



**STAFF REPORT
ACTION REQUIRED**

Scarborough Subway Extension Project: Metrolinx Sunk Costs

Date:	February 19, 2015
To:	Budget Committee
From:	City Manager and Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2015\Internal Services\Cf\Bc15005Cf (AFS #20860)

SUMMARY

As a condition of its financial support for the Scarborough Subway Extension (SSE), the Province requires that it be reimbursed by the City for sunk costs relating to work undertaken on the Scarborough LRT (the "sunk costs"). As directed by Council, this report provides a summary of the amount of sunk costs that have been agreed upon by Metrolinx and the City. This amount will be incorporated into a subsequent SSE funding agreement, presently being negotiated between the City and the Province. It should be noted that the sunk costs dealt with in this report do not include any potential costs associated with the cancellation of the LRT vehicle supply contract. These costs, if any, are the subject of separate negotiations which have not been concluded.

RECOMMENDATIONS

The City Manager and the Deputy City Manager & Chief Financial Officer recommend that:

1. City Council receive this report for information.

Financial Impact

At the time of reporting on this project in October 2013, the sunk costs were estimated at \$85 million exclusive of costs, if any, related to the LRT vehicle supply contract which are undetermined at this time. The City and Metrolinx have since reached agreement on a sunk cost amount of \$74.8 million, representing a \$10.2 million (12%) reduction in the previous estimate.

The approved budget for the SSE project is \$3.56 billion and includes the previous \$85 million provision.

The City's 2015 Capital Budget and 10-year Capital Plan includes provincial funding for the SSE of \$1.99 billion which had been reduced by an allocation of \$85 million for sunk costs. The revised amount for sunk costs will effectively increase the amount budgeted for provincial funding by \$10.2 million and reduce the City's net cost for the project by a corresponding amount from \$910 million to \$900 million. The Capital Budget for the SSE will be revised accordingly upon finalization of a funding agreement presently being negotiated between the City and the Province.

DECISION HISTORY AND ISSUE BACKGROUND

At its meeting of October 8, 2013 (CC39.5 "Scarborough Rapid Transit Options: Reporting on Council Terms and Conditions"), Council confirmed its support for a Scarborough Subway, as opposed to an LRT.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.CC39.5>

City Council also agreed to reimburse Metrolinx for sunk costs associated with work previously undertaken on a Scarborough LRT. A preliminary cost estimate of \$85 million was provided at that time. At the same meeting, Council directed the following:

"5.) Direct the City Manager to further negotiate the following with the Province and Metrolinx, and to report back to City Council with the results of such negotiations:

- a.** an agreement for the payment by the City to Metrolinx of such actual sunk costs as are independently verified as accurate by a third party auditor that were incurred by Metrolinx prior to or as a result of Council's July decision for work undertaken by Metrolinx on the Scarborough LRT project under the Master Agreement, including any potential costs associated with the LRT vehicle supply contract."

COMMENTS

Since the time of reporting to Council in October 2013, Metrolinx has undertaken a detailed review of the sunk costs. In February 2014, the City retained the services of PricewaterhouseCoopers LLP (the City's existing external independent auditor) to perform an audit of the sunk costs.

PwC had access to all Metrolinx records and other documentation, including information from its General Ledger, contracts, work orders and purchase orders, supplier invoices and cash disbursement records, budget schedules and actual costs. PwC then performed a financial audit of the data supplied.

Both the City and Metrolinx were presented with the results of the audit, subsequently reaching agreement on total sunk costs of \$74.8 million. These costs are summarized in the table below:

Cost Component	Sunk Costs (\$millions)
SRT Conversion and Extension	\$40.0
Kennedy Station	\$6.6
Scarborough/Sheppard LRT Maintenance & Storage	\$12.6
Management & Administrative	\$15.6
Total Sunk Costs	\$74.8

SRT Conversion and Extension (\$40 million)

The SRT consisted of two projects, the conversion of the existing line (6 stations and 6 km of running structure) to accommodate new vehicles, and the extension from McCowan Station to Sheppard Avenue (2 new stations and approximately 4 km of running structure). Costs were incurred relating to preliminary project engineering work, the majority undertaken by the TTC and/or consultants hired by the TTC (URS Canada Inc.) and previously reimbursed by Metrolinx.

The work included reviewing and assessing the SRT infrastructure for potential re-use to support an LRT. Physical condition and suitability of the various track bed, elevated concrete, power delivery and signalling components were examined, and rehabilitation requirements identified. Other work included arranging for permits, undertaking surveys, testing and investigations for the LRT option.

Each existing SRT station was studied in terms of identifying the most effective modifications and rehabilitation necessary to accommodate the LRT vehicles and ridership. For example, the LRT train sets have a lower floor height, requiring platform or track bed modifications to allow passengers to embark/disembark. Also, unlike the SRT, LRT requires overhead power supply, so clearance is required, and structures for supporting the new power lines. All of these accommodations required investigation and design work.

In addition, the extension design work evaluated the route, including services, property analysis and engineering analysis for the connection to the Sheppard East LRT at Sheppard Avenue.

Kennedy Station (\$6.6 million)

The SRT and Bloor Danforth Subway terminate at Kennedy Station. The new Scarborough and Eglinton LRTs created an opportunity to reconfigure how the lines would connect, and how the intermodal passenger flows would work. Many structural and station configuration options were investigated and partially designed, and tested

with stakeholders to enable decisions about the optimal configuration. Some options, including the final design, involved engineering the partial teardown of the current stations 3rd floor, and refurbishment and reconfiguration of the remainder of the structure.

Most of this design work will be re-done to accommodate the new Scarborough Subway Extension.

The station design work was partly assigned to the Eglinton LRT project, and partly to the Scarborough LRT. The sunk costs include 90% of the design costs relating to a Scarborough LRT alignment, along with an allocation of direct costs relating to the design contract.

Scarborough/Sheppard Maintenance and Storage Facility (\$12.6 million)

The original LRT plan included a shared LRT maintenance and storage facility with capacity sufficient for both Scarborough (60%) and Sheppard line (40%) vehicles. The current SRT facility was evaluated for its potential, and ultimately designated for decommissioning. A new facility had to be located, track connections designed, and construction scheduled to work around the service conversion between SRT and LRT. An Environmental Assessment of the planned site was conducted. When the LRT was cancelled, a revised facility design was required, and a portion of the original design work and related costs were not chargeable to servicing the vehicles for the remaining Sheppard project.

Costs that are considered by Metrolinx to add permanent value to this site, regardless of transit option, such as value of the land and physical retained improvements to the property were not included in the calculation of sunk costs.

Additional sunk costs in the Scarborough/Sheppard Maintenance and Storage Facility category relate to procurement costs following an Alternative Financing and Procurement approach for a Scarborough LRT, which was underway and subsequently cancelled at the time that the subway option was adopted by Council.

Management and Administrative Costs (\$15.6 million)

These costs relate to program-wide (for all LRT projects including Sheppard, Finch and Eglinton) activities, such as budgeting, scheduling, co-ordination of various projects, resource management, scope control, contract administration, procurement activities, etc. This work was undertaken by TTC staff, Metrolinx staff, and external consultants. TTC was functioning as project manager of the Scarborough LRT work from inception until 2012.

As there was insufficient documentation to attribute costs to the specific underlying LRT projects, this category did not lend itself well to audit procedures. Therefore, sunk costs relating to management and administrative work on the Scarborough LRT were estimated based on both project budgets, and interviews with staff conducted by the City's external auditor.

CONCLUSION:

City and Metrolinx staff have agreed to a total sunk costs figure of \$74.8 million, over \$10 million lower than the initial estimate. This final settlement amount will be incorporated in a SSE provincial funding agreement, presently being negotiated between the City and the Province.

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