

**Section I – Items for Board of Directors Action**

**TO:** Chair and Members of the Board of Directors  
Friday, March 24, 2023 Meeting

**FROM:** Michael Tolensky, Chief Financial and Operating Officer

**RE:** **TORONTO AND REGION CONSERVATION AUTHORITY (TRCA) FULL COSTING METHODOLOGY FOR FEE FOR SERVICE WORK, INCLUDING GRANTS**

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**KEY ISSUE**

Approval of TRCA’s full costing methodology, which is used for all eligible fee for service work, including work associated with municipal Memorandums of Understanding (MOUs), and grants received, including grants from other levels of government.

**RECOMMENDATION:**

**THAT the Board of Directors approve TRCA’s full costing methodology.**

**BACKGROUND**

Upon the formation of the Corporate Services division in 2018, a consistent and transparent corporate full costing methodology was created by TRCA staff for the first time in the organization’s history. The development of the five-year full costing methodology, which increased by TRCA’s Board approved Cost of Living Adjustment (COLA), allowed TRCA and its stakeholders to plan multi-year programs/projects, with a high level of costing certainty.

Prior to 2018, TRCA’s cost recovery varied, as the same customer could be charged different rates for TRCA’s programs/projects, depending on the division/business unit completing the work. This led to some confusion with TRCA’s stakeholders and attempts by partners to negotiate rates to meet funding envelopes was a common practice.

The full cost methodology was based on the following elements:

$$\begin{array}{r} \text{Job Rate + Benefits + Direct/Indirect Costs (As Applicable)} \\ \text{-----} \\ \text{Billable Hours Per Year} \end{array} \quad + 5\% \text{ Administrative Fee}$$

Over the five years that TRCA utilized the methodology, TRCA learned that recovery of salary (job rate), benefits and TRCA’s administrative fee were never an issue, but that direct/indirect costs could be problematic depending on the nature of the funding. For instance, certain grants received by the organization expressly prohibited the recovery of direct/indirect costing when providing services to upper tier municipalities, TRCA staff

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ensured that costs already included within TRCA's operating levy would not be allocated.

Given the magnitude of work completed on behalf of TRCA's partner municipalities and granting agencies, TRCA staff are proposing to remove the recovery of Direct/Indirect costs from the calculation, which will simplify the cost recovery process to the following:

$$\begin{array}{r} \text{Job Rate + Benefits} \\ \text{-----} \\ \text{Billable Hours Per Year} \end{array} + 5\% \text{ Administrative Fee}$$

### **RATIONALE**

As TRCA completes municipal MOUs with participating and partner municipalities, in the context of the updated *Conservation Authorities Act*, these documents will govern the funding of municipally requested non-mandatory programs and services. The mutual understanding of TRCA's no-surprise cost recovery model will simplify MOU discussions, as TRCA's transparent approach to costing means that the municipalities will know up front what they will be paying for these programs and services.

The components of the full costing model are as follows:

### **Job Rate**

The starting point for TRCA's full costing model is the job rate for all employees in the organization, which is included as part of the Compensation Review report that is being considered by the Board of Directors at its March 24<sup>th</sup>, 2023 meeting.

### **Benefits**

There are additional costs associated with all employees related to the benefits that TRCA pays on their behalf. including:

- Pension (OMERS)
- Medical and dental (Sunlife)
- Employer Health Tax (EHT)
- Canadian Pension Plan (CPP)
- Employment Insurance (EI)
- Workplace Safety and Insurance Board (WSIB) premiums
- Long Term Disability (Sunlife)
- Life insurance (Sunlife)
- Accidental Death and Dismemberment (AIG Insurance Company of Canada)
- Employee Assistance Plan (ComPsych)

In the 2018-2022 iteration of the full costing model only full-time employees were eligible to take part in the pension plan, however, OMERS has since changed their eligibility requirements effective January 1, 2023, which permits all TRCA staff to take

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part. In accordance with this change, TRCA's non-full-time employees may elect to join the plan at any time and their enrolment takes effect on the first day of the month after the employee's election is received and remains in place as long as the employee continues working at TRCA.

Additionally, the only benefits included for non-full-time staff in the prior model were CPP, EI, EHT and WSIB, however, to become more market competitive, TRCA has made improvements to enhance employee eligibility of the additional benefits.

TRCA benefits range from 16.5 – 25.5% of an individual's job rate. Taking these components into account, TRCA staff calculates the total that needs to be recovered if an employee were to charge a third-party for their billable hours.

### **Billable Hours**

The starting point for total hours is 1,820 for employees that work 35-hour weeks and 2,080 for those that work 40-hour weeks, based on 52 weeks in a year.

TRCA staff then make estimates to remove all non-billable time, which includes the following considerations:

- Statutory holidays
- Festive closure (between Christmas and New Years)
- Floater days
- Vacation days
- Training days
- Family responsibility and wellness/sick days
- Additional non-billable time, such as meetings and administrative undertakings

Taking these factors into account, TRCA has calculated billable hours at 1,414 for employees that work 35-hour weeks and 1,616 for those that work 40-hour weeks, which represents 77.7% of total hours.

### **Administrative Costs**

Prior to implementing the full costing model in 2018, TRCA staff utilized a variety of methodologies to recover direct and indirect costs incurred. Upon the adoption of the model in 2018, all administrative fees except for a corporate 5% administrative cost were eliminated. The remaining fee, which remains unchanged from 2018, covers support services time associated with the additional fee for service work, including, but not limited to, finance, information technology, human resources, and communications.

### **FINANCIAL DETAILS**

Since the creation of the full cost methodology in 2018, contract services with TRCA's partner municipalities have ranged from 30% - 45% of annual government funding (2018 – 2021). In the four-year period prior to the implementation of this methodology (2014 – 2017), contract services with TRCA's partner municipalities ranged from 15% - 25% of annual government funding.

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This growth in fee for service contract services highlights TRCA’s proficiency in acting as a trusted business advisor, program, and project implementation agent for its partner municipalities and agencies. TRCA is being increasingly recognized by partners and stakeholders for utilizing its science-based approach to provide sound policy advice and for completing projects and programs that achieve collective impacts within our communities and advance shared goals across all levels of government.

Additionally, TRCA’s success in attaining funding and grants to leverage municipal funds further makes use of this methodology, as the organization recovers the full costs it incurs to fulfill funding obligations.

The difference between the 2022 full costing rates and the proposed 2023 full costing rates are as follows:

		<b>Full Time 35 Hrs</b>	<b>Part Time 35 Hrs</b>	<b>Full Time 40 Hrs</b>	<b>Part Time 40 Hrs</b>
<b>2023</b>	<b>2022</b>				
<b>Job</b>	<b>Job</b>	<b>Diff</b>	<b>Diff</b>	<b>Diff</b>	<b>Diff</b>
<b>Rate</b>	<b>Rate</b>				
18	22	9%	N/A	N/A	N/A
17	21	-1%	N/A	N/A	N/A
	20	N/A	N/A	N/A	N/A
16	19	4%	N/A	N/A	N/A
15	18	1%	N/A	N/A	N/A
14	17	-2%	N/A	N/A	N/A
	16	N/A	N/A	N/A	N/A
13	15	1%	N/A	N/A	N/A
12	14	-2%	N/A	N/A	N/A
11	13	0%	N/A	N/A	N/A
10	12	-3%	7%	N/A	N/A
9	11	-3%	7%	N/A	N/A
8	10	-5%	5%	N/A	N/A
7	9	-7%	3%	N/A	N/A
	8	N/A	N/A	N/A	N/A
6	7	-7%	3%	-5%	5%
	6	N/A	N/A	N/A	N/A
5	5	-7%	3%	-4%	6%
4	4	-8%	2%	-6%	4%
3	3	-9%	1%	-7%	3%
2	2	-6%	6%	-3%	8%
1	1	-7%	5%	-4%	7%

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Non-full time staff rates are seeing an increase of 1% - 8%, which reflects the addition of benefits and the reduction of the direct/indirect cost recovery, while full-time staff rates below the senior manager (Rates 12/13) are decreasing between 3% and 9% due to the removal of the direct/indirect cost recovery.

### **NEXT STEPS**

When the Board of Directors considers and endorses the Compensation Review report, TRCA will utilize information from that Review to promote a five-year full cost grid that will increase by the annual Cost of Living Adjustment, which will allow the organization to budget for future projects. The terms and conditions of these agreements will include the caveat that market reviews of compensation will be completed every second year with a comprehensive compensation review to occur every four years and that TRCA reserves the right to update the rates based on the results of these market reviews, changes in benefit rates and Board approved changes to the Full Costing Methodology.

Upon approval of the updated methodology, TRCA staff will contact all third parties which have ongoing fee-for-service agreements or grants with the organization, to inform them of the updated rates as of April 1, 2023. Additionally, this methodology will be referenced in all future fee-for-service agreements, including TRCA's agreements with municipalities regarding specific fee-for-service work on their behalf.

### **Relationship to TRCA's 2022-2034 Strategic Plan**

This report supports the following Pillar and Outcome set forth in TRCA's 2023-2034 Strategic Plan:

#### **Pillar 4 Service Excellence:**

4.4 Transparent decision making and accountable results

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**Date: March 13, 2023**