Service Priority Actions: Summary
(In \$000s)

Description	2009 Recommended		Rec. New Positions	Net Incremental Impact	
	Gross Exp.	Net Exp.		2010	2011
	\$	\$		\$	\$
Enhanced Services:					
(a) Enhanced Services - Council Approved					
Additional Staff for the Mandatory Downspout Disconnection Program	676.6		11.0	503.6	
Additional Staff for the Basement Flooding Remediation Work Plan	274.2		5.0	274.2	
Additional Staff for the Harmonized Water Supply By-law	151.0		3.0	145.0	
Grant Administration Office	235.4		5.0	235.4	
Additional Staff for Lead Service Connection Replacement Program	36.0		1.0	36.0	
(b) Enhanced Services - Program Initiated					
Additional Technical Resources	320.5		5.0	260.5	
Additional Operational Support	174.4		4.0	134.4	
Additional Staff for Plant Process Control Systems	428.9		4.0	212.5	
Additional Finance and Administration Resources (PPF&A)	842.3			259.1	
Increase in Professional, Technical & Consulting Services	356.0				
Additional Technical and Inspection Support Resources	550.2		10.0	483.2	
Sub-Total Enhanced Services	4,046	-	48.0	2,544	-
New Services:					
(a) New Services - Council Approved					
(b) New Services - Program Initiated					
Sub-Total New Services	-	-	-	-	-
Total Enhanced/New Services	4,046	-	48.0	2,544	-

2009 Recommended New / Enhanced Service Priority Actions

There is new funding for 11 service priority actions in the 2009 Recommended Operating Budget. The recommended service priority actions provide funding for the following:

- Council initiatives such as the Basement Flooding Remediation Work Plan; Mandatory Downspout Disconnection Program; Drain Grant Program; and, new Water Supply By-law.
- Managing the impact of increased regulations and legislation, which include amendments to the Safe Drinking Water Act for the Lead Water Service Connection Replacement Program and the Occupational Health and Safety Act which established new criteria for confined space entry work.
- Management response for the implementation of recommendations from the Auditor General's review of Toronto Water operations in 2007, such as additional staff for contract management; purchasing; payroll; and, general administrative duties.
- Operating requirements to maintain current service delivery standards for water supply and wastewater treatment.

Funding for the recommended new/enhanced service priority actions provides an increase of 48 permanent positions, with funding of \$4.046 million gross for 2009 and incremental funding of \$2.544 million gross for 2010. The recommended new/enhanced service priority actions are summarized below.

Summary of 2009 Enhanced Service Priority Actions

The following summarizes the enhanced service priority actions included in the 2009 Recommended Operating Budget, as outlined above, based on Toronto Water's current set of challenges:

- **Downspout Disconnection Program and Basement Flooding:** The 2009 Recommended Operating Budget provides funding for 21 new permanent positions of \$1.186 million for 6 months, effective July 1, 2009. The incremental funding required for 2010 will be \$1.013 million. Recommended changes to the approved complement include: 11 positions for the Downspout Disconnection Program; 5 positions for the Drain Grant/Basement Flooding Subsidy Program; and, 5 engineering support staff for priority construction projects.
- **Management Response to the Auditor General's Recommendations:** Funding of \$1.746 million is provided in the 2009 Recommended Operating Budget in response to the Auditor General's review of Toronto Water operations. This will require incremental funding of \$0.742 million in 2010. Recommended changes to the approved complement for the Program include: 7 Site Inspectors and 3 Contract Management Support positions. In addition, funding is provided for 13 Policy, Planning, Finance and Administration staff for additional purchasing; financial; payroll; and, general administrative support.
- **Operational Requirements:** The 2009 Recommended Operating Budget provides funding for 17 new permanent positions of \$1.111 million for 6 months, effective July 1, 2009, with incremental funding of \$0.788 million required in 2010. Recommended changes to the approved complement include: 9 operational staff for maintaining on-going compliance with regulations in District Operations; 3 technical staff to support implementation and management of the new Water Supply By-law and increased state of good repair capital projects; 1 position to support

the Lead Water Service Connection Replacement Program; and, 4 maintenance staff for treatment plant and pumping station computer operating systems.

Enhanced Service Priority Actions – Council Approved

Additional Staff for the Lead Water Service Connection Replacement Program

City Council at its meeting of July 16, 17, 18 and 19, 2007, adopted the Lead Water Service Connection Replacement Program in support of new Provincial regulations. On July 26, 2007, amendments to O.Reg. 170/03 under the Safe Drinking Water Act, 2002 to reduce the potential for elevated levels of lead in drinking water at the tap, came into effect. Under the new regulations, municipalities are required to conduct a community lead testing program and take corrective actions for adverse results.

An increase of 1 Engineering Technician/Technologist 3 position is recommended to assist with the Council approved Lead Water Service Connection Replacement Program. Funds of \$0.036 million gross for 6 months, effective July 1, 2009, with incremental funding in 2010 of \$0.036 million gross is recommended to implement this enhanced service priority action.

Additional Staff for the Harmonized Water Supply By-law

Funding for this enhanced service priority of \$0.151 million is for the increase of 3 permanent positions, effective July 1, 2009. The incremental funding in 2010 will be \$0.145 million gross. The 3 Engineering Technician/Technologist 1 positions will support functions such as improved contract documentation; increased capital renewal programs; and, address the new harmonized Water Supply By-law.

Additional Staff for the Mandatory Downspout Disconnection Program

City Council at its meeting of September 24 and 25, 2008, adopted the Mandatory Downspout Disconnection Program. The Program requires all existing downspouts to be disconnected from the sewer system in combined sewer service areas. The areas include most of the former City of Toronto; York and East York; and, the south-west portion of Scarborough. In addition, Council also agreed to process all applications to the City's former Voluntary Downspout Disconnection Program received by November 20, 2007. An estimated 47,000 requests for the Voluntary Program were received by Toronto Water up to November 20, 2007. Based on past experience, it is forecasted that the disconnection of downspouts is feasible for approximately 80% of these applications, reflecting 37,600 properties.

The addition of 11 clerical positions to assist with the Program, with funding of \$0.677 million gross for 6 months effective July 1, 2009, is recommended. Incremental funding of \$0.504 million gross will be required in 2010.

Grant Administration Office

This enhanced service priority action requires funding for 5 permanent positions. The recommended funding is \$0.235 million gross for 6 months, effective July 1, 2009. The incremental funding in 2010 will be \$0.235 million gross.

The addition of 5 permanent positions, including 1 Supervisor and 4 Clerical positions, will create a centralized Grant Administration Office within Toronto Water to manage the approximately \$8 million in annual financial assistance paid to residential customers from a variety of incentive programs, such as:

- \$2,000 Drain Grant for homeowners who have had their private-side drains infiltrated by a City-owned tree.
- \$3,200 Basement Flooding Subsidy to assist homeowners in preventing storm water basement flooding.
- \$75 Toilet Replacement Rebate.
- \$60 Front-Load Laundry Washer Rebate.

The new permanent staff will manage the application process for each of these programs and conduct the appropriate eligibility requirements to process for either approval or denial. In addition, staff will facilitate proper financial controls and procedures for the distribution of funds; lower the risk of error; while maintaining the service standard requirements for reimbursement as directed by Council.

Additional Staff for the Basement Flooding Remediation Work Plan

City Council at its meeting of September 24 and 25, 2008, adopted the Basement Flooding Remediation Work Plan, requiring a comprehensive engineering review to address chronic basement flooding problems in 31 separate study areas. Priority projects to relieve basement flooding in study areas 14, 28, 29 and 30 will commence on the first set of projects in 2009

This enhanced service priority action requires 5 additional permanent positions, including 1 Senior Engineer; 2 Engineers; and, 2 Civil Engineering Technologists. The funding of \$0.274 million gross for 6 months is effective July 1, 2009. Incremental funding of \$0.274 million gross will be required for 2010.

Enhanced Service Priority Actions – Program Initiated

Additional Technical Resources

The addition 5 permanent positions, which includes 1 Senior Engineer; 1 Electrical and Instrumentation Specialist; 1 Industrial Millwright; and, 2 Electrical and Instrumentation Control Technicians, will advance implementation of the Continuous Improvement Initiative within District Operations. These resources will address the ongoing sustainability of the infrastructure; imbed the necessary technical knowledge internally; and, mitigate ongoing environmental and health/safety risks. In addition, staff will provide improvements to critical infrastructure (such as pumping stations, storage facilities, major sewer interceptor control chambers, etc.) that have a direct impact on customer service and legislative compliance with the Ministry of Environment Certificates of Approval. The recommended funding for this enhanced service priority action is \$0.321 million gross for 6 months, effective July 1, 2009. The incremental funding in 2010 will be \$0.261 million gross.

Additional Operational Support

An increase of 4 Water Maintenance Worker 3 positions is recommended to comply with the 2006 changes to the Ministry of Labour's Occupational Health and Safety Act, RSO 1990, regarding staffing requirements for confined space entry work. The funding of \$0.174 million gross for 6 months is effective July 1, 2009, with incremental funding of \$0.134 million gross required in 2010.

Additional Staff for Plant Process Control Systems

The addition of 1 Senior System Integrator; 1 Network Architect; and, 2 Businesses Systems Analysts will ensure operational compliance with Provincial regulations, including Certificate of Approval; protection of the environment; and, state of good repair needs. This priority action also implements other aspects of the Process Control System, including management of data; infrastructure; and, technologies. This enhanced service priority action requires funding of \$0.429 million gross for 6 months, effective July 1, 2009. The incremental funding of \$0.213 million gross will be required in 2010.

Additional Finance & Administration Support Resources from PPF&A

Funding for this interdivisional enhanced service priority action provides for 13 Policy, Planning, Finance and Administration permanent positions of \$0.842 million gross, effective April 1, 2009. The incremental funding in 2010 will be \$0.259 million gross. The additional resources will be dedicated to purchasing; payables; and, payroll time entry for Toronto Water. Funding is provided for 5 Purchasing Coordinators; 2 Financial Analysts; 1 Supervisor; 1 Accounting Clerk 2; 3 Payroll Time Entry positions; and, 1 Business Analyst. In 2007, the Auditor General conducted 3 reviews of Toronto Water. The reviews assessed controls over payroll processing; overtime; attendance management; and, purchasing and payment processing. A number of financial control weaknesses were identified. Implementation of this priority action will allow Toronto Water to improve internal controls and processes in response to the Auditor General's recommendations.

Increase in Professional, Technical & Consulting Services

The recommended funding for this enhanced service priority action of \$0.356 million gross is provided to retain professional; technical; and, consulting services. Of this amount, \$0.250 million gross is for management consulting services to assess shift rescheduling in response to the Auditor General's recommendations. Additional funding of \$0.100 million gross is recommended for the Ministry of the Environment's additional stack testing requirements. The remaining funding of \$0.006 million gross will be used for needs assessment.

Additional Technical & Inspection Support Resources

Funding for this enhanced service priority action responds to the Auditor General's recommendations regarding construction contracts. An increase of 3 Engineering Technician/Technologists and 7 Municipal Construction Inspectors is recommended. These resources will provide improved processes and accountability for utilizing alternative procurement solutions; data collection to support proper estimating on contracts issued for infrastructure repairs; procedures for documenting inspection; contract management, and, appropriate field practices. This

enhanced service priority requires funding of \$0.550 million gross for 6 months, effective July 1, 2009, with incremental funding in 2010 of \$0.483 million gross.

Appendix A

2009 Recommended Base Budget Changes vs. 2008 Approved Budget

(In \$000s)	Summary of 2009 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2010	2011
		\$	\$	\$	\$	\$
2008 Council Approved Operating Budget	1,678.4	375,207	677,393	302,186	0.0	0.0
In-year approvals and technical adjustments						
Corporate adjustments						
2008 Approved Operating Budget	1,678.4	375,207	677,393	302,186	0.0	0.0
Prior year impacts		2,415.2		(2,415.2)	295.4	1,750.3
Zero base items		(30.8)		30.8		
Economic factors		6,459.6		(6,459.6)	8,750.7	10,186.7
Adjusted Base Budget	1,678.4	384,051	677,393	293,342	9,046.1	11,937.0
Other base changes		1,693.0	9.9	(1,683.1)		
Base revenue changes			21,300.2	21,300.2	61,914.0	67,183.0
Recommended Service Level Adjustments:						
Service efficiencies	(3.0)	(80.0)		80.0		
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	(3.0)	(80)	0.0	80	0.0	0.0
2009 Recommended Base Budget	1,675.4	382,278	698,703	316,425	52,868	55,246

Appendix B

Summary of Service Level Adjustments

Appendix C

**Summary of 2009 Recommended New/Enhanced
Service Priority Actions**

Appendix D

Inflows / Outflows to / from Reserves & Reserve Funds

Please refer to the:

2009 Water and Wastewater Service Rate and Related Matters Report