



## STAFF REPORT ACTION REQUIRED

### Net Income Sharing Agreement Renewal with the Toronto Parking Authority

<b>Date:</b>	April 25, 2013
<b>To:</b>	Budget Committee
<b>From:</b>	Deputy City Manager and Chief Financial Officer President of the Toronto Parking Authority
<b>Wards:</b>	All Wards
<b>Reference Number:</b>	P:\2013\Internal Services\Fp\Bc13017Fp (AFS #17314)

#### **SUMMARY**

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The purpose of this report is to update the net income sharing agreement between the City of Toronto (City) and the Toronto Parking Authority ( TPA or Authority) for net income generated from off-street and on-street parking operations and net gains on the sale of air rights for City properties managed by the Authority. The current net income sharing agreement with the TPA expired on December 31, 2012, with Council approving an extension until such time as Council considers an updated Income Sharing Agreement.

This report recommends that the net income sharing formula remains unchanged from the previous agreement, with the TPA continuing to pay the City a minimum of 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 \$30.0 million to \$37.0 million, subject to unforeseen circumstances which result in interruption of service or any other unplanned occurrence which may have an adverse material effect on the net income as defined under the Income Sharing Agreement. This ensures that the City will receive a minimum payment of its 75% share on a more timely basis. By definition the City will continue to receive 75% of the net gain on the sale of air rights for properties managed by the Authority less, if necessary, the amount by which the cost of replacement facilities (new and expanded parking spaces and/or commercial space) exceeds the 25% portion retained by the TPA . 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 TPA and the City of Toronto. The income Sharing Agreement Renewal with the Toronto Parking Authority will take effect as of January 1, 2013 for a three year period ending December 31, 2015.

## RECOMMENDATIONS

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The Deputy City Manager and Chief Financial Officer and the President of the TPA recommend that:

1. City Council approve the net income sharing agreement between the City and the TPA for a three year period, effective January 1, 2013 on the following terms and conditions:
  - a) The net income available for distribution be defined as net income based on the TPA's annually audited financial statements;
  - b) The TPA pay to the City annually the greater of \$37.0 million or 75% of net income earned by the TPA , subject to unforeseen circumstances which result in interruptions of service or any other unplanned occurrence which may have an adverse material effect on the net income as defined under the Income Sharing Agreement Net income includes gains or losses on the sale of properties and air rights but excludes income earned on rented properties which is paid into the Rented Properties Fund held by the City ;
  - c) The 75% portion of gains/losses on the sale of properties/air rights payable to the City be reduced, if necessary, by the cost of replacement facilities (new and expanded parking spaces and/or commercial space) required under the purchase/sale agreement that exceeds the 25% portion retained by the TPA.
  - d) The TPA make monthly progress payments in the amount of \$3.083 million to the City, for a total of \$37.0 million annually;
  - e) Final settlement between the TPA and the City of the amount payable for the year (the difference between the City's 75% share of net income and progress payments made by TPA) will occur once the Authority's actual net income for the year is confirmed by external Auditors and the audited financial statements are approved by the Toronto Parking Authority's Board of Directors.
  - f) The TPA, in consultation with the Deputy City Manager and Chief Financial Officer, review the TPA's capital funding requirements annually as part of the capital budget process; and,
2. City Council authorize appropriate City staff to prepare an income sharing agreement between the TPA and the City of Toronto, based on Item 1 listed above and subject to the approval of the TPA'S Board of Directors.

## FINANCIAL IMPACT

The 2013 Approved Operating Budget anticipates that the City will receive \$47.125 million in 2013 through income sharing with the TPA, with future year payments of \$48.073 million in 2014 and \$49.039 million in 2015, as outlined in the table on page 3. These amounts reflect the recommended 75% of the forecasted net income earned by the TPA from off-street and on-street parking facilities over the next three years.

The TPA is projected to retain net income of \$15.708 million in 2013 from off-street and on-street parking facilities. Additional net income of \$16.024 million and \$16.346 million is forecasted for 2014 and 2015, respectively. The retained net income will be used to fund the TPA's multi-year capital program.

### Toronto Parking Authority Forecasted Payments from 2013 to 2015

In Thousands	2012 Actuals	2012 Budget	2013 Budget	2014 Outlook	2015 Outlook
Net Income Before Contributions	59,964.0	56,403.0	63,181.3	64,445.0	65,733.8
Less: Contribution to Rented Properties Fund	(139.0)	(374.9)	(348.3)	(348.3)	(348.3)
Net Income Available for Distribution	59,825.0	56,028.1	62,833.0	64,096.7	64,096.7
TPA Share @ 25%	14,983.0	14,007.0	15,708.3	16,024.2	16,346.4
City Share @ 75%	44,842.0	42,021.1	47,124.8	48,072.6	49,039.2

## DECISION HISTORY

At its meeting of November 27, 28 and 29, 2012, City Council directed the Deputy City Manager and Acting Chief Financial Officer to report to the Budget Committee with the Income Sharing Renewal Agreement no later than March 31, 2013.

At its meeting of July 6, 7 and 8, 2010, City Council approved the income sharing agreement renewal with the TPA for a three year period, effective January 1, 2010 to December 31, 2012.

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

As part of the 2004 Operating Budget process, City Council approved the renewal of the income sharing agreement with the TPA, effective January 1, 2004 to December 31, 2006.

As part of the 2011 Operating Budget process, the income sharing agreement was revised requiring the TPA to pay to the City 75% of its net income or \$18.000 million; whichever is greater. In addition, from time to time, the TPA would pay an amount to the City that is in excess to 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 TPA for net income generated from off-street and on-street operations of the City of Toronto.

## **ISSUE BACKGROUND**

The income sharing agreement with the TPA expired on December 31, 2012, following a three year renewal period.

As part of the 2013 Capital and Operating Budget approval process for rate supported programs, Council at its meeting of November 27, 28 and 29, 2012 directed the Deputy City Manager and Chief Financial Officer and the President of the TPA to report to the Budget Committee with the Income Sharing Renewal Agreement no later than March 31, 2013. City Council also directed that the existing Income Sharing Agreement with the TPA be extended until such time as Council considers an updated Income Sharing Agreement.

The TPA's 2013 Operating Budget and 2013-2020 Capital Plan reflects the income sharing agreement recommended in this report.

## **COMMENTS**

The TPA 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 (1977) and is governed by the Toronto Municipal Code, Chapter 179, "Parking Authority".

The TPA is unique from most City Agencies in that it fully funds its operations from revenues. As outlined in Appendix A, the TPA has contributed significant amounts to the City's general revenues. From 1998 to 2011, the TPA returned earnings to the City estimated at \$531.169 million. Including municipal taxes and rents paid to other Agencies and Divisions the total contribution to the City increases to \$731.173 million. Another contribution of \$ 64.388 million (including municipal taxes and rents of \$19.546 million) is projected for 2012.

### **On-Street and Off-Street Parking Operations**

The TPA is the largest municipal operator of public parking in North America. The Authority manages an estimated 19,300 on-street spaces, controlled by using over 2,700 highly profitable and environmentally friendly technology based pay-and-display machines and 650 single spaced meters.

The TPA maintains approximately 22,700 off-street spaces in 188 facilities, which include 10 attended lots; 20 fully automated garages; and, 190 unattended lots using pay-and-display technology. The Authority manages, on behalf of the Toronto Transit Commission, approximately 14,000 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 mostly on a seasonal basis.

This report recommends that the net income sharing formula remains 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 TPA's audited and Board approved financial statements.

### **Payment Schedule**

Adoption of Recommendations 1b and 1c in this report will require the TPA to make monthly progress payments to the City in the amount of \$3.083 million. The final payment/settlement will occur once the audited actual net income amount for the fiscal year is confirmed by external Auditors and the statements are approved by the TPA's Board of Directors. 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 \$30.0 million to \$37.0 million. The increase ensures that the City will receive a minimum payment consistent with the Authority's growth in profitability.

### **Sale of Air Rights – Extraordinary Revenue Sources**

In the past, the Authority has entered into joint ventures developments with both the private and public sectors. The primary form of joint venture has involved the sale of air rights over existing surface carparks to third party developers with a public parking component and/or other commercial space being included in the final redeveloped site. The TPA purchases and retains title to the strata levels of public parking. These sales not only generate capital funds for future public parking facilities, but also increase the supply of parking and broaden land use at the site.

This report recommends that the City continues to retain 75% of the net gain on the sale of air rights for properties managed by the Authority on behalf of the City. The TPA will use their 25.0% share of the gain 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 net gain 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. As described previously, this will reduce, if necessary, the City's 75% share of the net gain on sale by the amount that the cost of replacement facilities exceeds the 25% portion retained by the TPA. 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 November 27, 28 and 29, 2012, approved the TPA 10-Year Capital Plan with funding requirements totalling \$370.059 million.

In the past, as the 10-Year Capital Plan was updated and reviewed with the Deputy City Manager and Chief Financial Officer, excess funding that has been built up from the TPA's annual retention of 25% of net income would be returned periodically to the City.

As outlined in Appendix A, from 1998-2011, the Authority has made payments of \$74.137 million (including \$12.0 million in 2012) to the City that were in excess of their capital asset funding requirements. These payments are in addition to the share of annual operating income paid under the previous agreement.

This report recommends that the TPA, in consultation with the Deputy City Manager and the Chief Financial Officer review the TPA's capital funding requirements as part of the capital budget process.

## **CONTACT**

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## **SIGNATURE**

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Roberto Rossini  
Deputy City Manager and  
Chief Financial Officer

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Lorne Persiko  
President, Toronto Parking Authority

## **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	20,000,000	73,175,677	15,034,213	1,700,000	89,909,890
2009	45,888,095	10,000,000	55,888,095	15,419,536	1,700,000	73,007,631
2010	59,293,443		59,293,443	18,097,007	1,700,000	79,090,450
2011	42,749,302		42,749,302	19,019,000	1,700,000	63,468,302
2012*	44,842,000		44,842,000	17,846,000	1,700,000	64,388,000
<b>Grand Total</b>	<b>513,874,735</b>	<b>62,136,514</b>	<b>576,011,249</b>	<b>203,514,333</b>	<b>16,035,000</b>	<b>795,560,582</b>

\* The TPA provided one-time payments of 62.137 million. City staff have budgeted \$6.0 million one-time payment in each of 2013 and 2014.