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## **2004 BUDGET BRIEFING NOTE: Water/Wastewater Funding of Toronto & Region Conservation Authority Operating Program**

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### **Issue/Background:**

The purpose of this briefing note is to meet the Budget Advisory Committee request to review the Toronto & Region Conservation Authority (TRCA) Capital/Operating Budgets to determine “what projects could be transferred to the Water budget for funding purposes, including the use of reserve funds.”

At its meeting on February 18<sup>th</sup>, 2004 Budget Advisory Committee reports having:

- (1) requested the Chief Financial Officer and Treasurer, in consultation with the Commissioner of Works and Emergency Services, the Commissioner of Economic Development, Culture and Tourism and the Chief Administrative Officer/Secretary-Treasurer of the Toronto and Region Conservation Authority to consider when they review their Capital and Operating Budgets for water related projects, what projects could be transferred to the Water budget for funding purposes, including the use of the reserve funds, and report thereon to the Budget Advisory Committee for its wrap up meetings in March 2004; and
- (2) requested the Chief Administrative Officer, in consultation with appropriate staff, to look at a criteria for the establishment of a policy for water related projects being funded by the water budget in 2005 and report thereon to the Budget Advisory Committee, through the Works Committee, in that regard.

Since 1999, Water/Wastewater has contributed towards the Toronto & Region Conservation Authority (TRCA) Capital Program through water reserves.

<b>Year</b>	<b>WWW Contribution to TRCA Capital Program</b>
2003	\$2.445 million
2002	\$2.253 million
2001	\$1.875 million
2000	\$0.895 million
1999	\$1.230 million

For the 2004 budget, it is recommended that Water/Wastewater contribute \$2.946 in water-reserve funds towards the 2004 TRCA Capital Program.

As a result of the 2004 capital budget review process, it had been determined that the current Water/Wastewater contribution represents an appropriate quantum given the characteristics of the 2004 capital program. The balance of this briefing note will therefore focus on the operating budget in the context of determining which services and initiatives could/should be funded by Water/Wastewater. It should be noted that Water/Wastewater contributed \$0.088 million towards the 2003 TRCA Operating Program (water source protection initiatives).

### Key Point(s):

#### *Review Process in Identifying Appropriate Water/Wastewater Related Operating Programs:*

In order to develop a comprehensive, accurate list of potential TRCA operating programs related to Water/Wastewater, a meeting was held with the purpose of bringing together Water/Wastewater, TRCA and Financial Planning Department staff. The TRCA identified that up to 53% of its 2004 Recommended Operating Budget could/should be related to water source protection, and as such, financed by Water/Wastewater user rate revenue. As a result of the report submitted by the TRCA describing the rationale for such funding, the operating programs have been categorized as “direct” or “indirect”. The following table summarizes the more detailed TRCA report related to water rate funding per Appendix #1.

Program	Gross \$	Toronto Net \$	Potential Wtr. Rate %	Water Funding Share	Water Funding Share Including Overhead
<b>Direct Source Protection Program</b>				-	
Property/Land Management	3,673,100	624,004	55%	343,202	452,078
<b>Watershed Management:</b>				-	
Watershed Strategies	2,113,600	387,086	90%	348,377	
Resource Science	1,759,200	763,813	85%	649,241	
Environmental Services	1,550,200	108,539	80%	86,831	
Program Administration	270,000	184,816	85%	157,094	
Enforcement & Security	<u>436,100</u>	<u>298,511</u>	<u>85%</u>	<u>253,734</u>	
<b>Watershed Management Subtotal:</b>	<b>6,129,100</b>	<b>1,742,765</b>		<b>1,495,278</b>	<b>1,965,454</b>
 <i>Direct Source Protection Total:</i>	 9,802,200	 2,366,769		 1,838,480	 2,417,532
<b>Indirect/Educational</b>					
Black Creek Pioneer Village	5,387,600	1,237,169	0%	-	
Kortright Centre	1,378,100	166,676	75%	125,007	
Conservation Areas	2,879,000	105,071	27%	28,369	
Conservation Field Centres	2,094,100	271,610	82%	222,720	
Development Services	1,837,100	1,437	85%	1,221	
Rouge Park Interim Management		<u>70,840</u>	<u>90%</u>	<u>63,756</u>	
	13,575,900	1,852,803		441,074	910,102
<b>Overhead Services</b>					
Corporate Services*	3,381,200	2,091,976	50%	1,048,080	
<b>Total Sum (Direct + Indirect)</b>	<b>26,759,300</b>	<b>6,311,548</b>		<b>3,327,634</b>	<b>3,327,634</b>

\* Corporate Services have been apportioned based on full-cost accounting (thus reflecting WWW funded initiatives).

As demonstrated above, although the suggested Water/Wastewater projects reflect approximately 53%, by definition, some of the suggested programs are more direct/indirect. In identifying the more direct expenditures, it was determined that any/all programs directly related to water source protection could be identified as “direct”; whereas programs that are more educational in nature have been identified above as “indirect”. The Corporate Services, or general overhead (financial and administrative support costs) has been allocated on a full-cost accounting basis, in that the level of contribution reflects the general apportionment of water related programs within the TRCA operating budget. From this application, the general overhead expenditures were then apportioned between direct/indirect program.

Specifically, the direct source protection (water) programs require a funding contribution of \$1.838 million, inclusive of Watershed Management, which is \$1.495 million. In apportioning the corporate services (overhead) required to complete such programs, the direct source protection program contribution increases by \$0.579 million, thus requiring a total contribution of \$2.418 million. Similarly, the indirect program require a funding contribution of \$0.441 million. In apportioning the corporate services (overhead) required to complete the indirect water related programs totals \$0.469 million, thus requiring a total contribution of \$0.910 million.

As a result, it is estimated that up to \$2.418 million of the City of Toronto net operating expenditure of \$6.312 million, or 38.3%, would be identified as “direct” source protection program. An additional \$0.910 million, or 14.4% would be classified as “indirect”, or more Water/Wastewater educationally related.

*Financial implications in utilizing Water/Wastewater User Rate Revenue:*

For the 2004 Budget process, it is proposed by the TRCA that up to 53% of the TRCA Operating Budget could be financed through Water/Wastewater reserve funds. The implication in accepting this financial adjustment will be to reduce the City of Toronto tax supported Operating Budget pressure by \$3.328 million.

Due to the fact that the water rate-increase has been determined for 2004, it is submitted that any contribution made to the TRCA from Water/Wastewater in 2004 must be accomplished through a transfer of water-reserves (balance of Water/Wastewater Reserve as of January 1, 2003 was \$168.507 million). Alternatively, in 2005 and beyond, the opportunity exists to increase the water rates, thus mitigating up to 53% of the TRCA operating budget. Specifically, the water rate would have to increase approximately 0.64% in order to facilitate a contribution of \$3.328 million (full-year impact). Comparatively, the average City of Toronto household water bill would be expected to rise from \$352 (assumes 2004 recommended rate increase of 6%) to approximately \$354, or an additional \$2 per year (assumes average water consumption rate of 280 cubic meters). Further, once this rate has been incorporated into the water rate, it will become part of the base water consumption rate henceforth.

*Other TRCA Funding Partners:*

It is our understanding that for the first time, the Region of Peel has budgeted to finance approximately 50% of the TRCA operating costs through the water rate. Rather than employing a formal set of criterion by which water rate funds would be directed, Peel Region has instead followed a less formal process by which various operating programs were deemed beneficial to the water system, and were funded accordingly through the water rate.

In order to ensure due diligence in utilizing water reserves for conservation purposes, a comprehensive set of criteria (water related characteristics of programs, projects and activities) should be developed prior to the 2005 budget process through reporting to Works Committee of such criteria. Once a clear set of criteria has been defined by the Water/Wastewater staff in consultation with TRCA, the Chief Financial Officer/Treasurer will have the ability to develop long-term, sustainable financing plans (for all financing sources including water reserve, tax levy, etc.), for both operating and capital programs.

*Legal Issues in utilizing Water/Wastewater Reserves and/or Water Revenues:*

There are two major Provincial Acts that determine the appropriateness in utilizing water reserves and/or rates for TRCA, which include the Municipal Act, and Sustainable Water & Sewage Act.

In regard to the Municipal Act, the Act states “The amount of fees or charges for the use of a waste management system, for the use of a sewage system or the consumption of water shall not exceed the cost of providing the waste management system, the sewage system or the water system, as the case may be.”(Reference O.Reg. 244/02, s. 12(2)). Financial Planning Staff have requested the Legal Department to provide an interpretation as to the application of this Act.

The Sustainable Water and Sewage Act (SWSSA) is the most relevant in allocating Water/Wastewater revenues to TRCA operating programs. Specifically, the SWSSA outlines that funds from water/sewer revenues must be allocated and aligned towards “source protection costs.” The issue at this point in time is that regulations for this Act have yet to be developed. As such, any developments and/or implementation of Regional criteria may have to be realigned once regulations for this Act have been developed in defining these costs. Initial conversations with the Province have indicated that the development of such Regulations are not in 2004. (The assumption at this time is that any future Regulations will not be applied retroactively).

**Conclusion:**

From a staff perspective, it would be preferable to develop a formal set of criteria by which applicable operating programs could be identified for appropriate funding from

water revenues in accordance with Provincial legislation. However, to meet the request of the Budget Advisory Committee, this report identifies the potential of reducing the 2004 City Operating tax budget for the TRCA through the utilization of water reserves (for the 2004 Budget).

**Date: Monday, March 15, 2004**