

Consolidated Clause in Policy and Finance Committee Report 9, which was considered by City Council on November 30, December 1 and 2, 2004.

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City of Toronto Support of the GO Transit Capital Growth/Enhancement Program

City Council on November 30, December 1 and 2, 2004, adopted this Clause without amendment.

The Policy and Finance Committee recommends that City Council adopt the staff recommendations in the Recommendations Section of the report (November 22, 2004) from the Chief Financial Officer and Treasurer.

Purpose:

To update Council on the cost implications of funding the GO Transit Capital Growth/Enhancement Program and obtain approval to fund outstanding commitments up to 2004 subject to execution of a tripartite Memorandum of Understanding to fund the TTC capital program.

Financial Implications and Impact Statement:

Based on the approved 2004/05 GO Transit budget, the City's 2004 share of the GO Transit Capital Growth/Enhancement Program is estimated to be \$15.4 million. The City share due for prior years (2002 and 2003) has been identified by GO Transit as \$6.2 million and \$9.9 million respectively, or an accumulated liability of \$16.1 million, for a combined contribution for the three years of \$31.5 million.

The City contribution would be financed from the following funding sources totalling \$27.8 million, resulting in a net capital financing requirement of \$3.7 million for 2004 and prior years:

- (i) a credit held by GO Transit (relating to prior years surplus at the time when the City was contributing to GO Transit operations) in favour of the City in the amount of \$3.1 million;
- (ii) City "Unallocated Capital Funding – GO Transit" relating to actual contributions below budget in 1998 in the amount of \$14.8 million; and
- (iii) the 2004 Non-Program Operating Budget for GO Transit in the amount of \$9.9 million.

Based on the 2004 – 2013 GO Transit Capital Growth/Enhancement Program, the City share (44.6 percent of the 1/3rd municipal portion) would total \$219.7 million over the 2004 to 2013 period or \$22.0 million per year over ten years (see Appendix 1). Assuming that funding GO Transit expansion results in a commensurate increase to debt financing, the debt service impact would be an increase of approximately \$25 million per year after five years, peaking at \$33 million per year after ten years.

The net impact on the City may be affected by (i) the implementation of a GO Transit development charge; (ii) a reduction in the City portion of the 1/3rd municipal share (current provincial discussions suggest that there is potential for a \$2 million annual reduction); (iii) the tripartite TTC capital funding MOU which would limit City payments to no more than \$20 million per year; and, iv) capital expenditure variances or changes to the plan which is subject to annual review and update.

Recommendations :

It is recommended that:

- (1) Subject to execution of a five year tripartite Memorandum of Understanding to fund the TTC Capital Program:
 - (i) a City contribution for prior years (2002 and 2003) be approved in the amount of \$16.1 million, funded from a GO Transit credit from prior years of \$3.1 million and \$13.0 million “Unallocated Capital Funding – GO Transit” relating to a 1998 variance;
 - (ii) a City contribution to the 2004 GO Transit Capital Growth/Enhancement Program be approved in the amount of up to \$15.4 million, \$9.9 million funded from the 2004 Non-Program Operating Budget, \$1.8 million the remaining balance “Unallocated Capital Funding – GO Transit”, and \$3.7 million in Capital from Current, reallocated from the 2004 Capital Budget; and
 - (iii) the City make contributions from 2005 and thereafter to the GO Transit Capital Growth/Enhancement Program as described herein but limited to no more than \$20 million in any single year;
- (2) the 2004 Capital Budget and applicable financing be amended in accordance with the above recommendation;
- (3) this report be forwarded to the Federal and Provincial Ministers of Transportation, the Federal Minister responsible for infrastructure funding, GTA MP’s and MPP’s for their information; and
- (4) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

Funding responsibility for GO Transit was transferred to the City January 1, 1998, as part of the Local Services Realignment process. The Province took back responsibility for GO Transit in 2002, having dissolved the Greater Toronto Services Board, but indicated its expectation that GTA Regional Municipalities, Hamilton and Toronto would make contributions to the Capital Growth/Expansion program. No statutory obligations were created by the Province in this regard.

At its meeting of May 21 - 25, 2003, City Council considered a staff report, entitled "City of Toronto Support of the GO Transit Capital Growth/Enhancement Program" and decided not to accommodate the Province's request for GO Transit funding until the City's fiscal situation was addressed through a long term commitment by the Province to fund 1/3rd of the TTC capital program.

At its meeting of July 22 – 25, 2003, City council reopened the report and directed that:

- (i) the CAO convene a meeting with representatives of the TTC, GO Transit and the Minister of Transportation to review and seek an accommodation with GO Transit and the Province;
- (ii) the CFO be requested to seek a legal opinion to help determine if the TTC can legally make a contribution to GO Transit that is not authorized by statute and submit a report thereon to the Policy and Finance Committee; and
- (iii) the CFO, in consultation with the Chief General Manager, TTC, be requested to submit a report to the next meeting of Council, through the Policy and Finance Committee, on how the commitment to the GO Transit Capital Growth/Enhancement Program will impact on the TTC Capital Program.

Comments:

(A) City Share of GO Transit Costs:

The 2004/05 GO Budget was approved by the GO Transit Board on March 12, 2004 and the 2004 – 2013 Capital Growth/Enhancement Program forecast was approved by the GO Board on April 16, 2004. Funding estimates (adjusted to reflect the Municipal calendar year) are attached as Appendix 1. The City share due for prior years (2002 and 2003) has been identified by GO Transit as \$6.2 million and \$9.9 million respectively, or an accumulated liability of \$16.1 million. The estimated City of Toronto share of GO Transit Capital Growth/Enhancement costs for 2004 is \$15.4 million, for a combined contribution for the three years of \$31.5 million as shown in the table below.

City of Toronto Capital Funding – GO Transit (2002 – '04)

Municipal Fiscal Year (\$ million)	2002	2003	2004	Total
Contribution Requirement:	\$6.2	\$ 9.9	\$15.4	\$31.5
Financing:				
GO credit from prior year surplus	(3.1)			(3.1)
Unallocated Capital Funding – GO Transit	(3.1)	(9.9)	(1.8)	(14.8)
2004 Operating Budget (non-program)	-	-	<u>(9.9)</u>	<u>(9.9)</u>
Net Financing – Capital from Current	0	0	\$3.7	\$ 3.7

In the above calculations, the City share has been calculated as 44.6 percent of the municipal 1/3 share of cost shared projects. This cost sharing formula was developed by the former Greater Toronto Services Board and upon dissolution, the GTA cost shares were assumed under the GO Transit Act, 2001. A new cost sharing agreement is required for 2005 and thereafter, but GTA municipal cost shares have yet to be determined. However, for forecasting purposes, the existing formula has been applied.

Based on the 2004 plan and the current approach to sharing costs, the City can expect to be asked to contribute a total of \$142.3 million over the 2004 to 2008 period, an average of \$28 million per year. Also, an additional \$77.4 million over the 2009 to 2013 period will result in a total of \$219.7 million over ten years, or \$22 million per year on average. The impact on the City's operating budget for debt service will be approximately \$33 million per year by the end of the program. This assumes that GO Transit contributions would be funded in the Capital Budget from a reallocation of Capital From Current, as these expenditures have been deemed ineligible for debt financing, but would thereby increase debt funding requirements for other programs.

The table below summarizes the GO Transit Capital Expansion Plan estimates, comparing the current GO Board approved plan with the previous plan, including the City's estimated share.

2004 GO Transit 10-Year Capital Expansion Plan (2004 – 2013) vs. 2003 10-Year Plan:

Municipal Fiscal Year (\$ million)	2003 10 Year Plan	2004 10 Year Plan	Change
Total Plan			
Excluded – (BRT and Barrie Service)	1,094.2	2,174.4	1,080.2
	-	<u>(694.7)</u>	<u>(694.7)</u>
Funded – Provincial/Federal/Municipal			
Municipal Portion of City funded projects (33.3 percent)	1,094.2	1,479.7	384.5
	364.4	492.7	128.3
City Share (44.6 percent of Municipal Portion)			
Average annual contribution	162.5	219.7	57.2
	16.3	22.0	5.7

This estimate assumes the City of Toronto will not contribute to the following portions of the GO Transit Capital Growth/Enhancement Plan; (i) the Bus Rapid Transit (BRT) program, a circumferential bus service that is planned to travel outside the boundary of Toronto connecting 905 municipalities; (ii) the GO Transit GTA Farecard initiative; and, (iii) new projects expanding service outside the GTA. While this assumption has been confirmed by GO Transit and provincial staff for 2004, the funding arrangement for these projects has not been clarified for 2005 and beyond. However, the GO Transit Board has taken the position that the cost of the Bus Rapid Transit initiative should not be borne by the municipal sector as it replaces a similar investment in ‘highways’ by the Province.

The capital expenditure plan is subject to annual review and update that could affect the City’s contribution levels in the future. GO Transit is currently developing their estimates for the 2005-2014 period, and based on the assumptions above preliminary indications are that the City cost of the program will not change significantly.

It should be noted that the municipal funding partners have much less influence on the expansion plan than under the former GTSB model. At the Board level, representation is now provided by the Province through its appointments drawn from the private sector, municipalities outside the GTA, GTA Regions and the City, while final budget approval effectively rests with the Province. City staff will report back on any changes to this budget or the proportionate share of the costs borne by the City.

(B) GO Transit Funding Commitment - Linkage to Other Funding Agreements:

Recommended City funding for GO Transit is subject to execution of a tripartite Memorandum of Understanding (MOU) for TTC funding at \$350 million over five years from each of the three orders of government. The MOU is addressed in a separate report to the November 23 2004 Policy and Finance Committee entitled “TTC Funding Agreements”. The proposed MOU requires a reciprocal commitment from the City to fund GO Transit capital expansion.

The Provincial Government announced on October 22, 2004, the initial allocation Province-wide, its 2004 Budget commitment to share a portion of the gas tax revenues. For calendar 2005, the City of Toronto will be eligible to receive \$92 million in gas tax revenues. However the related agreement also requires the City to demonstrate that it is contributing toward its share of GO Transit capital expansion and its payments are current in order to be eligible to receive provincial gas tax subsidies.

(C) Other Funding Issues:

A joint GO Transit development charge study nearing completion indicates that if implemented to the extent technically feasible, development charges could offset approximately 40 percent of the City's capital contributions per year. However, the bulk of benefit from the projects and therefore the development charge revenues would be recovered from the commercial and industrial tax classes.

The study will also provide the necessary quantitative information to help establish new GTA costs shares for the GO Transit capital growth/enhancement program effective 2005. Early indications on the outcome of this process indicate the City's share of future GO Transit costs may decline about 4.0 percent percentage points or \$2 million annually from the current 44.6 percent share of the 1/3rd share municipalities have been asked to pay (other orders of government pay the balance). The study and cost share recommendations will be brought forward to Council in the winter of 2004/05.

Also, in response to direction from Council, the Chief Financial Officer and Treasurer has obtained a legal opinion from the City Solicitor that the TTC has no legislative authority to make contributions to GO Transit's Capital Growth/Enhancement Program.

(D) Status of Other Contributors:

Since January 1, 2002, when the Province reclaimed responsibility for GO Transit, it created an expectation that GTA municipalities would fund one third of the expansion plan costs, based on an equal Federal, Provincial Municipal cost sharing formula.

The Federal Government, Provincial Government and GO Transit announced on May 7, 2004, the signing of a contribution agreement totalling \$1.05 billion to jointly fund 12 construction projects to improve the GO Transit rail and bus transit system in the GTA. The contributions from the Federal and Provincial Governments are also conditional on municipal contributions as outlined in this report.

The guidelines to the provincial gas tax funds for transit also require that Hamilton, Toronto and the GTA regional municipalities make contributions to the GO Transit Capital Expansion /Enhancement Program in order to be eligible to receive provincial gas tax funding.

(E) Form of Commitment:

The Province is developing a seven party contract for signature by each of the municipal funding parties and GO Transit to create a contractual commitment to funding the GO Transit expansion program, as required to support municipal development charge by-laws for GO Transit. The contract would specify the cost shares, term and other related financial matters and will be brought before Council for consideration within the next six months.

Conclusion:

This report recommends that the City make contributions to the 2004 – 2013 GO Transit Capital Growth/Enhancement Program and in regard to GO Transit Growth/Enhancement Plan expenditures for the years 2002 and 2003, subject to execution of a tripartite TTC capital funding memorandum of understanding between the City, Province and Federal Government.

The estimated 2004 City portion of the GO Transit Capital Growth/Enhancement Program is \$15.4 million and the outstanding liability for prior years is \$16.1 million, for a total of \$31.5 million. This report amends the 2004 Capital Budget and identifies funding sources, including \$3.7 million 2004 capital from current financing (which will increase the City's 2004 debt requirements by the same amount in other programs).

A commitment by the City of Toronto to fund the GO Transit Expansion program is a condition of both the Provincial gas tax funding agreement and the tripartite TTC capital funding MOU (reference companion report entitled "TTC Funding Agreements").

Finally, the report outlines the City's participation in a new GO Transit development Charge Background Study. Completion of the study will provide important input into discussions regarding inter-municipal cost sharing of GO Transit expansion in the future, and also enable the City to consider implementing a GO Transit development charge for 2005 and thereafter. This process may also result in a decline in the City's share of future GO Transit costs from the current 44.6 percent of the total 1/3rd municipal share. The results of these efforts will reported to Council in 2005.

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Attachment:

Appendix 1- "Approved GO Capital/Enhancement Program - Updated 2002/2003 - 2012/2013"

(A copy of Appendix 1 "Approved GO Capital/Enhancement Program - Updated 2002/2003 - 2012/2013", referred to in the foregoing report was forwarded to all Members of Council with the November 23, 2004, agenda of the Policy and Finance Committee and a copy thereof is also on file in the office of the City Clerk, City Hall.)