REPORT FOR ACTION

# Toronto and Region Conservation Authority - Additional Information for the Long Term Accommodation Project

**Date:** February 14, 2017
**To:** City Council
**From:** Deputy City Manager & Chief Financial Officer
**Wards:** Ward 8

## SUMMARY


This report responds to motions adopted on February 7th, 2017 by the Executive Committee at its special meeting for the 2017 Budget process held on February 7, 2017 requesting additional information on the Toronto and Region Conservation Authority (TRCA) Long Term Accommodation Project.

Through the Conservation Authorities Act, the TRCA has the authority to levy its member municipalities for the cost of programs and services including capital project costs. Costs are apportioned consistent with the Conservation Authorities Act among the municipalities within the watershed boundaries which include the City of Toronto, the Regions of York, Peel and Durham, Town of Mono and the Township of Adjala-Tosorontio.

TRCA is requesting the City's support to construct a new head office building on its own land with a maximum total project cost of $70.000 million to be apportioned to its benefiting member municipalities according the CVA formula. The City's pro-rata share is $38.617 million and is included in the 2017 Executive Committee Recommended Capital Budget and 2018-2026 Capital Budget without additional debt requirements through a reallocation within the 2017-2025 Council Approved Capital Plan.

A review of the available real estate within the City's and Build Toronto's portfolio determined that there are no suitable properties that meet the TRCA's accommodation needs and timelines.

## RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. Council receive this report for information.

## FINANCIAL IMPACT

There is no financial impact arising from this information report.

The City's pro-rata share of the total project cost of $70.000 million for the Head Office project in the amount of $38.617 million is included in the 2017 Executive Committee Recommended Capital Budget and 2018-2026 Capital Plan for the TRCA within the allocated debt targets.

The Deputy City Manager & Chief Financial Officer has reviewed this report and concurs with the financial impact information.

## DECISION HISTORY

As part of the 2017 Budget process, Executive Committee recommended that City Council adopt staff report titled "Toronto and Region Conservation Authority Long Term Accommodation Plan" recommending City Council's formal support of the Toronto and Region Conservation Authority (TRCA) for its plan to construct a new administrative office building on land it owns in the City of Toronto.
Toronto and Region Conservation Authority - Long Term Accommodation Plan
(http://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-100751.pdf)
Toronto and Region Conservation Authority Resolution
http://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-100752.pdf

At its meeting on February 7th, 2017, Executive Committee requested that:

1. The City Manager report directly to City Council for its meeting of February 15, 2017 and February 16, 2017 with details and breakdown on the historical regional operational funding and representation formula of the Toronto and Regional Conservation Authority, along with the decision making timeline, including site selection and design which led to recommending the construction of the Toronto and Region Conservation Authority $70.000 million administrative office; and

2. The City Manager be requested to meet with Build Toronto and the TRCA to explore all options to accommodate administration offices within City-owned properties and report directly to City Council at its meeting of February 15, 2017 and February 16, 2017 on the outcomes of these discussions.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.2

## COMMENTS

The City's relationship with the Toronto and Region Conservation Authority (TRCA) is governed by the Conservation Authorities Act. Its watershed authority boundary encompasses the City of Toronto, and parts of the Regions of Peel, York, Durham, the Town of Mono and the Township of Adjala-Tosorontio.

**Funding for Operating Costs**

The Conservation Authorities Act, administered by the Ministry of Natural Resources and Forestry (MNRF), enables two or more municipalities in a common watershed to establish a conservation authority in conjunction with the province. Further, the Conservation Authorities Act allows the conservation authority to levy for its Operating costs.

Conservation Authorities use a modified Current Value Assessment formula, which weights different classes of property, as prescribed in the Regulations to the provincial Act. The modified calculation adds the CVA of all lands within the authority's jurisdiction and applies a range of tax ratio factors based on the property classes. The municipality's assessment calculation is then weighted according to the area occupied within the jurisdiction.

The TRCA uses a further modification, permitted under the Act, to specifically accommodate equity in the funding of property taxes across its municipal partners and to take advantage of the differing amounts of operating levy support provided annually by each of the participating municipalities. This formula is used for the levy supporting costs of operations and maintenance of its facilities, and results in a slightly lower share for the City of Toronto, as seen in Table 1. (TRCA Modified CVA Calculation)

Overall, however, under both formulas, the municipality within TRCA's watershed jurisdiction which has the highest proportion of overall assessment proportionately pays the highest share of TRCA's general benefiting (operating) costs. The City of Toronto has the highest share, arising from its proportional share of the total CVA assessment within the TRCA's watershed boundaries.

Chart 1 - Historical Regional Operational Funding (2006 - 2017)

| Total TRCA Operating Levy | | | | Toronto Share | |
|---|---|---|---|---|---|
| Year | Toronto | Regions | Total | TRCA Modified CVA Calculation | Modified CVA Calculation per Regulations |
| 2006 | $6,606,524 | $3,445,876 | $10,052,400 | 65.72% | 66.93% |
| 2007 | $6,849,210 | $3,605,290 | $10,454,500 | 65.51% | 66.57% |
| 2008 | $7,063,000 | $3,987,050 | $11,050,050 | 63.92% | 66.04% |
| 2009 | $7,297,942 | $4,202,858 | $11,500,800 | 63.46% | 65.72% |
| 2010 | $7,476,327 | $4,221,673 | $11,698,000 | 63.91% | 65.83% |
| 2011 | $7,476,396 | $4,415,604 | $11,892,000 | 62.87% | 65.43% |
| 2012 | $7,476,355 | $4,605,645 | $12,082,000 | 61.88% | 65.13% |
| 2013 | $7,666,494 | $4,829,506 | $12,496,000 | 61.35% | 64.65% |
| 2014 | $7,858,337 | $4,992,663 | $12,851,000 | 61.15% | 64.88% |
| 2015 | $8,054,000 | $5,231,000 | $13,285,000 | 60.62% | 64.58% |
| 2016 | $8,187,300 | $5,364,588 | $13,551,888 | 60.41% | 64.36% |
| 2017 | $8,392,300 | $5,525,000 | $13,917,300 | 60.30% | 64.36% |

When capital costs are apportioned, and all partner municipalities benefit equally, the modified CVA calculation in accordance with the Conservation Authorities Act and Regulations is used. The 2017 CVA allocation is shown in Chart 2 below:

Chart 2 - TRCA - Member Municipalities 2017 CVA Allocation

| Municipality | Modified CVA Allocation per Regulation |
|---|---:|
| Adjala-Tosorontio | 0.000067 |
| Durham | 0.028247 |
| Mono | 0.000080 |
| Peel | 0.113733 |
| Toronto | 0.643621 |
| York | 0.214252 |
| Total Levy | 1.0000 |

**Funding for Capital Costs**

Through the Act, the TRCA can determine what funding is required for capital expenditures in connection with any project and request each participating municipality to support the project in the same proportion as the benefit derived by each municipality.

Historically, capital projects that relate to the ongoing operations of the TRCA such as major retrofits to administrative buildings and technology projects have been apportioned according to the modified CVA formula, (as referenced in the chart on the previous page). Capital projects that are geographically located within the City of Toronto such as infrastructure improvements to Black Creek Pioneer Village and erosion control works are fully funded by the City. Similarly, watershed projects geographically located outside of the City of Toronto are funded by the respective municipal jurisdiction.

The City's Capital Budget for TRCA is funded from a combination of tax supported debt and the water rate. The 2017-2026 Executive Committee Recommended Capital Budget and Plan is comprised of $38.000 million of debt funding or 20.7% and $145.894 million or 79.3% from Toronto Water. The latter is comprised of $47.897 million for projects related to water quality and $98.000 million for projects that will address critical erosion control.

As the TRCA is governed under the Conservation Authorities Act, it does not meet the definition of a board or agency of the City and as a result, its capital projects cannot be directly funded by Development Charges or any funds collected under the Planning Act for the City of Toronto.

**Appeals Process under the Conservation Authorities Act**

Administration costs, as defined, must be levied using modified CVA by the TRCA against its participating municipalities. Maintenance costs, as defined, can be apportioned on the basis of the benefit derived by each municipality either (i) by agreement amongst the authority and the municipalities or (ii) in accordance with the ratio which each participating municipality's modified assessment bears to the total authority's modified assessment. TRCA apportions maintenance costs on the basis of (ii) above, producing a variation from the pure application of modified CVA as shown in Chart 1 above. Modified current value assessment is calculated in accordance with Ontario Regulation 670/00 {by the following formula: [area of the municipality within the conservation authority's jurisdiction / the municipality's total area] x [total current value assessment within the municipality x prescribed factor]}. Municipalities may appeal operating and maintenance levies to the Mining and Lands Commissioner appointed under the Ministry of Natural Resources Act within 30 days of receipt of notice of the levy. The decision of the Commissioner is final.

Capital cost levies must be in accordance with the proportion of the total benefit of the capital project apportioned to the participating municipality by the TRCA. If the municipal council disagrees with the apportionment of the benefit of the capital project apportioned to it, it may appeal the apportionment of the benefit to the Ontario Municipal Board within 30 days of receipt of the notice of apportionment. A levy based on the final apportioned benefit, however, is final and is a debt due by the municipality.

## The Conservation Authorities Act Review - Capital Funding Requests

The Province of Ontario has initiated a review of the Conservation Authorities Act. The Ministry of Natural Resources and Forestry has developed a discussion paper and invited feedback on any aspect of the existing legislative and regulatory framework including the funding mechanisms.

In response to the discussion paper, TRCA and its member municipalities have requested additional financial support specifically for capital projects, which historically have been underfunded. Funding for infrastructure repair has not kept pace with emerging needs. Urban expansion and intensification projects in the Greater Toronto Area will continue to compromise natural features, communities and processes. As the effects of climate change progress, the number of sites requiring restoration and/or regeneration is anticipated to increase.

All parties will continue to participate in the development of the framework and should the province provide any additional funding support pertaining to the capital project for the head office, the TRCA will reduce costs borne by its member municipalities.

## Term Accommodation Project - Administrative Office Building

The administration building has a maximum project cost of $70.000 million inclusive of contingencies and indirect support costs. To reduce the term of the municipal contributions, TRCA is working to secure other funding sources to supplement project funding. The TRCA proposes to fund the project in the following manner:

| | |
|---|---|
| Land Disposition Funds (TRCA and Provincial sources) | $10.000 million |
| Project Financing (Funded by TRCA member municipalities) | $60.000 million |
| **TOTAL** | **$70.000 million** |

The total project cost includes all associated costs for the construction of the building including an underground parking garage along with any administrative approval requirements, geographical and/or environmental modifications as on-site remediation; the re-design of the street intersection to access the building; and access requirements for neighbouring properties.

Traditionally, the TRCA would levy its members directly for the total project cost upfront and each benefiting municipality would be responsible to raise the required capital, i.e. the issuance of debentures or otherwise provide equity funds. However, in performing their due diligence on the head office project, TRCA spoke to each of their member municipalities and determined that it would be more advantageous for TRCA to secure the debt, in order to provide the municipalities with funding assistance and relief with their debt targets. The preliminary interest rate that TRCA has received by their financial institution is consistent with the financing costs that could be secured by the City of Toronto. The TRCA will also explore the possibility of obtaining a lower rate through a competitive RFP process for financing.

All other partner municipalities have approved their pro-rata share of this project. TRCA requires the City's support to seek provincial approval. Once the project is approved by the Province, the TRCA will further explore all initiatives to find efficiencies, synergies and costs savings, including partnership opportunities pertaining to the design, build, operation and maintenance of the head office. This process will include participation from its member municipalities including the City's Real Estate Division and Build Toronto. Any cost savings realized from this process will be transferred directly to the member municipalities, through a reduced amortization schedule.

The City evaluated the business case presented by the TRCA using the maximum projected total costs of $70.000 million and confirmed that the build option was the most cost effective. If the construction costs were to be further reduced through any of the above initiatives, the build option would become even more financially advantageous.

The following chart shows the maximum contribution allocation amongst the member municipalities, in accordance with the CVA calculation.

Chart 3 - TRCA – Member Municipalities Share of Project Financing Costs

| Municipality | $ share | % of Total |
|---|---|---|
| Adjala-Tosorontio | 4,020 | 0.0067% |
| Durham | 1,694,820 | 2.8247% |
| Mono | 4,800 | 0.0008% |
| Peel | 6,823,980 | 11.37% |
| Toronto | 38,617,260 | 64.36% |
| York | 12,855,120 | 21.43% |
| Total Levy | 60,000,000 | 100% |
| Land Disposition Funds<br>(TRCA and Provincial sources) | 10,000,000 | |
| Total Project Cost including Contingencies | 70,000,000 | |

The City of Toronto's contribution to this project of $38.617 million has been accommodated within the 2017 Executive Committee Recommended Capital Budget and 2018 - 2026 Capital Plan and future years' Capital Plans at the same level of funding as the previous 2016-2025 Council Approved Capital Plan as funds have been reallocated.

The City will not incur any additional debt charges as a result of including this project in the Capital Plan and as such, the head office project will not defer any planned major critical erosion control projects.

Through the Conservation Authorities Act, the TRCA has the authority to levy its member municipalities for payment of the capital costs incurred, thereby imposing a charge for this project.  Notwithstanding, the TRCA is seeking approval of the project from each partner municipality in advance of all 2017 levies.

**Project Development Chronology**

TRCA has been seeking a long term solution to its office accommodation needs since 2003.  A detailed timeline of the Authority's decisions along with references to the meeting minutes is available in Attachment 1.

Staffing levels have grown considerably since its main office at 5 Shoreham Drive was constructed in the early 1970s. This increase has largely occurred to meet increased service level demands and the growth in the volume of work which include:

- Increased volume in development applications and reviews
- Expanded need to address flooding and storm water management concerns
- Emergency preparedness and resilience planning to maintain infrastructure
- Acquisition of additional assets including parkland space
- Addressing the impacts of recent extreme weather events
- A planned conservative annual growth rate of 3% (TRCA's historic 10 year average is 3.8%)

In response to the office space concerns, the TRCA formed a Long Term Office Accommodation Working Group in 2008 consisting of TRCA member representatives of participating municipalities.  The working group was tasked with finding a solution to its office accommodation needs and looked at ways to achieve the needed space as well as meet the expected growth over the next 30 years. Options considered included:

1. Build as a separate structure or as an addition to an existing office space
2. Lease space
3. Buy space in a building at a suitable location

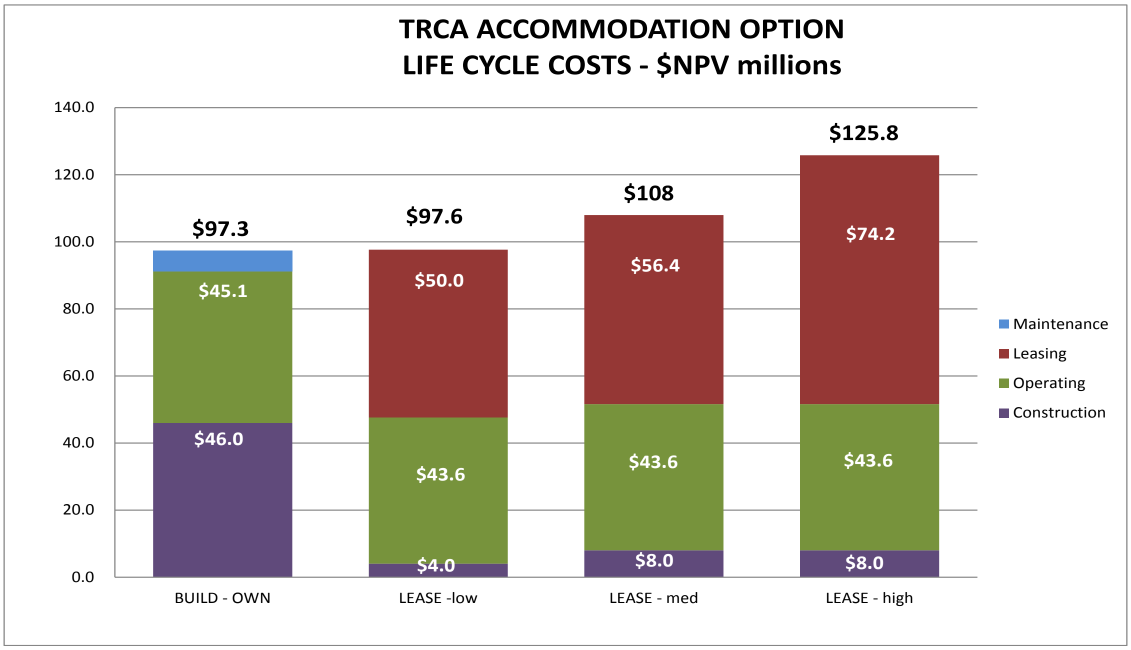
TRCA's long-term goal is to consolidate staff currently in multiple facilities to one central location to reduce travel time between TRCA offices, and allow resource and staff sharing.  In 2015, TRCA retained an external consultant to prepare an integrated conceptual development plans for a new head office facility on the 5 Shoreham Drive property.  Through this review, TRCA developed the business case for the construction of a dedicated building on TRCA-owned lands.

TRCA's business case analysis included the consolidation of life cycle costs for each accommodation option and a commercial office space review undertaken by Commercial Real Estate Services Canada (CBRE) of the Toronto region, to assess any opportunities that may be suitable for TRCA.  The analysis concluded with the following:

1. Constructing a new office at 5 Shoreham Drive in Toronto, on TRCA owned lands, presents the lowest cost option with the greatest long-term benefits.
2. Continuing to lease would result in higher long-term costs to the member municipalities to fund TRCA's office accommodation needs.

Furthermore, a purpose-built facility will allow TRCA to provide optimal customer service and support; achieve accommodation standards for staff comparable to our regional and municipal partners; provide a positive influence on staff retention; and ensure that the office can accommodate growth from development activities.

As part of the 2017 Capital Budget process, the business case prepared by TRCA in support of its long term accommodation needs was submitted to the City's Deputy City Manager & Chief Financial Officer for review and comments. City staff reviewed the business case analysis presented by the TRCA which examined the relative costs, benefits and risks associated with various build, buy or lease of office space scenarios and confirmed that the option to build on its own land is the most cost effective solution.




- Note: discounting to current dollars shows today's cost for each option.
- Actual costs occur in the future year that they are incurred.
- Example – the $70 million cost to construct a new building between the future years 2019-2021, carries debt servicing costs into the future that when discounted back to 2016 dollars equates to $46 million.

**Build Toronto - Investigating City-Owned Properties**

At the request of Executive Committee, a meeting was held on February 9th, 2017 with Build Toronto, the staff from the Office of the Chief Financial Officer, City's Real Estate Division and the TRCA to discuss potential options to accommodate the TRCA offices within City-owned properties.

The meeting was held to determine, prior to the adoption of the 2017 Capital Budget, whether inventory was available within the Build Toronto or the City's real estate portfolio that would meet the accommodation requirements of the TRCA. The following key criteria for the TRCA were considered:

1. A suitable size to accommodate the current staff and potential future growth

2, A location in the north-west end of the City of Toronto and central to the TRCA jurisdiction
3. Convenient and regional access to 400 series highways
4. Access to well serviced by public transit, preferably a subway
5. 100% asset ownership (in recognition of other member municipalities)
6. Delivery by 2021 to align with the expiry of the current lease agreement

The proposed TRCA construction project at 5 Shoreham Drive currently meets all of the above key criteria.

Staff from Build Toronto and the City's Real Estate Division have confirmed that there are no suitable properties in its existing portfolio that would adequately meet the TRCA's requirements. In terms of upcoming Build Toronto projects, two options were considered:

| Location | Earliest Available Date to begin Construction |
|---|---|
| 50 Wilson Heights Blvd (North East corner of the Allen Road and Wilson Avenue | 2018 |
| 1035 Sheppard Avenue (South East corner of Sheppard and the Allen Rd) | 2019 |

Development at the above locations would not offer significant savings or benefits over the TRCA's proposal to build at 5 Shoreham Drive. Both these sites can be connected directly to the subway. However, due to the requirement for high density around subway sites, Build Toronto will sell the land as a strata title block. As a result, the 100,000 square feet required for the TRCA offices would be part of larger built form. These same locations were also considered at a meeting held with TRCA and Build Toronto in September 2016, as part of background reviews for the current proposal.

In summary, offering any of these locations to the TRCA requires a complex transaction likely with a third party developer to achieve the overall objective for land value maximization and may still result in additional financial and opportunity costs to the City. Further, there would be additional risks to the schedule as completing the preconstruction sales and approvals for residential and other development intended for this property would likely cause delays to the start of the TRCA building.

In order to benefit from Build Toronto’s knowledge in the construction of sustainable office buildings, TRCA has asked Build Toronto to advise its organization throughout the construction process. This will ensure that TRCA and its partner municipalities receive value-for-money and help the organization how to best take the design, build, finance, operate, maintain components to market. Although the official capacity will be determined at a later date, this beneficial role was agreed upon in principle at the meeting on February 9, 2017.

Further to the continued oversight by the City, all of the steps toward actual construction will be governed by TRCA's Board which has 14 Toronto representatives including 9 councillors and reporting to the City will take place on a quarterly basis.

**Conclusion**

The Deputy City Manager & Chief Financial Officer has reviewed the TRCA proposal and other potential options from the City and Build Toronto and has concluded that the construction at the 5 Shoreham Drive location meets the objectives of both the City of Toronto and its partner municipalities.

The cost sharing formula used to apportion costs among the partner municipalities is consistent with the Act and appropriate. The City of Toronto has accommodated the funding for this project within the 2017-2026 Capital Plan and the Council approved debt targets. The City of Toronto concurs with the findings of the TRCA's business case for the construction of the building on their own land at 5 Shoreham Drive.

As a Green Project, this project will provide an opportunity for the TRCA to showcase the goals and objectives of the Climate Change Mitigation and Low Carbon Economy Act (Climate Act). This project is consistent with the City's objectives in TransformTO to support clean energy, green technologies and a transition to low carbon communities.

TRCA will continue to work with the City of Toronto, Build Toronto and the partner municipalities to establish performance targets for the completion of this project to ensure that the City's overall objectives for capital investment are met.

## CONTACT

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## SIGNATURE

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Deputy City Manager & Chief Financial Officer

## ATTACHMENTS

Attachment 1 - TRCA Decision History