TORONTO

REPORT FOR ACTION

Toronto and Region Conservation Authority - Long Term Accommodation Plan

Date: January 9, 2017
To: Budget Committee
From: Deputy City Manager & Chief Financial Officer
Wards: 8

SUMMARY

This report recommends 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.

The TRCA examined its long term accommodation needs and employed a business case analysis to examine the relative costs, benefits and risks associated with various build, buy or lease of office space scenarios. The analysis determined that the option to build on its own land is the most cost effective solution.

The City of Toronto, along with the Regions of York, Peel and Durham, Town of Mono and the Township of Adjala-Tosorontio provide a pro-rata share of funding within the authority's watershed jurisdiction based on the current assessment values of properties within the watershed. To date, York, Peel, Town of Mono and the Township of Adjala-Tosorontio have approved their respective shares.

The TRCA is seeking approval for the City's share of the $70.0 million for the Toronto and Region Conservation Authority's Long Term Accommodation project in the amount of $38.617 million to be paid over a period of 33 years as outlined in this report.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council endorse the TRCA plan to construct a new administrative office building on land it currently owns, with a total project cost of $70 million, requiring $60 million in debt financing to be arranged by the TRCA and funded by its member municipalities as follows: $10.5 million over 21 years that is currently available within all member municipality Operating and/or Capital Budgets); and $49.5 million over 33 years which includes the City share of $38.617 million.

2. A new capital project titled "TRCA Long Term Accommodation Project" with a total project cost of $38.617 million be included in the TRCA's 2017 Preliminary Capital Budget and 2018-2026 Capital Plan to fund the City of Toronto portion of the project over 33 years, with annual cash flows of $0.322 million from 2017 to 2022 and $1.502 million from 2023 to 2026 and until its completion in 2037 as follows:

(a) the funding of $0.322 million from the planned project titled "Major Facilities Retrofit" be reallocated in 2017 to the "TRCA Long Term Accommodation Project" toward the construction of the new facility for a period of 21 years from 2017 to 2037; and

(b) $1.180 million of the additional $2.0 million of debt capacity available in the Year 2023 for the TRCA be used for this purpose and continue through to 2037.

3. After the new facility's completion, and commencing in 2038, the funding of $0.322 million as identified in Recommendation 2(a) be redirected back to the "Major Facilities Retrofit" capital project to continue funding based on its original purpose.

4. City Council authorize the appropriate City officials to enter into any documents and agreements necessary to give effect to Recommendation 1 above and to take the necessary action to give effect to this report and provide documentation of City support.

FINANCIAL IMPACT

The new administrative office building project, with a maximum cost of $70 million including contingency provisions, is proposed to be funded by$10 million of TRCA's own land disposal revenues, and debt financing in the amount of $60 million.

The debt portion of the project will be funded by existing TRCA contribution allocations from member municipalities over the next 21 years, plus an additional project specific contribution allocation from the member municipalities over a 33 year amortization period. The following chart shows the contribution allocation shares amongst the member municipalities.

TRCA – Member Municipalities Share of $60 million
TRCA New Office Project

I	II	III	IV	V
Municipality	**Project Cost Allocation**	**$ share**	**Existing funding**	**Additional funding Required (III – IV)**
Adjala-Tosorontio	0.000067	4,020	704	3,317
Durham	0.028247	1,694,820	296,594	1,398,227
Mono	0.00008	4,800	840	3,960
Peel	0.113733	6,823,980	1,194,197	5,629,784

I	II	III	IV	V
Toronto	**0.643621**	**38,617,260**	**6,758,020**	**31,859,240**
York	0.214252	12,855,120	2,249,646	10,605,474
Total Project Levy	1.0	60,000,000	10,500,000	49,500,000

The existing and new funding contributions from the City of Toronto are outlined in the following chart.

	Existing Funding	Additional Funding	Total
Years	2017-2037	2017-2049	
Year length	21	33	
Annual	$321,810	$965,431	
Total	**$6,758,020**	**$31,859,240**	**$38,617,260**

Given the current funding restraints, the City of Toronto has requested the TRCA to borrow the required $0.965 million per year until the additional debt capacity of $2.0 million is made available in the 2023 Capital Plan. Endorsement of the municipal funding is required in order for the TRCA to secure financing from their financial institution to complete the project.

There is an additional cost of $0.165 million in cumulative Operating costs for this interim financing as detailed in the Table 1 below:

Table 1 - Operating Impact for the Years 2017 - 2022					
Year	**Amount**	**Payment Date**	**Interest Rate**	**Annual Interest**	**Cumulative Interest**
2017	$965,431	July 1, 2017	2.50%	$24,136	$ 24,136
2018	$965,431	July 1, 2018	2.50%	$24,136	$ 48,272
2019	$965,431	July 1, 2019	2.50%	$24,136	$ 72,408
2020	$965,431	July 1, 2020	3.20%	$30,894	$103,302
2021	$965,431	July 1, 2021	3.20%	$30,894	$134,196
2022	$965,431	July 1, 2022	3.20%	$30,894	$165,090

In 2023, TRCA's Capital Plan has additional debt funding of $2.0 million. At this time, the cash flow for this project will increase by $1.180 million per year until 2049, for a total of 27 years to fund the City of Toronto's share of this project as shown in the following table:

$000s	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
2016 - 2025 Capital Budget & Plan	15,275	15,382	16,992	17,104	17,219	17,337	20,958	21,082	21,209	
2017 - 2026 Prelim. Capital Budget & Plan	15,275	15,382	16,992	17,104	17,219	17,337	20,958	21,082	21,209	21,339
Capital Budget & Plan Changes (2017 - 2025)	-	-	-	-	-	-	-	-	-	

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2017 - 2025
Previously Approved										
Waterfront & Valley Erosion Control	-	-	-	-	-	-	(1,180)	(1,180)	(1,180)	(3,540)
TRCA Administrative Infrastructure	(322)	(322)	(322)	(322)	(322)	(322)	(322)	(322)	(322)	(2,898)
Total Previously Approved	(322)	(322)	(322)	(322)	(322)	(322)	(1,502)	(1,502)	(1,502)	(6,438)
New										
Long Term Accommodation Project	322	322	322	322	322	322	1,502	1,502	1,502	6,438
Total New	322	322	322	322	322	322	1,502	1,502	1,502	6,438
Total Changes	-	-	-	-	-	-	-	-	-	-

The City of Toronto's contribution to this project is $38.617 million to be paid over 33 years and can be accommodated within the 2017 Preliminary Capital Budget and 2018 to 2026 Capital Plan and future years' Capital Plans at the same level of funding.

At this time, TRCA does not anticipate any deferral of currently known major critical erosion control projects as a result of this change.

DECISION HISTORY

At its February 17, 2016 meeting, City Council adopted the 2016 Toronto and Region Conservation Authority (TRCA) Capital and Operating Budgets. Within the TRCA 10 Year Capital Plan, City Council approved debt funding of $3.0 million for the years 2016-2022 and debt funding of $5.0 million for the Year 2023-2025.

The Council Approved 2016 TRCA Capital Budget and 2017-2025 Capital Plan also included the project titled "Major Facilities – Retrofit" with annual funding of $0.422 million to complete major rehabilitation and repairs to TRCA administrative infrastructure.

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX12.2

At its June 24, 2016 Authority meeting (#5/2016), the Toronto and Region Conservation Authority Board, the Authority adopted Resolution #A85/16 approved the project for the construction of an administrative office building for Toronto and Region Conservation Authority (TRCA) (Project), at a cost of $70,000,000; and designated the regional municipalities of Peel, York, Durham, the City of Toronto, the Town of Mono and the Township of Adjala-Tosorontio as the benefiting municipalities.
https://trca.ca/wp-content/uploads/2016/07/AuthorityMinutes05-16_Jun24_2016.pdf

COMMENTS

After many years of examining offices space options and leasing temporary space, in 2015 the TRCA vacated its administrative headquarters on land it owns at 5 Shoreham Drive near Black Creek Pioneer Village in Ward 8, due to insufficient space and poor working conditions for staff. As an interim measure, the TRCA subsequently relocated and consolidated other operations to leased office space in the City of Vaughan for a six-year term, expiring in June 2021.

In order to meet the end of lease timeline, the TRCA subsequently began planning for its long term accommodation needs beyond the interim lease term. The TRCA forecasted its long term operations growth and future office needs as part of a business plan which examined the build, buy and lease office space options and their relative costs and merits.

The outcome of the business case analysis was to build a new administrative office building on TRCA lands as the preferred office space accommodation solution.

The TRCA is now seeking approval from all of its member municipalities, including the City of Toronto, and related funding commitments within their capital plans to facilitate the construction of the new office at the site of its former headquarters at 5 Shoreham Drive. Construction is expected to begin in 2019 in order to meet a 2021 occupancy date.

A long term accommodation plan for the TRCA is required in order to accommodate the current number of required staff and the possible future growth.

This project is included in the TRCA 2017 Preliminary Capital Budget and 2018-2026 Capital Plan before Council for consideration. TRCA requested an allocation of $0.965 million for 33 years totalling $31.859 million to be funded from the acceleration of the incremental $2.0 million dollar debt allocation included in the Year 2023.

The TRCA has reviewed various financing options and has been able to secure a more favourable rate as compared to the City debt costs. TRCA will arrange the financing required for the construction. The TRCA has requested that the member municipalities provide the necessary long term funding to service the debt for the new office building in accordance with share of funding formula.

TRCA – Member Municipalities Share of $60 million
TRCA New Office Project

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The TRCA has traditionally received its funding as budgeted amongst the area municipalities. The TRCA has the authority to impose a levy on the participating member municipalities to recover costs of its projects.

The City of Toronto portion of the debt payments is $38.617 million and will be funded over 33 years beginning in 2017 with annual cash flows of $0.322 million from 2017 to 2022 and $1.502 million from 2023 until its completion in 2037. Given the current fiscal restraints, the City of Toronto could not accommodate the additional debt request upfront. An additional $2.0 million of debt capacity for the TRCA is available in the Year 2023, of which $1.180 million of necessary funding can be utilized for this purpose.

To bridge the gap from 2017 until 2023, TRCA will borrow the required funds on behalf of the City of Toronto and recover interest charges from the City in the form of a levy adjustment to the Operating Budget until the Year 2023 when the City can accommodate the additional amount in the Capital Plan. Beginning in 2023 through to the Year 2023 (27 Years), the cash flow required to fulfil the City's obligations under the Act will be $1.180 million and the total amount payable over the 27 years is the same as what would have been paid over 33 years.

The TRCA will require additional funding from the City and other member municipalities regardless of which long term accommodation option is chosen. The build option presents the lowest cost option with the longest term benefits as the TRCA will be building on its own land.

The TRCA has been further directed by its Board to explore funding for the project from the federal and provincial governments and public-private partnerships. TRCA has since ruled out the public-private partnership option based on a cost analysis prepared by Price Waterhouse Cooper. However if successful in securing other grants or donations, such funds would be used to offset the term of the participating municipal contributions.

Business Case Analysis

The business case prepared by TRCA in support of its long term accommodation needs was circulated to the City's Deputy City Manager & Chief Financial Officer for review and comments.

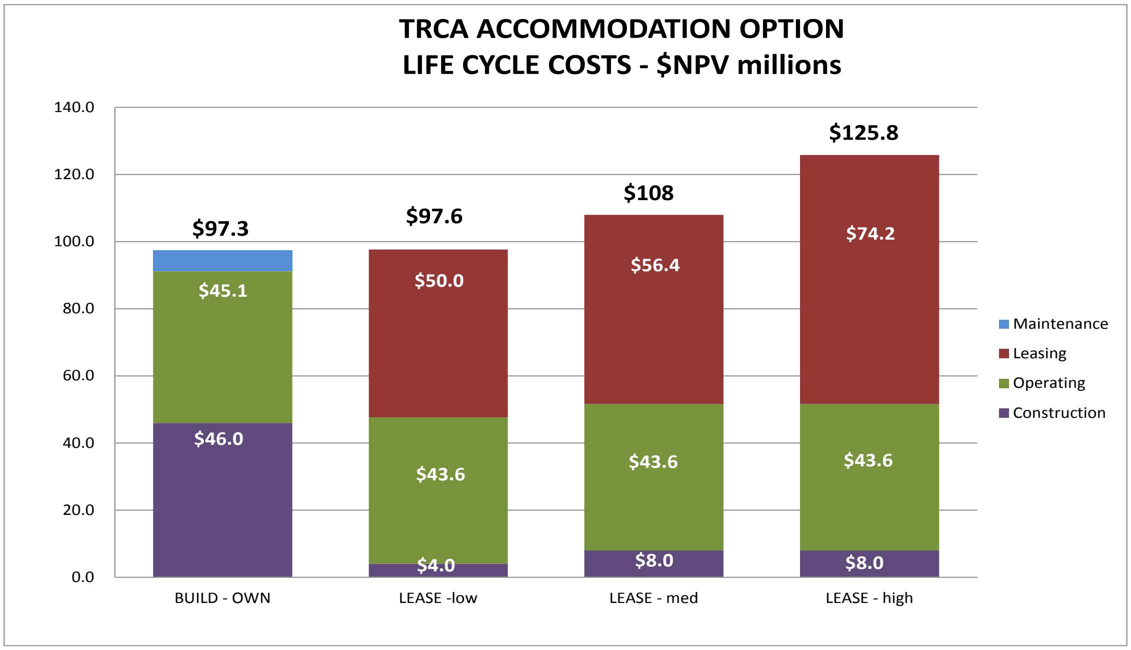
Staff reviewed the business case presenting the comparative full life cycle costing analysis for the buy, build or lease options for the TRCA's office accommodation needs.

The analysis employed a discounted cash flow model where all of the costs of each alternative were adjusted back to net present values (NPV) for effective comparative decision making purposes. The "buy an existing building" option was subsequently removed from the analysis as two potential buildings were either sold or deemed too costly to repair or fit out. Thereafter, a comparable building was not available for sale on the market, and as such the remaining options were build-own, and variants of leasing a building or space.

The build option was calculated considering no land acquisition cost, as the development site is owned by the TRCA. Also considered were current construction costs for the size and design of the proposed building inclusive of inflation and contingencies over the construction period, plus ongoing operating and maintenance costs of such a building inflated into the future 50-year operating horizon at industry standard rates.

The lease options, shown as three variants, were derived from comparable buildings in the area as: Low - $17 per square foot lease rate (but would require space at two separate building locations), Medium - $19 per square foot, and High - $25 per square foot. The rates were further adjusted with 5-year lease rate escalations using industry standard rates over the same 50-year operating horizon. Each lease option variant also contained a construction cost allocation that would be required to adapt the building to the TRCA's needs, plus the similar operating costs that would arise over the 50-year horizon.

All of the various cost components across the options, as adjusted into the future, were subsequently discounted back to current 2016 dollars, using a discount rate equivalent to the TRCA's borrowing rate, for comparative decision making purposes. A graphic summary of these findings is contained in the chart below.



- 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.

As illustrated above, while the build option contains initial capital funding required for construction, combining its long term operational and maintenance costs results in lower overall costs versus leasing office space over a 50 year life cycle horizon. Furthermore, the TRCA would maintain/own the asset at end of the forecast period. The nominal property value of the building at the end of the 50 years, would be $78.018 million or $10.7 NPV as estimated in September 2016 by CB Richard Ellis (CBRE Ltd), an independent real estate valuation service provider. When the capital outlay for the build option ($97.3 million NPV) is discounted by the residual value of the building ($10.7 million NPV), the cost differential between the build and low lease option increases from $0.3 million to $11.0 million NPV.

The low lease option, while comparable in costs, was not considered desirable as the TRCA space needs would need to be distributed over two separate locations, and thus not meeting the need for the TRCA to accommodate its operations in one location.

The build option, being identified as the lowest cost alternative and upon other beneficial factors was selected as the preferred option to pursue over the various lease option variants. This is primarily because the TRCA would build the property on land which they own.

The detailed business case and supporting documentation can be found at the following link: https://trca.ca/about/trca-administrative-office-project/

Project Costing and Funding

While the discounted cash flow analysis is an effective tool for project decision makers, the costing, financing and funding of a capital project requires detailed and timed actual dollar requirements.
The administration building project maximum project cost has been set at $70 million inclusive of contingencies. The TRCA proposes to fund the project in the following manner:

Land Disposition Funds (TRCA and Provincial sources)	$10 million
Project Financing (Funded from TRCA member municipalities	$60 million
TOTAL	**$70 million**

TRCA proposes to secure new third party financing for $60 million over a 33 year amortization period. The TRCA further proposes that the associated annual debt servicing costs will be provided through its long term operating funding arrangements with its member municipalities. In order to secure the financing, TRCA requires confirmation from all partner municipalities that the associated servicing costs will be funded.

Funding Implications – TRCA and its Member Municipalities

The TRCA proposes that the $60 million cost to member municipalities be funded from existing annual municipal contribution commitments plus an additional annual capital contribution all in accordance with the TRCA's municipal member funding share formula. The City of Toronto currently contributes a 64% share toward the TRCA member municipal funding formula.

Funding from within the approved levy allocations from the member municipalities to the TRCA will be applied to this project across a 33 year timeline along with additional allocations now being requested as outlined in this chart. The following chart illustrates the existing and incremental funding requirements of the TRCA across its member municipalities as requested by the TRCA:

TRCA – Member Municipalities
New Office Project Funding Share
(In $000's)

Municipality	Share	Existing Funding	New Funding	Total Annual Levy Funding
Adjala-Tosorontio	0.000067	34	101	135
Durham	0.028247	14,124	42,370	56,494
Mono	0.000080	40	120	160
Peel	0.113733	56,867	170,600	227,467

Municipality	Share	Existing Funding	New Funding	Total Annual Levy Funding
Toronto	0.643621	321,810	965,431	1,287,241
York	0.214252	107,125	321,378	428,503
Annual Total	**1.000000**	**500,000**	**1,500,000**	**2,000,000**
Project Total 21 years		10,500,000		10,500,000
Project Total 33 years			49,500,000	49,500,000
Total Project Levy		**10,500,000**	**49,500,000**	**60,000,000**

As shown above, the collective funding from the area municipalities already allocated will be directed to the project in the amount of $10.5 million. The additional funds required to complete the proposed new building amount to $49.5 million.

Funding Implications – City of Toronto Specific

The City's portion in the amount of $0.322 million is included in the current 2016-2025 Council Approved Capital Plan for the "Major Facilities Retrofit" and will be redirected to this project for a period of 21 years from 2017-2037 totalling $6.758 million. After completion in 2038, this funding will resume the purpose for which it was established. The new request of $0.965 million for 33 years totalling $31.859 million will be funded beginning in 2023 and results in a revised amount of $1.180 million over a period of 27 years to complete Toronto's share of the funding.

The total City of Toronto contribution to this project is $38.617 million over 33 year period.

At this time, TRCA has not identified specific erosion projects for the debt allocation in the Year 2023 and does not anticipate any deferral of currently known major critical erosion control projects as a result of this debt allocation change. The City of Toronto is not recommending the deferral or reduction of any existing Council approved erosion control projects.

Other member municipalities are also requested fund their share through either incremental funding or through the reallocation of funds from other projects.

The Conservation Authority Act

TRCA was formed in 1957 under The Conservation Authorities Act. Its watershed authority boundary encompasses the City of Toronto, and parts of the Regions of Peel, York, Durham, the City of Toronto, the Town of Mono and the Township of Adjala-Tosorontio.

The method for apportioning the TRCA levy among its municipal funding partners is based on the modified current value assessment (CVA) for each municipality.
The CVA formula uses property assessments to calculate the distribution of the levy which means that the municipality within TRCA's jurisdiction which has the highest proportion of overall assessment should pay proportionately the highest share of TRCA's generally benefiting (operating) costs.

Therefore the City of Toronto's share must maintain the ratio between these funding municipalities according to their share of overall TRCA property tax assessment base.

Conservation Authorities (CAs) were established by the Province of Ontario in the late 1940s. Every conservation authority is "a body corporate" (section 4 of the CA Act). TRCA, established in 1957 under the Conservation Authorities Act, is a legal entity separate from the City of Toronto which operates as a non-profit organization with its own "board of directors", the Authority to which the City appoints 14 members representing 50% of the membership.

Under Clause 26 (1) of the Conservation Act, the TRCA may, from time to time, determine what money will be required for capital expenditures in connection with any project and levy accordingly. The portion of such money required from each participating municipality must be in the same proportion as the benefit derived by the municipality from the project. The Authority gives written notice of the amount to be raised by the municipality either through the issuance of debentures or otherwise. The payment required by the municipality in respect of such capital costs may be enforced by the Authority as debt due by the municipality. On July 21st, as required under the Act, the Authority provided notice to the Deputy City Manager & Chief Financial Officer of the capital to be raised by the City of Toronto for this project.

While the City of Toronto is not required to recommend additional funding for the construction of the new head office, through the Act the TRCA has the authority to levy for payment. However, TRCA staff have indicated that it is not the intent of the Authority to use this provision.

Through the Conservation Act, the TRCA can impose a charge which would be payable by the City of Toronto. If the City disagrees with the amount of the project, it may appeal to the Mining and Land Commissioner (TMLC) of the Ministry of Natural Resources and Forestry. If the City disagrees with the apportionment of the costs (funding allocation formula), an application may be made to the Ontario Municipal Board (OMB) within thirty days after it received notice of the apportionment. The OMB may confirm or vary the Authority's apportionment and may fix and award costs. Its decision is final and cannot be appealed.

Conclusion

Additional funding requirements from TRCA member municipalities for future office space requirements post year 2021 will be required. The TRCA as a Conservation Authority with funding powers in Ontario has the ability to assess and acquire funding from member municipalities for capital and operational needs to fulfill its service mandate, including the provision of administrative space.

The TRCA has employed a business case analysis of its long term accommodation needs and has selected the most cost effective option, the build option as its preferred solution.

The construction of a new administrative office building on TRCA lands will ensure the efficient allocation of TRCA member municipality's resources in one consolidated location that can meet its current and long term space needs.

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SIGNATURE

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Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Attachment 1: TRCA Authority Resolution