

Net Income Sharing Agreement Renewal with the Toronto Parking Authority

Date: January 19, 2017
To: Budget Committee
From: Deputy City Manager & Chief Financial Officer
President of the Toronto Parking Authority
Wards: All Wards

SUMMARY

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, 2015, 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 from the previous agreement be changed to increase the TPA's contribution to 85% of its net income for the year from on-street and off-street parking operations to the City. This reflects an increase from the current Agreement that directs 75% of the TPA's net operating proceeds to the City.

The minimum payment to the City will increase from \$37.0 million to \$38.0 million, subject to unforeseen circumstances which may result from the interruption of service, any other unplanned occurrence or Council decision, which may have an adverse and material effect on the net income as defined under the Income Sharing Agreement.

Under the revised Agreement, the City will also receive 85% 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 15% portion retained by the TPA.

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, 2017 for a three year period ending December 31, 2019.

RECOMMENDATIONS

The Deputy City Manager & 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, 2017 based 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, which includes gains 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;
 - b) The TPA pay to the City annually the greater of \$38.0 million or 85% of net income earned by the TPA , subject to unforeseen circumstances which result in interruptions of service, any other unplanned occurrence or Council decision, which may have an adverse and material effect on the net income as defined under the Income Sharing Agreement;
 - c) The 85% portion of gains on the sale of properties/air rights payable to the City be adjusted when necessary, to ensure retained TPA funding is available for the cost of replacement facilities (new and expanded parking spaces and/or commercial space) required under the purchase/sale agreement that exceeds the 15% portion retained by the TPA.
 - d) The TPA make monthly progress payments in the amount of \$3.167 million to the City, for a total of \$38.0 million annually;
 - e) Final settlement between the TPA and the City of the amount payable for the year (the difference between the City's 85% 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 & Chief Financial Officer, review the TPA's capital funding requirements annually as part of the Capital Budget process;
2. City Council amend the 2017 Preliminary Budget for Non-Program to include additional revenue of \$6.322 million resulting from the revised income sharing formula, reflecting an increase in the City's share of TPA net income from 75% to 85%; and,

3. 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

Based on the revised income sharing formula the City will receive \$53.7 million in 2017 through income sharing with the TPA, with anticipated future year payments of \$55.0 million in 2018 and \$56.1 million in 2019, as outlined in the table below.

- These amounts reflect the recommended 85% City share of the forecasted net income earned by the TPA from off-street and on-street parking facilities over the next three years.
- This represents an increase of \$6.3 million, \$6.5 million and \$6.6 million in 2017, 2018 and 2019 respectively, compared to the existing Income Sharing Agreement.

The TPA is projected to retain net income of \$9.5 million in 2017 from off-street and on-street parking facilities. Additional net income of \$9.7 million and \$9.9 million is forecasted for 2018 and 2019 respectively.

- The retained net income will be used to fund the TPA's approved multi-year capital program.

In 2016, both Toronto Parking Authority and the City will receive/retain net income, based on the existing Income Sharing Agreement according to 25%:75% income sharing formula.

Toronto Parking Authority

Forecasted Payments from 2016 to 2019

In Thousands	2016		2017	2018	2019
	Budget	Projected Actuals (Q3)	Budget	Outlook	Outlook
Gross Expenditure	84,742.6	87,648.6	92,637.0	90,659.5	92,363.9
Revenue	136,988.4	144,254.4	156,051.3	155,548.0	158,534.7
Net Income Before Contributions	52,245.8	56,605.8	63,414.3	64,888.5	66,170.8
Less: Contribution to Rented Properties Fund	(211.1)	(211.1)	(196.3)	(196.3)	(196.3)
Net Income Available for Distribution	52,034.7	56,394.7	63,218.0	64,692.2	65,974.5
Existing Agreement: TPA Share @ 25%	13,008.7	14,098.7	15,804.5	16,173.0	16,493.6
City Share @75%	39,026.0	42,296.0	47,413.5	48,519.1	49,480.9
New Agreement: TPA Share @ 15%			9,482.7	9,703.8	9,896.2
City Share @85%			53,735.3	54,988.4	56,078.3
Increase in City's Share - New Agreement			6,321.8	6,469.2	6,597.4

DECISION HISTORY

At its meeting of December 13, 14 and 15, 2016, as part of the 2017 Capital and Operating Budget approval process for rate supported programs, City Council directed the Deputy City Manager & Chief Financial Officer and the President of the Toronto Parking Authority to report during the 2017 Budget Process on an updated Income Sharing Renewal Agreement, and that the existing Income Sharing Agreement with the Toronto Parking Authority, which expired on December 31, 2015 be extended until such time as Council considers an updated Income Sharing Agreement:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.24>

At the same meeting of December 13, 14 and 15, 2016, City Council considered a report on the Asset Optimization Review for Toronto Hydro Corporation and Toronto Parking Authority, and requested that the Deputy City Manager & Chief Financial Officer report to the Budget Committee as part of the 2017 budget process on the potential for increasing the Toronto Parking Authority's income share rate to the City:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.3>

At its meeting of December 9 and 10, 2015, City Council directed the Deputy City Manager and Chief Financial Officer and the President of the Toronto Parking Authority to report to the Budget Committee on an updated Income Sharing Renewal Agreement no later than April 30, 2016.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX10.25>

At its meeting of June 11, 12 and 13, 2013, City Council approved the income sharing agreement renewal with the TPA for a three year period, effective January 1, 2013 to December 31, 2015.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX32.14>

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.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.EX45.23>

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.

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.

COMMENTS

On-Street and Off-Street Parking Operations and Bike Share Program

Toronto Parking Authority is a public corporation owned by the City of Toronto. It 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". TPA'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.

TPA controls over 22,000 off-street parking spaces in over 200 facilities, 19,300 on-street spaces, and manages 15,000 parking spaces operating for third parties, mainly for the Toronto Transit Commission. TPA also manages the City's Bike Share Program, with a fleet of approximately 2,000 bikes and 200 stations.

TPA is unique from most City Agencies in that it fully funds its operations from revenues. It also contributes significant amounts to the City's general revenues. Based on the current Income Sharing Agreement, TPA remits to the City 75% of its net annual income. From time to time, in addition to the share of annual operating income paid under the agreement, TPA also pays an amount to the City that is in excess to capital budget funding requirements over the subsequent five year period. The Bike Share Program is operated as a revenue neutral, since expenses are fully recovered from sponsorship and other revenues, resulting in a \$0 net cost/revenues to Toronto Parking Authority.

From 1998 to 2015, the TPA returned earnings to the City of approximately \$793.5 million. In addition, TPA pays municipal taxes and rents to other Agencies and Divisions, which totalled another \$286.6 million, over the same period, as outlined in Attachment 1.

The current Income Sharing Agreement expired on December 31, 2015, following a three year renewal period.

Changes to Net Income Sharing Formula

In June 2016, City Council requested the City Manager and the Deputy City Manager & Chief Financial Officer to undertake an asset optimization study in terms of the potential to increase returns within given ownership, governance and operational structure(s), and the value of partial/full sale in order to fund key city-building initiatives. Assets identified for review included Toronto Hydro Corporation, and Toronto Parking Authority.

In order carry out this work, City staff retained the services of Deloitte LLP. The results of the Deloitte study were included in the report on Asset Optimization Review which was considered and approved by City Council in December 2016, with a recommendation that the City retain its ownership under an enhanced net income scenario, and that the potential for increasing TPA's payout rate to the City be considered as part of the 2017 budget process.

The above report recommendations coincided with the work undertaken by the City's Financial Planning Division for renewing and renegotiating the existing Income Sharing Agreement between the City and TPA, which expired on December 31, 2015. This work encompassed a 10-year analysis of the TPA's past actual payments to the City and the TPA's past capital spending (2006-2015), as well as comparative analysis of a wide range of scenarios projected over the 10-year period (2017-2026), with the main objective to determine potential for increased income share for the City. The analysis excluded revenues from the sale of air rights, as they represent one-time transactions that are difficult to forecast.

As a result, this report recommends an increase in the City's income share ratio from the current 75% to 85% of the Toronto Parking Authority's net income, based on the following:

- Over the long-term, in addition to the share of net income, there were also one-time dividend payments from the TPA to the City, which increased the City's revenue share to an average rate of 84% of the TPA's actual net income over the past 10 years, compared to 75% stipulated in the current Income Sharing Agreement.
- The TPA's actual capital spending over the same period averaged 24% or \$10.3 million annually, representing on average 68% of its retained earnings. The highest capital spending rate of 53% was achieved in 2010, with the next highest rate of 28% achieved in 2009.
- In order to determine whether TPA can sustain increased payments to the City over the next 10-year period, several scenarios were analyzed that included variable income share ratios (75%, 80% and 85%) and annual capital spending rate of 53% representing the highest spending rate over the period. These scenarios were based on the Toronto Parking Authority's 2017 Operating Budget and the 2017-2026 Capital Budget and Plan approved by Council in December 2016.
- Comparative analysis demonstrated that under the assumptions employed, Toronto Parking Authority will be in a position to generate sufficient revenues over the 10-year period to implement its 10-Year Capital Plan at 53% spending rate, with a positive retained earnings balance of \$26.5 million at the end of the period, while remitting payments to the City at the increased net income share ratio of 85%.
- This enhanced income share ratio will provide additional revenues for other City key initiatives totalling approximately \$19.4 million over the next 3 years.

It should be noted that there are other parallel City initiatives oriented towards optimization of the City's investment in the TPA, including the City-Wide Real Estate Review. City Council also directed TPA to implement a comprehensive review of the on-

street and off-street parking rate structure in comparison to other jurisdictions and private parking lots.

Payment Schedule

Adoption of Recommendation 1b of this report will require the TPA to make monthly progress payments to the City in the amount of \$3.167 million, an increase of \$0.084 million compared to the existing monthly progress payments of \$3.083 million. This will ensure that City payments are evenly distributed throughout the year and reduce the occurrence of significant payments at year-end. The increase also enables the City to receive a minimum payment consistent with the Authority's growth in profitability.

In total, the minimum payment to the City will increase from \$37.0 million to \$38.0 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.

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 retain an increased share or 85% 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 15% 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 15% 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 however reduce, if necessary, the City's 85% share of the net gain on sale by the amount that the cost of replacement facilities exceeds the 15% 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

City Council at its meeting of December 13, 14 and 15, 2016, approved the TPA 10-Year Capital Budget and Plan with funding requirements totalling \$519.1 million. In the past, as the 10-Year Capital Plan was updated and reviewed with the Deputy City Manager & 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 in the form of one-time dividend payments.

As outlined in Attachment 1, from 1998-2015, the Authority has made special payments of \$82.4 million 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(s). The recommended income share ratio increase will bring annual payments to the City in line with the past actual experience and also reduce the City's reliance on one time-payments in the past.

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

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SIGNATURE

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ATTACHMENTS

Attachment 1: Payments from the Toronto Parking Authority

Attachment 1

Payments from the Toronto Parking Authority

Year	TPA Records - Return of Earnings to the City						Annual Total
	Share of Net Income	One Time Dividends	Sale of Air Rigths	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	41,583,265	20,000,000	11,592,412	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	39,827,060		19,466,383	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	43,612,502	12,000,000		55,612,502	18,358,000	1,700,000	75,670,502
2013	44,906,555			44,906,555	18,771,041	2,098,000	65,775,596
2014	43,705,912	639,000		44,344,912	19,849,426	2,297,000	66,491,338
2015	42,701,132	7,643,276	67,112,453	117,456,861	21,533,713	1,992,048	140,982,622
Total 1998 to 2015	612,900,041	82,418,790	98,171,248	793,490,079	264,180,513	22,422,048	1,080,092,640