

May 28, 2010

To: Executive Committee

From: Budget Committee

Subject: Income Sharing Agreement Renewal with the Toronto Parking Authority

Recommendations:

The Budget Committee recommends to the Executive Committee that:

1. **City Council approve the income sharing agreement between the City and the Toronto Parking Authority for a three-year period, effective January 1, 2010 on the following terms:**
 - a. **The net income available for distribution be defined as net income based on the Toronto Parking Authority's audited financial statements.**
 - b. **The Toronto Parking Authority pay to the City annually the greater of \$30.0 million or 75% of net income earned by the Toronto Parking Authority, with net income to include gains or losses on the sale of property and air rights after adjustments within the approved capital plan if any.**
 - c. **The Toronto Parking Authority make monthly progress payments in the amount of \$2.50 million to the City.**
 - d. **Final payment by the Toronto Parking Authority to the City and settlement of the amount payable for the year occur once the audited actual amount for the year is confirmed.**
 - e. **The Toronto Parking Authority, in consultation with the Chief Financial Officer and Deputy City Manager, review the Toronto Parking Authority's capital funding requirements annually as part of the capital budget process.**
2. **City Council authorize appropriate City staff to prepare an income sharing agreement between the Toronto Parking Authority and the City of Toronto based on Item 1 listed above.**

Background:

The Budget Committee on May 28, 2010, considered a report (May 27, 2010) from the Deputy City Manager and Chief Financial Officer and the President, Toronto Parking Authority entitled "Income Sharing Agreement Renewal with the Toronto Parking Authority ".

for City Clerk

Merle MacDonald/tk

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**STAFF REPORT
ACTION REQUIRED**

Income Sharing Agreement Renewal with the Toronto Parking Authority

Date:	May 27, 2010
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer President, Toronto Parking Authority
Wards:	All Wards
Reference Number:	P:\2010\Internal Services\FP\Bc10006Fp – AFS #11457

SUMMARY

The purpose of this report is to update the income sharing agreement between the City of Toronto and the Toronto Parking Authority for net income generated from off-street and on-street parking and net gains on the sale of air rights for properties managed by the Authority. The current income sharing agreement with the Toronto Parking Authority expired on December 31, 2009.

This report recommends that the net income sharing formula remain unchanged from the previous agreement; with the Authority continuing to pay the City 75% of its net income for the year from on-street and off-street parking operations. The minimum payment to the City will increase from \$18.0 million to \$30.0 million. This increase ensures that the City will receive a minimum payment consistent with the Authority's growth in profitability following amalgamation. The City will continue to receive 75% of the net gain on the sale of air rights for properties managed by the Authority. Net gains on the sale of air rights are included in the Authority's net income. In addition, it is recommended that City staff prepare an income sharing agreement between the Toronto Parking Authority and the City of Toronto. The Income Sharing Agreement Renewal with the Toronto Parking Authority will take effect as of January 1, 2010 for a three year period ending December 31, 2012.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and the President, Toronto Parking Authority recommend that:

1. Council approve the income sharing agreement between the City and the Toronto Parking Authority for a three year period, effective January 1, 2010 on the following terms:
 - a) The net income available for distribution be defined as net income based on the Toronto Parking Authority's audited financial statements;
 - b) The Toronto Parking Authority pay to the City annually the greater of \$30.0 million or 75% of net income earned by the Toronto Parking Authority, with net income to include gains or losses on the sale of property and air rights after adjustments within the approved capital plan if any;
 - c) The Toronto Parking Authority make monthly progress payments in the amount of \$2.50 million to the City;
 - d) Final payment by the Toronto Parking Authority to the City and settlement of the amount payable for the year occur once the audited actual amount for the year is confirmed; and,
 - e) The Toronto Parking Authority, in consultation with the Chief Financial Officer and Deputy City Manager, review the Toronto Parking Authority's capital funding requirements annually as part of the capital budget process; and,
2. Council authorize appropriate City staff to prepare an income sharing agreement between the Toronto Parking Authority and the City of Toronto based on Item 1 listed above.

Financial Impact

The City is projected to receive \$41.994 million in 2010, with future year payments of \$43.265 million in 2011 and \$44.184 million in 2012, as outlined in the table below. These amounts reflect the recommended 75% of the forecasted net income earned by the Toronto Parking Authority from off-street and on-street parking facilities over the next three years.

The Toronto Parking Authority is projected to retain net income of \$13.998 million in 2010 from on-street and off-street parking facilities. Additional net income of \$14.422 million and \$14.728 million is forecasted for 2011 and 2012 respectively. The retained net income will be used to fund the Toronto Parking Authority's multi-year capital program.

**Toronto Parking Authority
Forecasted Payments for 2010 to 2012**

(In \$000s)	2009 Budget	2010 Budget	2011 Outlook	2012 Outlook
Net Income Before Contributions	54,546.2	56,326.3	58,020.8	59,245.7
Rented Properties Fund	307.3	334.0	334.0	334.0
Net Income Available for Distribution	54,238.9	55,992.3	57,686.8	58,911.7
TPA Share @25%	13,586.6	13,998.1	14,421.7	14,727.9
City Share of Net Income @75%	40,652.3	41,994.2	43,265.1	44,183.8

DECISION HISTORY

At its meeting of March 31, 2009, City Council approved updating the income sharing agreement with the Toronto Parking Authority, as part of the 2009 Operating Budget process.

As part of the 2007 Operating Budget process, City Council approved renewing the income sharing agreement with the Toronto Parking Authority, effective January 1, 2007 to December 31, 2009.

The previous income sharing agreement with the Toronto Parking Authority was renewed effective January 1, 2004 to December 31, 2006, as part of the 2004 Operating Budget process.

As part of the 2001 Operating Budget process, the income sharing agreement was revised requiring the Toronto Parking Authority to pay the City 75% of its net income for the year or \$18.000 million; whichever is greater. In addition, from time to time, the Toronto Parking Authority would pay an amount to the City that is in excess of capital budget funding requirements over the ensuing five year period. This was in addition to the share of annual operating income paid under the agreement.

At its meeting of June 3, 4 and 5 1998, City Council approved the original income sharing agreement with the Toronto Parking Authority for net income generated from off-street and on-street operations for the City of Toronto.

ISSUE BACKGROUND

The income sharing agreement with the Toronto Parking Authority expired on December 31, 2009 following a three year renewal period.

As part of the 2009 Operating Budget approval process, Council, at its meeting of March 31, 2009, authorized that the Director of Financial Planning and the President of the Toronto Parking Authority, in consultation with Legal Services and the City Manager's Office staff, undertake a thorough due diligence of the current income sharing agreement between the Authority and the City and forward an updated income sharing agreement to Budget Committee for consideration as part of the 2010 Operating Budget process.

The Toronto Parking Authority's 2010 Approved Operating Budget and the previously approved 2010-2019 Capital Plan reflects the income sharing agreement recommended in this report.

COMMENTS

The Toronto Parking Authority is a public corporation owned by the City of Toronto. The Authority's mandate is to provide safe, attractive, self-sustaining, conveniently located and competitively priced off-street and on-street parking as an integral component of Toronto's transportation system. The Authority was established on January 1, 1998 by the City of Toronto Act (1997) and is governed by the Toronto Municipal Code, Chapter 179.

The Toronto Parking Authority is unique from most City agencies in that it fully funds its operations from revenues. As outlined in Appendix A, the Toronto Parking Authority has contributed significant amounts to the City's general revenues. From 1998 to 2009, the Toronto Parking Authority returned earnings to the City estimated at \$413.729 million. Including municipal taxes and rents paid to other Agencies, Boards, Commissions and Divisions the total contribution to the City increases to \$574.372 million.

On-Street and Off-Street Parking Operations

The Toronto Parking Authority manages an estimated 18,600 on-street spaces. Roughly 17,600 of the spaces are controlled by using 2,615 highly profitable and environmentally friendly pay-and-display machines. The remaining spaces are controlled by using single spaced meters.

The Toronto Parking Authority maintains approximately 20,700 off-street spaces in 188 facilities, which include 22 attended lots; 6 fully automated garages; and, 160 unattended lots using pay-and-display technology. The Authority manages, on behalf of the Toronto Transit Commission, 13,780 spaces at their park-and-ride facilities and parking lots. In addition, the Authority operates for the Parks, Forestry, and Recreation Program parking facilities along the waterfront and other areas in the City accounting for another 2,500 spaces on a seasonal basis.

This report recommends that the net income sharing formula remain unchanged from the previous agreement. The Authority will continue to pay the City 75% of its net income for the year from on-street and off-street parking operations. The net income available for distribution will be defined as net income based on the Toronto Parking Authority's audited financial statements.

Payment Schedule

Adoption of Recommendations 1b and 1c in this report will require the Toronto Parking Authority to make monthly progress payments to the City in the amount of \$2.5 million. The final payment/settlement will occur once the audited actual net income amount for the fiscal year is confirmed. This will ensure that City payments are evenly distributed throughout the year and reduce the occurrence of significant payments at year-end. The minimum payment to the City will increase from \$18.0 million to \$30.0 million. The increase ensures that the City will receive a minimum payment consistent with the Authority's growth in profitability following amalgamation.

Sale of Air Rights – Extraordinary Revenue Sources

In the past, the Authority has entered into different types of joint venture developments with both the private and public sectors. One type of joint venture development has been the sale of air rights

which allows the Authority to purchase strata title to the public parking component of the project. These developments not only generate capital funds for future public parking facilities, but also increase the local supply of parking and broaden land use at each site.

This report recommends that the City retain 75% of the net gain on the sale of air rights for properties managed by the Authority on behalf of the City. The previous income sharing agreement with the Toronto Parking Authority did not formally recognize the revenue allocation of net gains on the sale of air rights. The Toronto Parking Authority has, in the past, included net gains on the sale of air rights in the Authority's net income. The gain on the sale of air rights is calculated as the proceeds from the sale less the net book value of the land and development costs.

Generally, the Toronto Parking Authority will use their 25% share of the proceeds to fund the replacement of parking spaces displaced. There may be cases where the cost to replace the displaced spaces may exceed the TPA's 25% share of the proceeds or there may be a business case to add additional spaces to the project. The TPA's 10-Year Capital Plan will reflect the additional costs and the corresponding additional funding from the expected proceeds of the development. This will reduce the City's net share of the proceeds. The capital plan is approved annually as part of the City's capital budget. The Capital Plan will require amendment by Council if the actual costs and proceeds differ from the plan or if the project was not originally in the approved capital plan.

10-Year Approved Capital Plan

Council at its meeting of December 8, 2009 approved the Toronto Parking Authority 10-Year Capital Plan with funding requirements totalling \$318.555 million. Over the 10-year planning horizon, funding of \$251.289 million is provided for the expansion and/or new development of 49 off-street parking facilities. The parking facilities will ensure that businesses in the areas served throughout the City continue to grow and their neighbourhoods remain vibrant.

In the past, as the 10-Year Capital Plan was updated and reviewed with the Chief Financial Officer, excess funding that had been built up from the Toronto Parking Authority's 25% portion of earnings would be returned periodically to the City. As outlined in Appendix A, from 1998 to 2010, the Authority has made payments of \$62.137 million to the City that were in excess of their capital asset funding requirements. This has been in addition to the share of annual operating income paid under the previous agreement. This report recommends that the Toronto Parking Authority, in consultation with the Chief Financial Officer and Deputy City Manager, review the Toronto Parking Authority's capital funding requirements annually as part of the capital budget process.

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SIGNATURES

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ATTACHMENT

Appendix A – Payments from the Toronto Parking Authority

APPENDIX A

Payments from the Toronto Parking Authority

Year	Return of Earnings to the City			Other Payments to the City		Grand Total
	Share of Net Income	One Time Dividends	Total Return of Earnings	Property Taxes	Rents to Other City Departments	
1998	9,284,426	16,136,514	25,420,940	7,406,000	320,000	33,146,940
1999	16,632,356	14,000,000	30,632,356	7,451,000	500,000	38,583,356
2000	25,766,438		25,766,438	7,647,000	500,000	33,913,438
2001	25,947,675		25,947,675	13,045,284	725,000	39,717,959
2002	28,736,417		28,736,417	13,916,862	850,000	43,503,279
2003	29,255,514		29,255,514	13,395,907	940,000	43,591,421
2004	34,265,783	2,000,000	36,265,783	13,250,489	800,000	50,316,272
2005	30,608,259		30,608,259	13,018,111	700,000	44,326,370
2006	32,719,027		32,719,027	14,122,927	900,000	47,741,954
2007	34,710,323		34,710,323	14,844,997	1,300,000	50,855,320
2008	53,175,677		53,175,677	15,034,213	1,700,000	69,909,890
2009	40,490,958	20,000,000	60,490,958	16,575,313	1,700,000	78,766,271
2010 *	41,994,203	10,000,000	51,994,203	18,345,200	1,700,000	72,039,403
Grand Total	403,587,056	62,136,514	465,723,570	168,053,303	12,635,000	646,411,873

* The TPA provided a \$10 million one-time dividend to the City in 2010. An additional \$18 million one-time dividend could be received later this year as part of a joint venture agreement. City staff have budgeted \$7 million in special one-time payments in each of the next three years starting in 2010.