

# TORONTO STAFF REPORT

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September 7, 2006

To: Budget Advisory Committee

From: Deputy City Manager and Chief Financial Officer  
General Manager, Toronto Water

Subject: Toronto and Region Conservation Authority Capital and Operating Budgets –  
Funding from Water Reserves  
All Wards

## Purpose:

The purpose of this report is to establish a policy that defines a consistent approach to determining the portions of the Toronto and Region Conservation Authority capital and operating budgets that will be funded from water reserves, as agreed between Toronto Water and the Financial Planning Division, in consultation with Toronto and Region Conservation Authority. The requirement to report to the Budget Advisory Committee on such an approach arose out of the 2006 Capital and Operating Budget processes.

## Financial Implications and Impact Statement:

There are no direct financial implications at this time. The policy described in this report will be implemented in the capital and operating budget processes for both Toronto Water and Toronto and Region Conservation Authority for 2007 and future years.

## Recommendations:

It is recommended that:

- (1) with respect to the capital budgets of Toronto and Region Conservation Authority (TRCA) in 2007 and future years, Toronto Water continue to evaluate TRCA's proposed capital projects individually on their merit and relevance, based on the criteria established through practice in recent years, to determine the portion of the City's share of TRCA's Capital Budget that would be funded from water reserves;
- (2) with respect to the operating budgets of Toronto and Region Conservation Authority (TRCA) in 2007 and future years, up to 55% of the City's share of TRCA's Operating Budget be funded from water reserves and, if TRCA's Operating Budget submission for any given year exceeds the corporate target, the increase be justified by TRCA during the Administrative Review portion of the annual budget process and if the justification is accepted by the City

Manager and Deputy City Manager and Chief Administrative Officer in consultation with the General Manager of Toronto Water, the recommended increase would be funded equally from the levy program and water reserves; and

- (3) the capital and operating budget proposals from Toronto and Region Conservation Authority (TRCA) and the evaluation of those proposals by Toronto Water with respect to the portion of the TRCA budgets to be funded from water reserves for any given year be determined by TRCA and Toronto Water prior to the City's budget submission deadlines for that year and the funding from water reserves, as determined by Toronto Water, be included in the capital and operating budget submissions from TRCA and Toronto Water.

Background:

*Capital Budget*

At its meeting of December 8, 9 and 12, 2005, City Council approved the 2006 Capital Budget for Toronto and Region Conservation Authority (TRCA) and adopted a recommendation that requested TRCA and Toronto Water to report to the Budget Advisory Committee on a consistent approach to using water reserves as a funding source for TRCA's 5-Year Capital Plan.

In practice, there has been a consensus between Toronto Water and TRCA in recent years' capital budgets that the following types of projects would be funded from water reserves, in the proportions indicated:

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|---|------|
| • Toronto Remedial Action Plan                | 100% |
| • Greenspace Land Acquisition                 | 100% |
| • Land Acquisition for Sourcewater Protection | 100% |
| • Waterfront and Valley Erosion Control       | 50%  |
| • Kortright/Living City Centre Retrofit       | 50%  |
| • Sustainable Communities Project             | 24%  |

The formula used for determining the municipal operating levy has also served as the basis for funding some of TRCA's capital projects.

Typically, the split in TRCA's capital budget between debt-funding and water reserve-funding has been equal (50% each), with the notable exception of budget year 2005 during which Council approved a large in-year adjustment to increase TRCA's capital budget which skewed the funding split to 38% debt and 62% water reserves.

*Operating Budget*

At its meeting of March 29 and 30, 2006, City Council approved the 2006 Operating Budget for TRCA and adopted a recommendation that requested that the General Manager of Toronto Water and the Deputy City Manager and the Chief Financial Officer report to the Budget Advisory Committee on a consistent approach to using water reserves as a funding source for TRCA's Operating Budget.

Funding for conservation authorities is legislated through the *Conservation Authorities Act* which provides conservation authorities with the ability to assess a levy against the municipalities located

within the watersheds under their jurisdiction. The municipal operating levy is derived using a formula of modified Current Value Assessment (CVA) and is determined yearly by the Province of Ontario. The weighted average is used as the funding formula for TRCA's annual operating budget. The weighted assessed value for the City of Toronto in 2006 was 66.9% of TRCA's budget. The remaining municipal funding is derived from three regional municipalities, Peel, York and Durham, with smaller portions from the Town of Mono and the Township of Adjala-Tosorontio, all of which are within TRCA's watershed jurisdiction.

During the 2004 Budget process, the Budget Advisory Committee enquired as to which TRCA operations could be funded from water reserves. In response, Toronto Water identified that up to 53% of TRCA's 2004 Recommended Operating Budget could be related to source water protection and, as such, financed by water/wastewater user rate revenue. The types of activities identified included Watershed Management, Watershed Strategies, Resource Science, Environmental Services, Program Administration and Enforcement & Security.

In practice, approximately 54-55% of recent years' TRCA operating budgets has been funded from water reserves. The remainder is financed through the levy program. By way of comparison, Peel Region finances its share of TRCA's operating costs in a similar way, directing over 50% of TRCA's operating costs to the water rate.

Comments:

*Capital Budget*

In the 2006 Approved Capital Budget, the City of Toronto's share of TRCA's Capital Budget was \$6.0 million net, of which 50% or \$3.0 million was financed from water reserves. Based on the Toronto Water 2006-2015 Capital Budget and Rate Forecast, any significant increases in the level of funding to TRCA would impact Toronto Water's ability to meet its key strategic objective of addressing the backlog in State of Good Repair of Toronto Water infrastructure, which is estimated to be over \$800 million by 2010.

It is considered appropriate that, for 2007 and future years, Toronto Water would continue to evaluate TRCA's proposed capital projects individually on their merit and relevance, based on the criteria established through practice in recent years, to determine the portion of the City's share of TRCA's Capital Budget that would be funded from water reserves.

*Operating Budget*

In the 2006 Approved Operating Budget, the City of Toronto share of TRCA's Operating Budget was \$6.607 million net, of which \$3.597 million was funded from water reserves. This was based on a conclusion that approximately half of TRCA's Operating Budget could be attributed to activities that support Toronto Water initiatives. This draw on the water reserves represented a 6% increase over the 2005 level of \$3.393 million.

TRCA's proposed 2007 Operating Budget includes reserve-funding of \$3.597 million, which represents a 4% increase over the 2006 level. This compares similarly with the average year-over-year increase of the tax-funded portion of TRCA's proposed 2007 Operating Budget which is also 4%.

Although Council had approved a 9% increase in the water rate for 2006, effective January 1, 2006, there are significant and numerous funding pressures that must be accommodated within that increase including, revenue projection shortfalls and a commitment to increase State of Good Repair funding to address a growing backlog of infrastructure rehabilitation projects. These issues all serve to limit the funds available to increase operating expenditures. Any proposed increases must be fully justified and supported.

It is noted that a percentage increase in Toronto Water's total annual operating budget does not necessarily result in a similar percentage increase in individual costs as higher percentage increases in some expenditure areas are necessitated due to factors over which Toronto Water has no control (such as commodity prices for chemicals and power).

It is considered appropriate that, in 2007 and future years, up to 55% of the City's share of TRCA's Operating Budget would be funded from water reserves and, if TRCA's Operating Budget submission exceeds the corporate target for any given year, the increase should be justified by TRCA during the Administrative Review portion of the budget process and if the justification is accepted by the City Manager and Deputy City Manager and Chief Administrative Officer in consultation with the General Manager of Toronto Water, the recommended increase would be funded equally from the levy program and water reserves.

Conclusions:

*Capital Budget*

The criteria for determining which Toronto and Region Conservation Authority's capital projects should be funded from water reserves are well-established. It is considered that funding those capital projects that directly support Toronto Water's activities and objectives is appropriate.

It is recommended that, with respect to the capital budgets of Toronto and Region Conservation Authority (TRCA) in 2007 and future years, Toronto Water would continue to evaluate TRCA's proposed capital projects individually on their merit and relevance, based on the criteria established through practice in recent years, to determine the portion of the City's share of TRCA's Capital Budget that would be funded from water reserves.

### *Operating Budget*

As more than 50% of Toronto and Region Conservation Authority's operating activities can be related directly to source water protection, it is considered that funding approximately 55% of its Operating Budget from water reserves, as has been the practice in recent years, is appropriate.

It is recommended that, with respect to the operating budgets of Toronto and Region Conservation Authority (TRCA), in 2007 and future years, up to 55% of the City's share of TRCA's Operating Budget would be funded from water reserves and, if TRCA's Operating Budget submission exceeds the corporate target for any given year, the increase be justified by TRCA during the Administrative Review portion of the budget process and, if the justification is accepted by the City Manager and Deputy City Manager and Chief Administrative Officer in consultation with the General Manager of Toronto Water, the recommended increase would be funded equally from the levy program and water reserves.

This report has been prepared in consultation with Toronto and Region Conservation Authority.

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