Analyst Briefing Notes

Budget Committee

(March 26, 2007)

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2007 OPERATING BUDGET

Executive Summary

- The Toronto and Region Conservation Authority (TRCA) 2006 preliminary year-end net expenditure of $3.010 million is in line with the 2006 Approved Budget, which represents only the tax-supported portion of the City of Toronto's share of TRCA's overall operating budget.

- TRCA's 2007-2009 Operating Budget is premised on the strategic direction to become a trusted resource in energy conservation, waste management, transportation policy, the design of green buildings and sustainability education in order to provide governments, agencies, business and industry, schools and community groups with the tools to take decisive action to implement a shared vision to change unsustainable practices.

- As summarized in Table 1 below, the TRCA 2007 Recommended Budget is $6.849 million net, of which $3.094 million is tax-supported and $3.755 million is funded through the Toronto Water Operating Budget.

  - The City's share of TRCA's overall operating budget decreased slightly from 66.93% in 2006 to 66.57% in 2007. TRCA's overall operating budget increased by 4% from 2006 to 2007. The TRCA 2007 Recommended Operating Budget represents a $0.243 million or 3.7% increase over 2006.

  - The tax-supported portion represents a $0.084 million or 2.8% increase over the 2006 Approved Budget of $3.010 million. Therefore, the tax-supported TRCA 2007 Recommended Budget exceeds the budget target by $0.084 million or 2.8%.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change - 2007 Recommended from 2006 Approved Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
(In $000s)	$	$	$	$	$	$	%	$	$
GROSS EXP.	33,979.3	35,413.1	37,041.4	(415.7)	36,625.7	2,646.4	7.8	523.5	331.5
REVENUE	27,372.8	28,806.6	30,192.2	(415.7)	29,776.5	2,403.7	8.8	249.5	117.0
NET EXP.	6,606.5	6,606.5	6,849.2	0.0	6,849.2	242.7	3.7	274.0	214.5
Less Toronto Water contribution	3,596.7	3,596.7	3,754.9	0.0	3,754.9	158.2	4.4	137.0	107.3
Tax supported	3,009.8	3,009.8	3,094.3	0.0	3,094.3	84.5	2.8	137.0	107.3
Approved Positions	394.7	403.1	406.8	4.0	410.8	16.1	4.1		
TARGET			6,606.5		6,606.5				
$ Over / (Under) Program Target			242.7		242.7				
% Over / (Under) Program Target			3.7%		3.7%				

- The 2007 Recommended Base Budget is $37.041 million gross and $6.849 million net. There are new service priorities recommended which increase gross expenditure and revenue by $0.416 million each, with no effect on net expenditure.

  - The 2008 and 2009 Outlook includes net incremental increases of $0.274 million or 4% for 2008 and $0.214 million or 3% for 2009, reflecting projected growth in TRCA's overall operating budget to accommodate salary and wage increases and non-labour inflationary increases. These increases will be funded equally by a contribution through the Toronto Water Operating Budget and the tax base.

- The 2007 Recommended Budget includes changes to existing services for certain regionally- and provincially-funded programs. The revenue from the enhanced services will support the costs associated with the 4 new positions required for their operation. There is no net impact on the City's share of TRCA's overall 2007 operating budget.

- The TRCA 2007 Recommended Budget supports the following strategic priorities:

  - To assist the Ministry of Energy in developing an Ontario Climate Change and Clean Air Plan as a response plan to mitigate the effects of climate change;

  - To update the Humber, Don and Rouge watershed plans to meet Oak Ridges Moraine Conservation Plan requirements and provide wet weather flow management in the area around Toronto;

  - To shift the emphasis of education and programs at Black Creek Pioneer Village to recognize the need to support new Canadians and multicultural communities;

  - To continue to be involved in the Toronto waterfront planning and development; and

  - To support redevelopment projects such as the Toronto Brick Works, the Guild Inn and core TRCA flood control programs.

- TRCA's tax-supported 2007 Recommended Budget of $3.094 million net exceeds the target by $0.084 million or 2.8%. If TRCA reduces its budget by $0.084 million to attain 2007 0% target, that would generate onerous repercussions for TRCA in terms of access to its other sources of funding. Firstly, the Council-approved funding policy for TRCA budgets, would amplify the reduction to $0.161 million. Secondly, since TRCA leverages its Toronto funding with its other municipal funding partners by a factor of 1.5, a $0.161 million Toronto reduction would be further amplified to a $0.243 million reduction in TRCA's overall operating budget. Therefore, the $0.084 million reduction to meet the City's budget target is not recommended since it is would have significantly amplified and unfavourable funding implications for TRCA.

Recommendations

The City Manager and Chief Financial Officer recommend that:

(1) the 2007 Recommended Operating Budget for Toronto and Region Conservation Authority of $36.626 million gross and $6.849 million net, of which $3.094 million is tax-supported and $3.755 million is funded by a contribution through the Toronto Water Operating Budget, comprised of the following services, be approved:

Service:	Gross ($000s)	Net ($000s)
Corporate Services	5,282.0	821.1
Watershed Health	19,933.3	4,099.6
Public Use Recreation	10,841.5	1,852.0
Rouge Park Interim Management	568.9	76.5
Total Program Budget	36,625.7	6,849.2
Less Toronto Water Contribution		3,754.9
Tax-Supported Budget		3,094.3

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

(In $000s)	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
	$	$	$	$	%
GROSS EXP.	31,024.5	33,979.3	35,413.1	1,433.8	4.2
REVENUES	24,616.0	27,372.8	28,806.6	1,433.8	5.2
NET EXP.	6,408.5	6,606.5	6,606.5	0.0	0.0
Less Toronto Water contribution	3,393.1	3,596.7	3,596.7	0.0	0.0
Tax supported	3,015.4	3,009.8	3,009.8	0.0	0.0
Approved Positions	371.2	394.7	403.1	8.4	2.1

Source: *Projected Actuals Based on the Preliminary Year-End Operating Variance Report.

2006 Experience

TRCA's preliminary year-end net expenditure of $3.010 million is in line with its 2006 Approved Budget. Therefore, there is no variance on net expenditure.

The differences in gross expenditure, revenue and positions arise from the timing difference between TRCA's budget submission to the City of Toronto in the fall prior to the budget year and the final approval of TRCA's budget in the spring of the budget year, following the confirmation of funding from all of TRCA's municipal funding partners. These adjustments have no net impact on the City's approved operating budget, neither on the tax-supported portion of TRCA's budget nor on the Toronto Water contribution.

TRCA's 2006 experience has no impact on the 2007 Recommended Budget.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

- The 2007 Recommended Budget allows TRCA to pursue the following 3-year strategic directions:
  - To assist the Ministry of Energy in developing an Ontario Climate Change and Clean Air Plan as a response plan to mitigate the effects of climate change;
  - To update the Humber, Don and Rouge watershed plans to meet Oak Ridges Moraine Conservation Plan requirements and provide wet weather flow management in the area around Toronto;
  - To shift the emphasis of education and programs at Black Creek Pioneer Village to recognize the need to support new Canadians and multicultural communities;
  - To continue to be involved in the Toronto waterfront planning and development; and
  - To support redevelopment projects such as the Toronto Brick Works, the Guild Inn and core TRCA flood control programs.

The 2007 increase in gross expenditure of $2.646 million over the 2006 Approved Operating Budget is required to continue delivering the 2006 level of service and includes changes to services that will reduce gross expenditure by $0.416 million. The changes include a decrease in services partially offset by an enhancement of services. (See discussion on pages 12-13.) The revenue from the enhanced services will support the costs associated with the 4 new positions required for their operation. There is no net impact on the City's share of TRCA's overall 2007 operating budget.

TRCA's 2008 and 2009 Outlook incorporates a 4% increase in its overall operating budget in 2008 and a 3% increase in 2009 to accommodate salary and wage increases, non-labour inflationary increases and operating impacts of capital. These increases will be funded equally by a contribution through the Toronto Water Operating Budget and the tax base. Although the City's outlook for 2009 does not include a provision for cost of living allowances (COLA) because this matter is subject to future negotiations, TRCA, as an independent agency, has included its estimates for salary and wage increases in its 2009 outlook.

Service Delivery - Challenges and Issues

The 2007 Recommended Budget includes the resources for TRCA to operate the following 4 core services:

- *Watershed Health* services encompass TRCA activities focused on the protection, management and restoration of water and land resources, including:
  - *Conservation education programs:* These programs aim to influence people's stewardship of water and land resources through Community Stewardship and education outreach to influence attitudes and behaviours and provide the knowledge and tools to

become effective environmental stewards. For example, almost 74,000 people have been reached through the Watershed on Wheels, Aquatic Plants and Yellow Fish Road programs over the period 2003-2006. In addition, the operation of the Kortright Centre for Conservation and 3 outdoor education field centres provides experientially environmental learning within the Toronto region.

- *Healthy Rivers and Shorelines*: TRCA works to promote safe, clean and vibrant rivers and shorelines within the 9 watersheds of the region through the completion and implementation of watershed strategies which are community-based, watershed-wide evaluations of ecosystem health with a community-based restoration action plan. TRCA also works to manage, expand and improve the regulatory framework that protects rivers, valleys and shorelines and to accurately predict and warn Toronto region residents and institutions in regards to potential flooding danger.
- *Regional Biodiversity*: TRCA's activities promote a rich variety of plants and animals that thrive in a network of greenspace. TRCA provides the requisite base-line science, monitoring and evaluation capabilities to support planning and restoration decision-making. TRCA is also involved in reforestation and other plantings to restore environmental and hydrologic functions. The Terrestrial Natural Heritage System Strategy assists municipalities with targets for natural cover.
- *Sustainable Communities*: TRCA assists people to engage in environmentally friendly practices through Community Transformation Projects to enhance awareness of sustainability principles, methodology and technology.

- *Public Use Recreation* includes programs where TRCA makes its considerable land holdings available for public use at 9 conservation areas and Black Creek Pioneer Village and engages more than 500,000 visitors at these facilities annually with numbers increasing despite a competitive tourist market.
  - This service provides high-quality and well-used public use programs and facilities while managing the fine balance between maximizing attendance and revenue at the same time as managing protected lands and protecting historical site and artifacts.
  - Activities, such as the Just Get Active program, promote healthy, active living.
  - TRCA is responsible for the operation of Bathurst Glen Golf Course as well as 2 campgrounds providing outdoor living to visitors to the Toronto region from around the world.

- *Corporate Management* includes typical administrative services and support.
  - This service provides strategic leadership, executive direction and decision making, and ensures that staff are provided with the tools, such as training, equipment and technology, required to do the job.
  - Corporate Management also engages in activities to meet the regulatory compliance, organizational and governance requirements of its stakeholders.
  - This service ensures that TRCA is performing at an optimally high level of efficiency, effectiveness and resource allocation.

- *Rouge Park Interim Management* involves the effective management, continued development and expansion of the park which comprised of 6,782 acres in 2006 and is expected to expand by 1,100 acres in 2007 with additional transfers of land from the Ontario Realty Corporation. This management service encompasses activities that cover the administrative costs for the management and development of the largest urban park in North America.

TRCA typically limits the increase in its municipal levy to modest increases in the 3-4% range in recognition of the fiscal challenges faced by its municipal funding partners. Given the pressures of growth, this means that TRCA has had to curtail certain aspects of The Living City vision. The following are examples of cutbacks affecting Toronto:

- TRCA has taken advantage of revenue opportunities such as increased admission fees at Black Creek Pioneer Village and charges for various planning and development services.

- Additionally, service levels were curtailed at Black Creek Pioneer Village by reducing seasonal hiring as well as marketing and sales expenditure plans.

- Proposed staffing to deal with growth pressures in the areas of planning and development and ecology was not implemented.

- Expenditures for various internal services such as staff development and special events support were also reduced.

In addition, TRCA continues to build relationships with other orders of government in order to secure alternative sources of funding to pursue their mission.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In $000s)	2006 Appvd. Budget	2007 Recommended Base	Change 2007 Recommended Base v. 2006 Appvd. Budget		FY Incremental Outlook	
					2008	2009
	$	$	$	%	$	$
GROSS EXP.	33,979.3	37,041.4	3,062.1	9.0	523.5	331.5
REVENUE	27,372.8	30,192.2	2,819.4	10.3	249.5	117.0
NET EXP.	6,606.5	6,849.2	242.7	3.7	274.0	214.5
Less Toronto Water contribution	3,596.7	3,754.9	158.2	4.4	137.0	107.3
Tax supported	**3,009.8**	**3,094.3**	84.5	2.8	137.0	107.3
Approved Positions	394.7	406.8	12.1	3.1		

NET TARGET		**6,606.5**		**0.0**	**0.0**
$ Over / (Under) Program Target		**242.7**		**274.0**	**214.5**
% Over / (Under) Program Target		**3.7%**		**4.1%**	**3.2%**

2007 Recommended Base Budget

The 2007 Recommended Base Budget of $6.849 million net represents a 3.7% increase over the TRCA 2006 Approved Base Budget of $6.606 million while maintaining the 2006 service level.

- The additional $3.062 million in gross expenditure and the $2.819 million increase in revenue recommended for the Program's Base Budget are needed to fund annualized costs, step increases, COLA and fringe benefit increases, non-salary inflationary increases and other base changes, such as the impact arising from TRCA's final 2006 approved budget.

- The $6.849 million net 2007 Recommended Base Budget is $0.243 million or 3.7% over the 2006 level.

- The $3.094 million net tax-supported portion exceeds TRCA's 2006 Approved Budget of $3.010 million by $0.084 million or 2.8%.

- The $3.755 million net recommended contribution through the Toronto Water Operating Budget, in keeping with the new Council-approved funding policy for TRCA budgets, exceeds the 2006 approved contribution by $0.158 million or 4.4%.

- TRCA's 2007 Recommended Base Budget includes a net increase of 10.6 new positions, all temporary and all of which are supported by third-party funding.

2007 Key Cost Drivers

- Prior year impacts, particularly the annualized impact a 2005/2006 decision to recalibrate the TRCA wage grid, create a $0.109 million net pressure after mitigation by higher user fees. Associated with this pressure is a requirement for 0.3 new approved positions.

- Cost of living adjustments (COLA) that average 2¼% for 2007 are non-discretionary expenditures that, together with minor premium increases for fringe benefits, result in additional costs of $0.070 million net after offsets by non-Toronto funding.

- Step increases account for a net pressure of $0.052 million after offsets by non-Toronto funding.

- Non-labour inflationary increases account for a $0.032 million pressure after mitigation by higher user fees.

- These pressures are mitigated by a small reduction in the Toronto share of TRCA's overall budget. The method for apportioning the TRCA levy among its municipal funding partners is set by provincial legislation and is based on a modified current value assessment (CVA) for each municipality. The 2007 CVA allocation prescribes a slight decrease for Toronto, down 0.36% from 66.93% to 66.57%. In dollar terms, the reduction is $0.022 million.

- The funding policy approved by Council when it adopted Policy and Finance Committee Report 7, Clause 65 on September 25, 26 and 27, 2006 calculates the Toronto Water contribution at 55% of the target budget and 50% of the amount, if any, over the target. In accordance with this policy, the portion of TRCA's operating budget to be funded by a contribution through the Toronto Water Operating Budget is estimated to increase by $0.121 million to $3.755 million for 2007, as calculated in Figure 1 below. The Recommended Base Budget includes a total Toronto Water contribution of $3.755 million which equates to 55% of the TRCA Recommended Operating Budget of $6.849 million net.

Figure 1: Calculation of Toronto Water Contribution TRCA 2007 Operating Budget

	$000
2006 Approved Budget:	6,606.5
Less Toronto Water contribution	3,596.7
Tax supported	3,009.8
2007 Recommended Budget	6,849.2
2007 target (0%)	6,606.5
Over target	242.7
Toronto Water contribution:	
Part I: 55% of target	3,633.6
Part II: 50% of over target amount	121.4
Total Toronto Water contribution	**3,754.9**

2008 and 2009 Outlook: Net Incremental Impact

Although TRCA recognizes the requirement to balance its need for an increasing level of support from the City against the City's fiscal pressures, the Program anticipates that its net operating funding requirement from the City will increase incrementally by $0.274 million in 2008 and $0.214 million in 2009 to accommodate salary and wage increases, non-labour inflationary increases and operating impacts of capital to maintain the 2007 level of service. Of those amounts, only half is expected to impact the tax-supported budget, in accordance with the funding policy approved by Council when it adopted Policy and Finance Committee Report 7, Clause 65 on September 25, 26 and 27, 2006.

The City's outlook for 2009 does not include a provision for cost of living allowances (COLA) because this matter is subject to future negotiations; however, TRCA, as an independent agency, has included its estimates for salary and wage increases in its 2009 outlook.

Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Priorities (In $000s)

Description	2007 Recommended		Rec. New Positions	Net Incremental Impact	
	Gross Exp.	Net Exp.		2008	2009
	$	$	#	$	$
(a) Enhanced Service Priorities - Council Approved					
(b) Enhanced Services Priorities - Program Initiated					
Sub-Total Enhanced Services	0.0	0.0	0.0	0.0	0.0
(a) New Service Priorities - Council Approved					
(b) New Service Priorities - Program Initiated:					
Updating of Services	(415.7)	0.0	4.0	0.0	0.0
Sub-Total New Service Priorities	(415.7)	0.0	4.0	0.0	0.0
Total Recommended New / Enhanced Service Priorities	**(415.7)**	**0.0**	**4.0**	**0.0**	**0.0**

2007 Recommended Service Priorities

Recommended New Service Priorities – Program Initiated:

- ***Updating of Services***

The 2007 Recommended Budget includes changes to services that will have a net impact of reducing gross expenditure by $0.416 million and revenue by the same amount. These are considered new service priorities because they require 4 new positions.

The changes include a reduction in gross expenditure by $0.718 million and revenue will be reduced by the same amount for the following programs:

- Special regional funding for certain development reviews and policy assessments; and
- The provincially-funded Source Water Protection Program.

The changes also include increases in service levels for the following programs. The revenue from these enhanced services will support the costs associated with the 4 new positions - 1 permanent and 3 temporary - required for their operation.

- The addition of a new provincially-funded program to give Canadian experience to new Canadians with environment-related degrees; 2 positions will be added to support this service;

- An expansion of the federally-funded Great Lakes Remedial Action Plan (RAP) program: 1 position added for an administrative assistant; and

- Public use recreation: 1 position added for customer service representative to take bookings – offset by user fee revenue.

There is no net impact on the City's share of TRCA's overall 2007 operating budget. These service changes are recommended since they are supported by third-party funding.

Issues for Discussion

2007 Operating Budget Issues

Recommended Budget Over Target

TRCA's tax-supported 2007 Recommended Operating Budget is $3.094 million net which exceeds the target by $0.084 million or 2.8%.

To attain the City's 0% budget target, TRCA could implement a reduction option which would entail cutbacks in direct advertising costs, marketing staff and customer service staff for Black Creek Pioneer Village. However, this option is not recommended since it would have onerous repercussions for TRCA in terms of access to its other sources of funding.

- First, according to the new funding policy for TRCA budgets approved by Council when it adopted Policy and Finance Committee Report 7, Clause 65 on September 25, 26 and 27, 2006, the portion of TRCA's budget to be funded through the Toronto Water Operating Budget is a maximum of 55%. The funding policy was established to define a consistent approach to the funding of TRCA budgets, as agreed by Toronto Water and the Financial Planning Division, in consultation with TRCA.

  If TRCA's request to the City is reduced to meet the tax-supported funding target of $3.010 million, a corresponding reduction in the Toronto Water contribution will be required to remain in compliance with the policy. This would bring the total reduction in TRCA's City-funded operating budget to $0.161 million. The breakdown is shown in Figure 2 below. To implement this larger reduction would require shortening the season and closing more buildings at Black Creek Pioneer Village, thereby jeopardizing the future viability of that service.

	$000
2007 Recommended Budget	6,849.2
2007 Recommended Budget after:	
(i) reduction to achieve target; and	
(ii) application of funding policy	6,688.4
Reduction required	160.8
Water reserve contribution (55%)	3,678.6
Tax supported funding (45%)	3,009.8
	6,688.4

Figure 2 Impact of Achieving Target on Total City Funding to TRCA's 2007 Operating Budget

- Second, any reduction in Toronto funding would have to be pro-rated by an approximate factor of two-thirds with other municipal funding partners (Peel, York and Durham), thereby amplifying the Toronto reduction in the total TRCA budget. In the case of the $0.161 million reduction required to achieve the Toronto tax-supported funding target, the total TRCA budget will have to be reduced by $0.242 million.

In conclusion, the reduction option is not recommended since it would have significantly amplified and unfavourable funding implications for TRCA.

2008 and 2009 Outlook Issues

TRCA's 2008 and 2009 Outlook includes net incremental increases of $0.274 million or 4% for 2008 and $0.214 million or 3% for 2009, reflecting projected growth in TRCA's overall operating budget to accommodate salary and wage increases, non-labour inflationary increases and operating impacts of capital. These increases will be funded equally by a contribution through the Toronto Water Operating Budget and the tax base, in accordance with the funding policy approved by Council when it adopted Policy and Finance Committee Report 7, Clause 65 on September 25, 26 and 27, 2006. Although the City's outlook for 2009 does not include a provision for cost of living allowances (COLA) because this matter is subject to future negotiations, TRCA, as an independent agency, has included its estimates for salary and wage increases in its 2009 outlook

To achieve The Living City vision, TRCA requires even higher increases in the level of support from its funding partners in 2008 and 2009. However, TRCA recognizes that its requirements must be balanced against the fiscal pressures faced by its funding partners; therefore, it has limited its outlook to increases in the 3-4% range.

TRCA will maintain its programs and activities and continue to pursue The Living City vision within a constrained municipal financial environment, while continuing to leverage its municipal funding by a factor of 3 or 4. TRCA, through its growing relationships with the federal and provincial governments and The Conservation Foundation of Greater Toronto, will seek to improve the leverage value of municipal investment in future years.

Appendix 1

Summary of Recommended Base Budget Changes From 2006 Approved Budget

	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
(In $000s)		$	$	$	$	$
2006 Council Approved Operating Budget	**394.7**	**33,979.3**	**27,372.8**	**6,606.5**	**0.0**	**0.0**
In-year approvals and technical adjustments						
Corporate adjustments						
2006 Approved Operating Budget	**394.7**	**33,979.3**	**27,372.8**	**6,606.5**	**0.0**	**0.0**
Less Toronto Water contribution				**3,596.7**		
Tax supported				**3,009.8**		
Prior year impacts	0.3	707.7	598.3	109.4		
Zero base items						
Economic factors		875.4	720.6	154.8	274.0	214.5
Adjusted Base Budget	**395.0**	**35,562.4**	**28,691.7**	**6,870.7**	**274.0**	**214.5**
Other base changes	11.8	1,479.0	1,479.0	0.0		
Base revenue changes						
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments			21.5	(21.5)		
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	**11.8**	**1,479.0**	**1,500.5**	**(21.5)**	**0.0**	**0.0**
2007 Recommended Base Budget	**406.8**	**37,041.4**	**30,192.2**	**6,849.2**	**274.0**	**214.5**
Less Toronto Water contribution				**3,754.9**		
Tax supported				**3,094.3**		
2007 Program Operating Target	**N/A**	**N/A**	**N/A**	**3,009.8**	**0.0**	**0.0**
% Over (Under) Program Target				**2.8%**	**9.1%**	**7.1%**
% Over (Under) 2006 Appvd. Budget				**2.8%**	**4.1%**	**3.2%**

Appendix 2

Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities