

Intergovernmental Funding in the 2017-2026 Recommended Capital Budget and Plan

Date: February 2, 2017

To: Executive Committee

From: City Manager and Deputy City Manager & Chief Financial Officer

Wards: All

SUMMARY

This report outlines federal and provincial infrastructure funding programs as identified in the 2017-2026 Recommended Capital Budget and Plan.

The City receives funding under the:

- Provincial Gas Tax (Dedicated Gas Tax for Public Transportation Program);
- Toronto-TTC-Ontario Streetcar (LRV) Fleet Replacement Program;
- Federal Gas Tax Fund;
- Building Canada Fund;
- Canada 150 Community Infrastructure Program;
- Federal Public Transit Infrastructure Fund; and
- Federal Clean Water Wastewater Fund.

This report also requests authority to negotiate and execute agreements for projects under intake two of the Canada 150 Community Infrastructure Program. Adjustments to the 2017 Budget Committee Recommended Capital Budget to accommodate these funds are also included.

The Government of Canada and the Province of Ontario are expected to contribute \$8.4 billion (21%) towards the \$39.7 billion 2017-2026 Recommended Tax and Approved Rate Supported Capital Budget and Plan (federal: \$4.816 billion; provincial: \$3.595 billion).

City Council has also identified its priority projects for funding under Phase 2 of the Government of Canada's infrastructure plan. Phase 2 plans to deliver \$81 billion nationally from 2017-2028 for public transit, social, green, trade and transportation and rural and northern infrastructure.

RECOMMENDATIONS

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

1. City Council authorize the Deputy City Manager & Chief Financial Officer to negotiate and enter into any required contribution agreements for projects funded under intake two of the Canada 150 Community Infrastructure Program, identified in Attachment 4, with terms and conditions satisfactory to the Deputy City Manager & Chief Financial Officer and the City Solicitor.

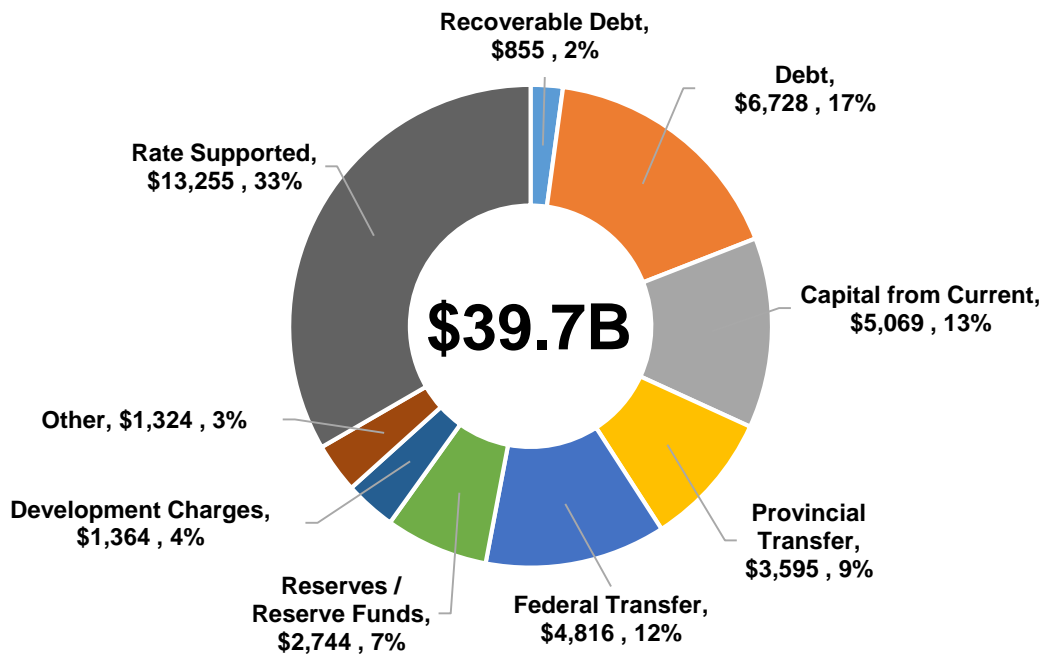
2. City Council adjust the 2017 Budget Committee Recommended Capital Budget as follows to replace funding sources with the Federal Contribution to Eligible Costs for projects listed in Attachment 4 for the following City programs:
 - a. Facilities, Real Estate, Environment & Energy (federal contribution \$1,332,000);
 - b. Economic Development & Culture (federal contribution \$44,550);
 - c. Parks, Forestry and Recreation (federal contribution \$775,733);
 - d. Transportation Services (federal contribution of \$499,500).

FINANCIAL IMPACT

In total, the Government of Canada and the Province of Ontario are expected to contribute \$8.4 billion (21%) towards the \$39.7 billion 2017-2026 Recommended Tax and Approved Rate Supported Capital Budget and Plan (federal: \$4.816 billion; provincial: \$3.595 billion). Federal and provincial funding is summarized in Table 1.

This includes the recommendations outlined in this report, which seeks budget adjustments to reflect recently approved federal funding under intake two of the Canada 150 Community Infrastructure Program. This will allow the City to recover \$2.6 million in costs for delivering 11 capital projects as outlined in Attachment 3. This funding will reduce a combination of City debt and non-debt funding included in the 2017 Budget Committee Recommended Capital Budget.

Figure 1 - 2017-2026 Recommended Tax and Approved Rate Capital Budget and Plan, Where the Money Comes From (\$39.749 billion)



In addition to the funding agreements and programs discussed in detail in this report, the Recommended Budget and Plan identifies intergovernmental funding for projects in Economic Development, Parks, Forestry & Recreation, Toronto Public Library, Sony Centre, Toronto Public Health and other projects in Transportation Services, Facilities Management, Real Estate, Environment & Energy and the Toronto Transit Commission (TTC).

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

Table 1 - Summary of Intergovernmental Funding in the 2017-2026 Recommended Tax and Approved Rate Capital Budget and Plan (\$000s)

Program	Project	Provincial	Federal	Total
Provincial Gas Tax	TTC Base Capital Program	752,244	N/A	752,244*
Toronto-TTC-Ontario Streetcar Fleet Replacement	TTC Replacement Streetcars (LRVs)	147,439	N/A	147,439
Federal Gas Tax Fund	TTC Base Capital Program	N/A	1,666,600	1,666,600
Building Canada Fund (BCF)	Toronto-York Spadina Subway Extension	52,532	83,114	135,646
	Union Station Revitalization	24,341	21,065	45,406
<i>Subtotal - BCF</i>		<i>76,873</i>	<i>104,179</i>	<i>181,052</i>
Canada 150 Community Infrastructure Program (CIP 150)	Intake 1 - Economic Development, Parks, Forestry & Recreation, and Toronto Public Library	N/A	1,449	1,449
	Intake 2 - Facilities, Real Estate, Environment & Energy, Economic Development, Parks, Forestry & Recreation, Transportation Services	N/A	2,651	2,651
<i>Subtotal - CIP 150</i>		<i>N/A</i>	<i>4,100</i>	<i>4,100</i>
Federal Public Transit Infrastructure Fund** (PTIF)	TTC Base Capital Program	0	580,247	580,247
	Transportation Services	0	49,712	49,712
	Planning & Design for Transit Expansion (Eglinton East LRT, Relief Line, Waterfront Transit)	0	31,685	31,685
	Metrolinx Cost Shared Projects (i.e. Grade Separations)	122,750 [†]	42,250	42,250
	Other (Exhibition Place/Ontario Place, Union Station)	0	1,230	1,230
<i>Subtotal - PTIF</i>		<i>122,750</i>	<i>705,124</i>	<i>827,874</i>
Federal Clean Water Wastewater Fund (CWWF)	Structural Lining of Watermains (Toronto Water)	3,759	7,518	11,277
	Essroc Quay Lakefilling and Naturalization (Port Lands Flood Protection)	16,250	32,500	48,750
<i>Subtotal - CWWF</i>		<i>20,009</i>	<i>40,018</i>	<i>60,027</i>

Program	Project	Provincial	Federal	Total
Other Programs	Projects in Toronto Public Health, Sony Centre, Facilities, Real Estate, Environment & Energy (other than Union Station), and non-PTIF projects in TTC and Transportation.	89,864	500	90,364
Committed Funding	Scarborough Subway Extension ^{††}	1,990,000	660,000	2,650,000
	SmartTrack (including PTIF) [‡]	N/A	417,100	417,100
	Eglinton West LRT (including PTIF) [‡]	N/A	822,900	822,900
Estimated Funding	Port Lands Flood Protection	395,000	395,000	790,000
Total (rounded)		3,594,170	4,815,588	8,409,758

* The City receives approximately \$166.8 million annually from the Provincial Gas Tax. Of the total annual allocation, \$91.6 million is applied to the TTC operating budget with the residual (\$75.4 million) applied to TTC capital needs.

** Total federal allocation to Toronto is \$856 million. City Council amended the 2016-2025 Capital Budget and Plan (EX20.4) to reflect approx. \$105 million in PTIF funding adjustments for 2016.

† Metrolinx initiated projects which are cost shared with the City of Toronto as per Council direction (i.e. grade separations). Provincial amount reflects their portion of costs and is not a contribution to the City of Toronto. The City is only responsible for a portion of costs.

†† Federal and provincial funding committed, subject to key terms and conditions. Provincial funding for the Scarborough Subway Extension expressed in inflated dollars (\$1.48 billion in 2010 dollars).

‡ Includes \$23.67 million in PTIF contributions. Federal funding committed, subject to key terms and conditions. Provincial investments in regional express rail will support SmartTrack. Intergovernmental funding contributions for SmartTrack and Eglinton West LRT are based on the Class 4/5 cost estimates presented in the initial business cases reported to City Council in July 2016 and were prepared by Metrolinx. Currently, staff are working to further develop the design of the project and refine the estimates.

DECISION HISTORY

City Council provides the authority to enter into intergovernmental funding agreements and has approved funding for specific projects through the capital budget process. City Council has also authorized staff to negotiate and enter into agreements, as directed, for new intergovernmental funding for priority projects.

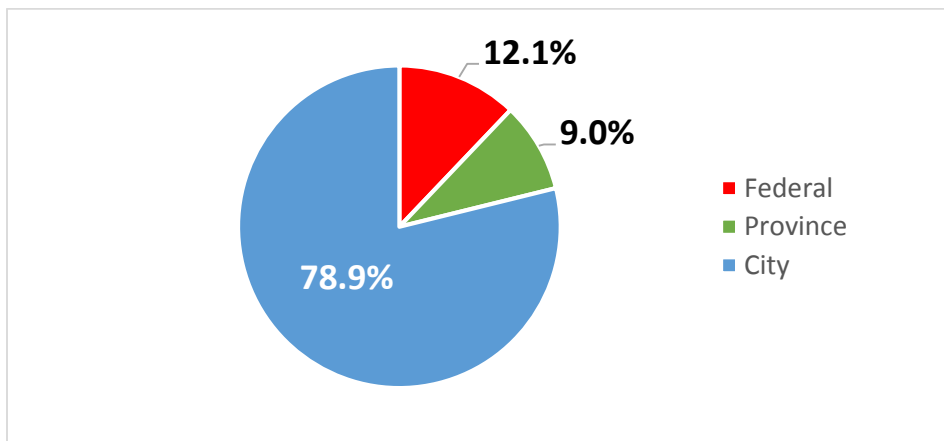
The full itemized decision history is included in Attachment 5.

ISSUE BACKGROUND

The City's 2017-2026 Recommended Tax Supported Capital Budget and Plan and Approved Rate Supported Capital Budget and Plan identifies \$39.7 billion in public investments to infrastructure such as transit and transportation, water and wastewater, and other capital assets. Capital projects are funded from user fees (rates), reserves, development charges, borrowing (debt), and by federal and provincial government transfers.

Contributions from the federal and provincial governments account for a total of 21% (\$8.410 billion) of the funding outlined in the 10-Year Tax and Rate Capital Budget and Plan (Figure 2).

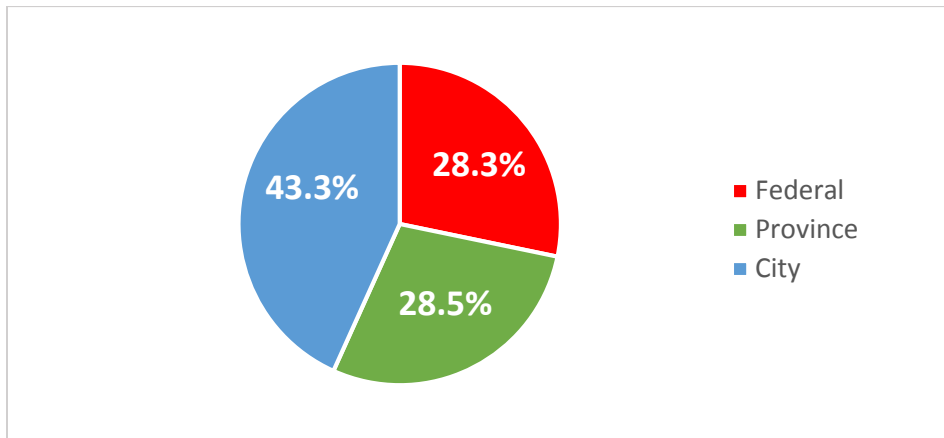
Figure 2 - 2017-2026 Recommended Capital Budget and Plan*



71.6% (\$6.01 billion) of the anticipated provincial and federal investments contained in the Budget and Plan will support the City's existing and future transit network including the Toronto Transit Commission's (TTC) base capital budget and projects such as the Toronto-York Spadina Subway Extension (TYSSE), the Scarborough Subway Extension (SSE), SmartTrack and the Eglinton West LRT.

The TTC's base capital program, the TYSSE, and SSE are together anticipated to be 43.3% funded by the City (\$4.578 billion), 28.5% by the Government of Ontario (\$3.016 billion), and 28.3% by the Government of Canada (\$2.990 billion) (Figure 3). Stable, predictable and long-term federal and provincial funding is necessary to invest in state of good repair projects and system expansion can only proceed with contributions from all orders of government.

Figure 3 - TTC 2017-2026 Recommended Capital Budget and Plan*



*Inclusive of TTC's base capital program, TYSSE and SSE. Excludes \$91.6 million per year in Provincial Gas Tax which is applied to the TTC operating budget.

COMMENTS

Current committed intergovernmental funding agreements include the: (1) Provincial Gas Tax, (2) Streetcar (LRV) Fleet Replacement Program, (3) Federal Gas Tax Fund, (4) Building Canada Fund, (5) Canada 150 Community Infrastructure Program, (6) Federal Public Transit Infrastructure Fund, and (7) Federal Clean Water Wastewater Fund. A summary is included in Attachment 1.

The City of Toronto has been allocated over \$1.0 billion in federal and provincial funding under the Government of Canada's Public Transit Infrastructure Fund (PTIF), Clean Water Wastewater Fund (CWWF), and the Social Infrastructure Fund. The City is in the process of signing agreements and obtaining final approvals under the PTIF and CWWF and intake two of the Canada 150 CIP, and has also received additional federal commitments for public transit.

Details on the Social Infrastructure Fund are contained in the Affordable Housing Office and the Shelter, Support and Housing Administration Division 2017 Recommended Operating Budgets.

1. Provincial Gas Tax

Introduced in 2004, the Provincial Gas Tax (PGT) currently transfers two cents per litre of provincial gas tax revenues to municipalities to expand and improve their public transit systems. The program was phased in over time, and in 2013 legislation was passed that permanently dedicates a portion of annual provincial gas tax revenues to municipalities for public transportation.

Municipal allocations change annually, and are determined using a provincial allocation formula based on transit ridership (70% weighting) and population (30% weighting). Funds are deposited into a dedicated gas tax funds reserve account when received,

and revenues must be used to support municipal public transportation expenditures above municipal baseline spending.

From 2004-2016, the City has received over \$1.7 billion which have been invested in the operating and capital requirements of the TTC.

In the 2016-2017 program year (April 1, 2016 to March 31, 2017) the City of Toronto will receive approximately \$170.8 million. Funding will be \$1.6 million higher than prior program year, with no change to the provincial allocation formula. The increase in funding is a result of the formula which takes into account growing ridership. Priority PGT projects in the 2017-2026 Recommended Capital Budget and Plan include bus overhauls and accessibility improvements through the Easier Access Program (II & III). The full list of planned PGT funded projects is in Attachment 2.

On January 27, 2017, the Province of Ontario announced that the program would be enhanced by doubling the municipal share from two cents per litre to four cents per litre. The increase would begin in the 2019-2020 program year and be phased in by 2021-2022 (Table 2). It is expected that the Ministry of Transportation will provide further details on the program enhancement in the coming months.

Table 2 - Proposed Provincial Gas Tax Enhancement

Program Year	Municipal Share (cents/litre)	Total Allocation (\$ millions, estimated by the Province of Ontario)	City Allocation (\$ millions, estimated by the Province of Ontario)
2018-2019	2.0	321.0	163.9
2019-2020	2.5	401.3	204.9
2020-2021	3.0	481.5	245.9
2021-2022	4.0	642.0	327.8

2. Toronto-TTC-Ontario Streetcar Fleet Replacement

In 2009, the Province of Ontario allocated a maximum of \$417 million for the purpose of funding up to one-third of the eligible costs of the TTC streetcar (LRV) fleet replacement project. 204 new streetcars (total project cost of \$1.187 billion) will replace the aging fleet and accommodate future growth. The 30th new streetcar entered service on December 30, 2016.

The 2017-2026 Recommended Capital Budget and Plan accounts for a total of \$147.439 million of provincial funding (not including funding to be carried forward from 2016 into 2017) to be applied against this purchase, recognizing adjustments to account for the delay in delivery from the manufacturer, along with corresponding adjustment to cash flows.

3. Federal Gas Tax Fund

Originally established in 2005 and extended in 2010 and 2014, the federal Gas Tax Fund (GTF) provides Canadian municipalities with \$2 billion per year for investment in infrastructure which is allocated on a per capita basis.

The GTF is a flexible source of infrastructure funding, allowing municipalities to select local priority projects within eighteen categories of eligible infrastructure. As directed by City Council, Toronto entered into an Administrative Agreement with the Government of Canada, the Province of Ontario and the Association of Municipalities of Ontario (AMO) in 2014 which governs the flow of funds until 2023.

From 2005-2015, the City has received over \$1.3 billion that has been directed to the TTC to leverage over \$3.09 billion of investments in the City's transit system.

In 2017, it is estimated that the City will receive approximately \$159.8 million in federal Gas Tax funding. The City's allocation is expected to increase to \$167.4 million starting in 2018 as a result of indexing. The 2017-2026 Recommended Capital Budget and Plan reflects \$1.667 billion in GTF funding to be received over the 10 year period, however actual allocations for 2019-2023 will be based on 2016 Census population data which is not yet available. In the past, the City's GTF allocation has decreased whenever the Census population counts have been updated. This is because of Toronto's shrinking share of the provincial population.

Priority GTF projects over the 10-year period includes a continued focus on fleet replacement and state of good repair. The full list of planned GTF funded projects is in Attachment 3.

4. Building Canada Fund

Established in 2007, the Building Canada Fund (BCF) provided \$8.8 billion for infrastructure from 2008 to 2014. The City received funding for two projects, the Toronto-York Spadina Subway Extension (TYSSE) and the Union Station Revitalization Project. Federal funding under the BCF was also committed for the Sheppard East LRT (\$333 million) which is led by the Province through Metrolinx.

A. Toronto-York Spadina Subway Extension

A BCF contribution agreement for the TYSSE was signed by the City, York Region and Canada in September 2008. The project budget of \$3.184 billion cost shared as follows:

- Federal funding of \$697 million (21.9%) provided through an up-front payment of \$75 million under the Public Transit Capital Trust and the \$622 million commitment through the BCF;
- Provincial funding was provided at \$979 million (30.7%). This included \$870 million allocated in 2006 and 2007 via contributions to the Move Ontario Trust and interest income from the Trust;
- City of Toronto funding of \$905 million (28.4%); and
- York Region funding of \$604 million (19.0%).

The 2017-2026 Recommended Capital Budget and Plan outlines \$135.6 million in remaining federal and provincial funding for the TYSSE.

B. Union Station Revitalization

Federal and provincial governments committed funding to the Union Station Revitalization project in July 2009. The \$800.7 million project is funded by:

- Government of Canada - \$139.5 million which includes up to \$133.0 from the BCF and \$6.5 million from the Transit-Secure Fund;
- Via Rail - \$24.9 million;
- Government of Ontario - up to \$191.8 million (through Metrolinx);
- City of Toronto - \$442.1 million; and
- Other Stakeholders - \$2.4 million.

The Union Station Revitalization project will receive \$45.406 million in federal and provincial contributions as part of the 2017-2026 Recommended Capital Budget and Plan to complete the remaining work on the project.

5. Canada 150 Community Infrastructure Program

As part of the 2015 federal budget, the Government of Canada announced \$150 million over two years for the Canada 150 Community Infrastructure Program (CIP 150). Of this, \$44.4 million in CIP 150 funding is allocated to southern Ontario, and is administered by the Federal Economic Development Agency for Southern Ontario (FedDev Ontario).

In the 2016 federal budget, the Government of Canada announced intake two of the CIP which doubled the fund (an additional \$150 million over two years, with another \$44.4 million dedicated to southern Ontario).

The CIP 150 provides infrastructure funding for projects that rehabilitate, renovate and expand existing community infrastructure in the lead up to the national celebration of the 150th anniversary of Canadian Confederation in 2017.

CIP 150 Intake 1

In total, 18 City projects were successful in their applications resulting in a total federal contribution of \$3.5 million. The 2017-2026 Recommended Capital Budget and Plan includes \$1.449 million in remaining federal contributions to projects in Economic Development and Culture (EDC), Parks, Forestry and Recreation (PF&R), and Toronto Public Library (TPL). Details outlining these 18 projects are provided within EDC, PF&R and TPL 2016 Capital Budget Analyst Notes.

CIP 150 Intake 2

In January 2017, the City was notified about 11 successful applications related to intake two of the Canada 150 Community Infrastructure Fund.

In total, \$2.6 million in federal funding has been committed under intake two for projects within Facilities, Real Estate, Environment & Energy, EDC, PF&R and Transportation Services. It is recommended that the Budget Committee Recommended Capital Budget and Plan be amended to reflect these federal commitments. The CIP will enable the City of Toronto to expedite construction and offset the need for City funding for the 11 capital projects identified in Attachment 4.

It is recommended that City Council authorize City officials to negotiate and execute the required legal agreements with the federal government for projects under intake two of the Canada 150 Community Infrastructure Program.

6. Federal Public Transit Infrastructure Fund

The PTIF is a \$3.4 billion national program that provides ridership based allocations to be used for eligible investments in transit and active transportation.

The City of Toronto has been allocated up to \$856 million from the PTIF (26% of the national allocation). Federal funding can cover up to 50% of eligible costs, requiring the City to match federal investments on a 1:1 ratio. Ontario has not matched this new federal investment noting existing provincial commitments to transit.

Priority projects for the PTIF were confirmed by City Council in December 2016 and as appropriate, are incorporated into the 2017-2026 Recommended Capital Budget and Plan. This includes \$580.2 million allocated to the TTC's base capital program for the acquisition of new buses and improvements to state of good repair, as well as \$49.7 million allocated to Transportation Services for road safety, cycling infrastructure and surface transit operations.

7. Federal Clean Water Wastewater Fund

The CWWF is a \$2.0 billion national program that provides funding for up to 50% of eligible costs for capital planning and infrastructure projects related to water, storm water and wastewater. The Province of Ontario will contribute additional funding of up to 25% of eligible costs, leaving municipalities to match the remaining 25%. The Province has allocated CWWF funds to municipalities in Ontario based on local economic conditions and the amount of water, wastewater and storm water assets that are owned. The resulting allocation for the City of Toronto is \$60 million (federal - \$40 million, provincial - \$20 million).

In late 2016, City Council authorized the City's two priority projects under the CWWF - the Structural Lining of Watermains and Essroc Quay Lakefilling and Naturalization (a stormwater-related quick start component of Port Lands Flood Protection). Accordingly, \$11.27 million from the CWWF is included in the Approved 2017 Rate Supported Capital Budget for Toronto Water while the remaining \$48.75 million is included in the 2017-2026 Recommended Capital Budget and Plan for the Waterfront Revitalization Initiative.

8. Government of Canada Phase 2 Investments

In November 2016, the Government of Canada announced details on its second phase of infrastructure investments which will deliver \$81 billion nationally through to 2027-28 as follows:

- Public Transit - \$25.3 billion;
- Social Infrastructure - \$21.9 billion;
- Green Infrastructure - \$21.9 billion;
- Trade and Transportation - \$10.1 billion;
- Rural and Northern Infrastructure - \$2.0 billion.

In December 2016 City Council confirmed its key priorities for new intergovernmental funding expected in Phase 2 including various transit expansion projects, Port Lands Flood Protection, social and affordable housing, and the rehabilitation of the F.G. Gardiner Expressway.

The 2017-2026 Recommended Capital Budget and Plan identified significant new investments (\$5.8 billion in gross expenditures) to fund City Council priority projects. Included in the 2017-2026 Recommended Capital Budget and Plan is anticipated funding for Port Lands Flood Protection (federal and provincial governments each contributing 33% of the total costs (\$395 million each)) and the federal commitment to SmartTrack (including the Eglinton West LRT) which is assumed to be \$1.24 billion.

Funding contributions for SmartTrack and Eglinton West LRT are based on the Class 4/5 cost estimates presented in the initial business cases reported to City Council in July 2016 and were prepared by Metrolinx. These estimates are intended for early concept screening and include 50% cost contingencies, but do not yet contain any allowances for financing costs or the transferral of risks under an Alternate Financing and Procurement (AFP) approach. A Class 3 estimate with approximately 30% design is recommended prior to committing to the full capital construction, financing and escalation costs (if any) associated with the project. Staff are working to further develop the design of the project and refine the estimates, including anticipated intergovernmental and third party contributions.

Further details on Phase 2 are anticipated to be released as part of the 2017 federal budget, which is expected in the coming months.

Conclusion

The City's Recommended 2017-2026 Capital Budget and Plan focuses investments in state of good repair while significantly addressing Council priorities for critical but previously unmet needs. Many of these investments are supported by intergovernmental partnerships that are stewarded by the Strategic and Corporate Policy Division, in consultation with key divisions including Financial Planning and Corporate Finance. These partnerships and related intergovernmental funding agreements provide significant capital contributions that help address many of the City's key strategic priorities.

CONTACT

Fiona Murray, Director, Corporate Intergovernmental & Agency Relations, Strategic & Corporate Policy Division, 416.397.5214, Fiona.Murray@toronto.ca

Stephen Conforti, Director, Financial Planning & Budgeting, Financial Planning Division, 416.397.0958, Stephen.Conforti@toronto.ca

Robert Hatton, Director, Strategic Initiatives and Intergovernmental Finance, Corporate Finance Division, 416.392.9149, Robert.Hatton@toronto.ca

SIGNATURE

Roberto Rossini
Deputy City Manager & Chief Financial Officer

Peter Wallace
City Manager

ATTACHMENTS

Attachment 1 – Intergovernmental Program Summary

Attachment 2 – Provincial Gas Tax Funding for TTC's 2017-2026 Recommended Capital Budget and Plan

Attachment 3 – Federal Gas Tax Funding for TTC's 2017-2026 Recommended Capital Budget and Plan

Attachment 4 – Capital Projects Supported by Intake Two of the Canada 150 Community Infrastructure Program

Attachment 5 – City Council Decision History