



**STAFF REPORT
ACTION REQUIRED**

**Funding Servicing Priorities for East Bayfront
Revitalization – Supplementary Report**

Date:	July 16, 2013
To:	City Council
From:	Deputy City Manager and Chief Financial Officer General Manager, Toronto Water
Wards:	Ward 28
Reference Number:	P:\2013\Internal Services\CFO\cc13001

SUMMARY

As requested by Executive Committee, staff met with Waterfront Toronto to explore possible short term project deferrals in order to fund the \$18.26 million in project financing for East Bayfront servicing through the Waterfront Revitalization Project instead of through Toronto Water's Capital Financing Reserve Funds. This exploration was expanded to consider all possible means to reduce the City expenditure given the anticipated pressures on the City's Toronto Water capital program due to basement flooding resulting from last week's storm.

As a result of this process, an additional \$4 million to the already committed \$11.6 million in funding from the Waterfront Toronto Long Term Funding Plan has been identified. This reduces the portion of the project funded from Toronto Water's Capital Financing Reserve Funds from \$18.26 million up to a maximum of \$14.26 million. In addition, Waterfront Toronto will attempt to expedite the reimbursement of the \$14.26 million to the City either through earlier project revenues and/or earlier payments by the benefiting owners of the sanitary and storm water facilities.

The revised recommendations reflect the reduction in the drawdown from the Toronto Water capital program and the revised waterfront contribution to the project.

RECOMMENDATIONS

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

1. Recommendations 1, 2, and 3 from the July 3, 2013 Executive Committee be replaced with the following:
 1. Council authorize that Toronto Water's approved 2013 Capital Budget and 2014-2022 Capital Plan be amended to provide funding for sanitary servicing and stormwater infrastructure, necessary for servicing waterfront lands associated with the development of the East Bayfront Precinct, by adding the following capital projects:
 - a. Waterfront Stormwater Infrastructure Project at an estimated cost of \$13.50 million, funded from the Stormwater Management Development Charge Reserve Fund (XR2113) in the amount of \$5.40 million and the Wastewater Capital Reserve Fund (XR6004) in the amount of \$8.10 million, with cash flows of \$1.75 million in 2013 and \$11.75 million in 2014.
 - b. Waterfront Sanitary Servicing Infrastructure Project at an estimated cost of \$17.80 million funded from the Sanitary Sewer Development Charge Reserve Fund (XR2026) in the amount of \$11.64 million and the Wastewater Capital Reserve Fund (XR6004) in the amount of \$6.16 million, with cash flows of \$1.78 million in 2013 and \$16.02 million in 2014.
 2. The General Manager, Toronto Water, in consultation with the Acting Director, Waterfront Secretariat, be authorized to negotiate and execute on behalf of the City a project delivery agreement pursuant to which Waterfront Toronto will as delivery agent for the City provide engineering, procurement and construction management services and under which Waterfront Toronto will contribute \$15.6 million and the City will pay the balance of the estimated construction costs up to a maximum estimated amount of \$31.3 million for the construction of the Waterfront Stormwater Infrastructure Project and the Waterfront Sanitary Servicing Infrastructure Project on terms and conditions satisfactory to the General Manager, Toronto Water and in a form satisfactory to the City Solicitor.
 3. The Deputy City Manager and Chief Financial Officer, in consultation with the Acting Director, Waterfront Secretariat, be authorized to negotiate and execute on behalf of the City a contribution agreement with Waterfront Toronto as project lead for waterfront revitalization, whereby the City agrees to fund a portion,

estimated to be \$14.26 million, of the Waterfront Stormwater Infrastructure Project and the Waterfront Sanitary Servicing Infrastructure Project and Waterfront Toronto agrees to reimburse the City the portion of the construction costs net of Waterfront Toronto's initial \$15.6 million contribution and amounts not recovered through development charges over ten years; on terms and conditions which are satisfactory to the Deputy City Manager and Chief Financial Officer and in a form satisfactory to the City Solicitor.

2. Council adopt the following new recommendation.

10. That City staff be authorized to work with Waterfront Toronto to specifically identify the source and timing of the additional \$4 million Waterfront Toronto expenditure to ensure the funds are available when needed for construction without any debt impact to the City.

Financial Impact

The construction of sanitary servicing and stormwater infrastructure to service the revitalization of East Bayfront Precinct requires funding of approximately \$46.9 million. To finance a portion of these costs, staff had recommended that \$18.26 million be funded from Toronto Water's Capital Financing Reserve Funds.

In light of the recent flooding issues experienced in the City, additional capital pressures on the Toronto Water capital program, which is primarily funded from the Toronto Water Capital Financing Reserve Fund, are anticipated. In response to a request from Executive Committee, Waterfront Toronto, in consultation with City staff has identified an additional \$4 million in funding for this project through an update to the Waterfront Long Term Funding Plan to bring the total funding from Waterfront Toronto from \$11.6 million to not less than \$15.6 million, to support the construction of this important infrastructure at this time.

As a result, the amount of funding required from Toronto Water's Capital Financing Reserve Funds will be reduced from \$18.26 million to an upset limit of \$14.26 million. The balance of the funding for this project will continue to be funded through a combination of contributions from the Stormwater Management and Sanitary Sewer Development Charge Reserve Funds in the amount of \$17.04 million.

Please refer to Appendix A for original and revised Table 1: Capital Expenditure and Sources of City Funding.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the Financial Impact information.

ISSUE BACKGROUND

At its July 3, 2013 meeting, Executive Committee requested:

1. That the Deputy City Manager and Chief Financial Officer and the General Manager, Toronto Water meet with Waterfront Toronto to identify possible short term project deferrals in order to fund the \$18.26 million in project financing and report directly to the July 16, 2013 City Council meeting.

The staff recommendation contained in the May 29, 2013 report to Budget Committee is that Toronto Water initially fund this servicing. Waterfront Toronto would then contribute this sum over ten years from project revenues and contributions from benefiting property-owners at the time of development.

COMMENTS

Prior to submitting the May 29, 2013 report to Budget Committee, City staff worked with Waterfront Toronto to identify \$11.6 million of waterfront funds that could be reallocated to this project and a future \$18.26 million waterfront contribution from land sale revenues and contributions from benefiting private land-owners.

As requested by Executive Committee, staff met with Waterfront Toronto to explore possible short term project deferrals in order to fund a portion of the cost (\$18.26 million) for East Bayfront servicing through the Waterfront Revitalization Project instead of through Toronto Water's Capital Financing Reserve Funds. This exploration was expanded to consider all possible means to reduce the City expenditure given the pressures on the City due to basement flooding resulting from last week's storm.

The following possibilities were canvassed and ultimately not pursued:

1. **Freeing up cash-flow from existing projects** – Waterfront Toronto advised there is very limited flexibility to reduce working capital without running the serious risk of delaying payments to vendors and eligible recipients (including the TTC). The majority of Waterfront Toronto's funding is currently tied up in the Queens Quay revitalization, Union Station Second Platform, Bayside infrastructure and Pan Am enabling works.
2. **Reallocate direct government funding from projects which have yet to be started** – There are four City projects which are to be funded by direct government funding in the Waterfront Long Term Funding Plan – the Regional Sports Complex; Fort York Pedestrian Cycling Bridge; East Bayfront Community Centre and East Bayfront Transit. Any funds reallocated to East Bayfront servicing would be replaced by land sale revenues as there is no additional direct government funding to replace these funds. This introduces less certainty that the necessary funding will be available when required.

3. Reallocate direct government funding of all, or a portion of the \$15 million East Bayfront Environmental Reserve – This fund is to protect the City as owner of the East Bayfront lands from any successful environmental claims. In addition to the loss of the protection afforded by this reserve, the City would have to increase debt financing of the waterfront project as the reserve is scheduled for expenditure in 2017. The funding for East Bayfront servicing is required between 2013 and 2015.

However, Waterfront Toronto was able to identify an additional contribution of \$4 million secured from the Waterfront budget. This represents approximately \$2 million which will be freed up when the City returns the financial securities for Dockside infrastructure to Waterfront Toronto plus an additional \$2 million which Waterfront Toronto will strategically reallocate through expenditure and timing management in order to bridge the funding gap. Waterfront Toronto has assured that the reallocations will not jeopardize the currently assumed delivery of city and provincial projects and will maintain direct government funding for these projects. This process will be determined in consultation with City staff through the update to the Waterfront Long Term Funding Plan for the 2014 Capital Budget process. This reduces the outlay of the City from \$18.26 million to \$14.26 million.

With the additional \$4 million waterfront contribution and Toronto Water's reduced initial outlay, Waterfront Toronto can immediately turn its attention to constructing the storm and sanitary facilities. The timing allows the City to leverage the \$8 million provincial funding for storm facilities for West Don Lands to expand the facility for East Bayfront and Keating North. In the future, Toronto Water will have one consolidated facility to operate, servicing significant future waterfront development in a manner which achieves the City's infrastructure goals and meets the requirements of the Wet Weather Flow Master Plan. In addition, throwaway costs associated with the implementation of temporary facilities are eliminated.

Waterfront Toronto will attempt to expedite the reimbursement of the \$14.26 million to the City through earlier project revenues and/or earlier payments by the benefiting owners of the sanitary and storm water facilities.

Further, the settling of the respective funding between the City and Waterfront Toronto on this matter will allow Waterfront Toronto to immediately sign the pending subdivision agreement for the Bayside subdivision. This will allow Waterfront Toronto to meet its contractual obligations to Hines and start to generate land sale revenues supporting East Bayfront infrastructure including the storm and sanitary facilities. Should this matter not be settled, Waterfront Toronto advises it will be unable to execute the subdivision agreement with the City thereby risking the Hines transaction.

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SIGNATURES

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ATTACHMENTS:

Appendix A – Original and Revised Table 1: Capital Expenditure and Sources of City Funding