
Councillor Adam Vaughan 韋德方

Toronto City Council
Trinity Spadina, Ward 20

February 6, 2012

Ulli Watkiss
City Clerk
Toronto City Hall
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Dear Ms. Watkiss,

I am submitting this Administrative Inquiry (under Municipal Code S27-61) to obtain information on a number of consultants reports and studies commissioned by Toronto Transit Infrastructure Limited (TTIL) and referenced as Appendices to the report titled "*Toronto Transit: Back on Track*." It is my understanding that TTIL President and CEO, Dr. Gordon Chong sent the report to Mayor Ford on January 20, 2012.

In response to Administrative Inquiry IA1.8, received by City Council on May 17, 2011. City Manager Joseph Pennachetti stated that "City staff are working with TTIL in the procurement and oversight of consultants to be contracted for the preparation of a preliminary capital financing assessment of the proposed subway initiative."

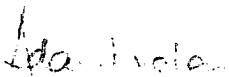
The specific reports and studies I request be released to City Council in their entire form are those commissioned from KPMG and N. Barry Lyons.

These studies are referenced in the *Toronto Transit: Back on Track* appendices as:

- | | |
|-------|----------------------------------------------------------------|
| 10.8 | Tax Increment financing Further Detail (from KPMG) |
| 10.9 | Summary of Delivery Models considered by KPMG |
| 10.10 | Property Values Near Higher Order Transit (from N.Barry Lyons) |

Given the importance and complexity of this matter, I would appreciate the reports and studies be distributed to City Council in their entire form.

Regards,



Councillor Adam Vaughan

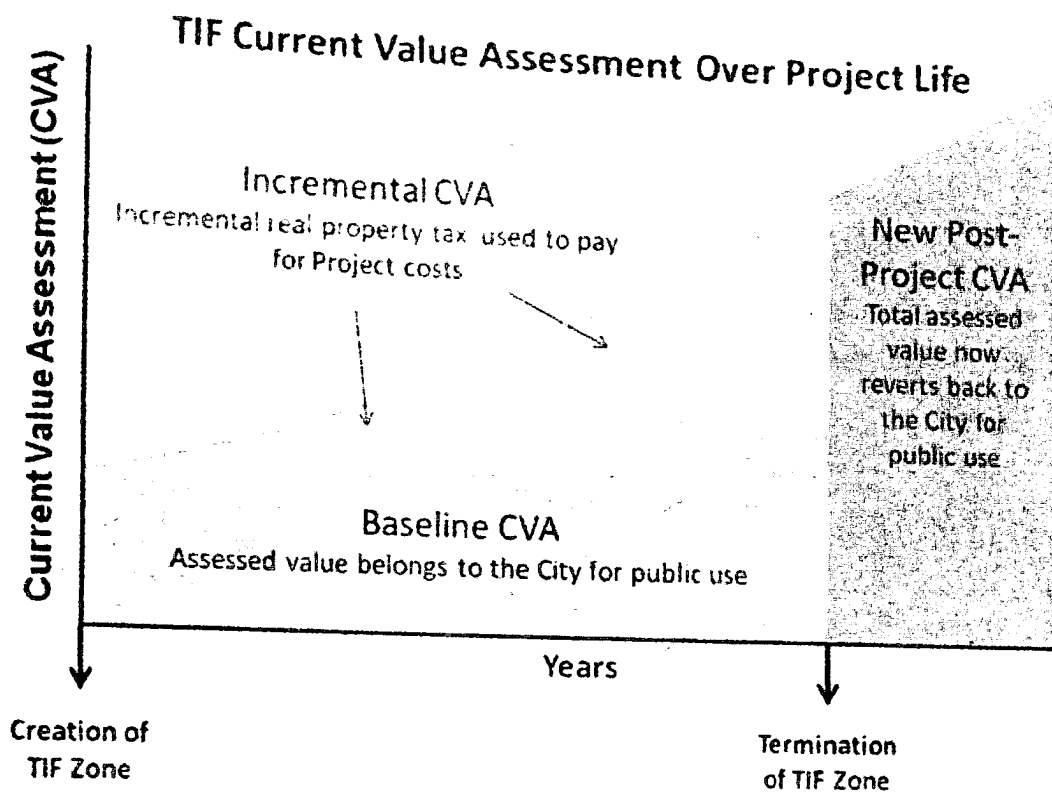


9. NEXT STEPS: GOVERNANCE STRUCTURE AND WORK PLAN	113
9.1. Transparent and robust Governance.....	114
9.2. TTIL Governance Structure.....	114
9.3. TTIL Board Roles and Responsibilities.....	115
9.4. TTIL Management Role and Responsibilities.....	117
9.5. TTIL Transparency and Accountability.....	117
9.6. TTIL Year 1 Strategic Priorities.....	117
10. APPENDICES	121
10.1. Streetcar Route Elimination Programme August 1966.....	122
10.2. LRT Proposals Rejected by TTC.....	123
10.3. Vertical and Horizontal Alignment Drawings from Don Mills to Scarborough Centre.....	125
10.4. Route Alignment Options Not Carried Forward for Evaluation.....	141
10.5. Metrolinx Sheppard Subway Costs: Basis of Estimates and Alignment.....	142
10.6. Comparison of TTC and Metrolinx/SDG Cost Estimates.....	147
10.7. Report to Metrolinx, 2008: Report Number: CEO 08-003 Management.....	148
10.8. Tax Incrementing Financing Further Detail (from KPMG Report).....	173
10.9. Summary of Delivery Models Considered by KPMG.....	175
10.10. Property Values Near Higher Order Transit (from N Barry Lyons).....	177
10.11. Coopers and Lybrand 1991 Sheppard Subway Financing Study (Summary).....	179
10.12. Turner Plan: Highlights.....	187

... 10.8. Tax Incrementing Financing Further Detail (from KPMG Report) ...

Tax increment financing is a public finance technique used by local government jurisdictions to fund infrastructure initiatives and stimulate economic development in designated geographic areas. This financing technique was originally used in California as a way to stimulate development in blighted areas and have since been authorized in 49 of the 50 US states. TIFs are much less prevalent in Canada, particularly in Ontario, with the Province only recently introducing them on a pilot basis for the Toronto-York Spadina Subway Extension ("TYSSE") and the West Don Lands redevelopment. TIFs work by leveraging future tax revenue increases to finance current infrastructure projects through the dedication of the incremental tax revenue between the assessed value of designated areas ("TIF zones") prior to the development and its assessed value after the developments are completed. By doing this, future tax gains are leveraged to finance the present costs of eligible improvements in designated areas.

For TIFs in the US, once a development plan has been identified tax values in the designated area are typically frozen at their current, "pre-developed" assessed valuation. Then, the local government jurisdiction (or a conduit issuer) will issue bonds backed by the security of repayment from future tax revenues within that same designated area. The proceeds from the sale of those bonds are then used to help pay for the infrastructure improvements specified in the approved plan. Upon completion of these infrastructure improvements, tax values in the designated area are expected to rise due to increases in the current value assessments of the properties within the area. Any increase in revenues, above the "predevelopment" assessed values, is dedicated to paying down the debt service on the TIF bonds that helped finance the initial development. Upon repayment of the bonds, the incremental revenues revert back to the traditional taxing entity. The City has developed a potential TIF scheme that may be used for the Sheppard Subway Extension project that is similar to that being used for the TYSSE. Under the City's scheme, it is assumed that the TIF zones will extend 800 metres (in all directions) from each of the proposed stations on both the Sheppard and Eglinton lines, whereby all incremental tax revenues collected in these corridors will be dedicated to funding the Project. A diagrammatic presentation of the proposed TIF zones can be found below.



Source: KPMG

As indicated by the graph above, the increment value available for funding the Project is determined by the difference between the baseline CVA and any increase in assessed valuations in the TIF zone solely attributable to the construction of the Eglinton-Scarborough Crosstown and Sheppard Extension lines. The incremental CVA is made up of two components, each of which is highlighted in the estimate of potential TIF revenues:

- the tax increment uplift in existing property values; and
- the tax increment from new development in the TIF zones that has been accelerated and presumed to be incremental.

It is worth noting that the TIF scheme currently considered by the City is subtly, but importantly, different than that of the typical TIF that has been applied in the US. Unlike typical US TIFs in which the baseline CVA is frozen at the "predevelopment" level (which would be represented by a flat line in the graphic above rather than an upward sloping line), the City's scheme uses the expected increase in real estate values that would have occurred without transit infrastructure as the baseline. In typical US TIFs, revenues are generated from all growth above an established fixed, non-increasing, baseline whereas under the City's scheme, the TIF revenues would depend on the excess growth beyond natural growth.

... 10.9. Summary of Delivery Models Considered by KPMG ...

Table 39: Summary of Delivery Models Considered by KPMG

Summary of Delivery Models Contemplated in the Analysis			
	Traditional Model	P3 Availability Payment Model	P3 Concession Model
Project Design and Construction	City/TTIL responsibility.	City/TTIL to define project requirements. Private sector responsible for design and construction.	City/TTIL to define project requirements. Private sector responsible for design and construction.
How to pay for capital costs	<p>Provincial and Federal funding already identified and sale of City-owned development rights used to fund a portion of capital expenditures.</p> <p>City/TTIL to issue TIF and DC bonds and use proceeds to fund another portion of capital expenditures.</p> <p>City/TTIL to secure further funding from government contributions and/or other revenue tools to fund the remaining portion of capital expenditures.</p>	<p>Provincial and Federal funding already identified and sale of City-owned development rights used to fund a portion of capital expenditures.</p> <p>City/TTIL to issue TIF and DC bonds and use proceeds to fund another portion of capital expenditures.</p> <p>Private sector partner to raise financing for the remaining capital costs.</p>	<p>Provincial and Federal funding already identified and sale of City-owned development rights used to fund a portion of capital expenditures.</p> <p>Private sector partner to issue TIF and DC bonds and use proceeds to fund another portion of capital expenditures.</p> <p>City/TTIL to secure further funding from government contributions and/or other revenue tools to fund the remaining portion of capital expenditures.*</p>
Ownership of TIF and DC revenues	<p>Used as security for TIF and DC bonds issued by the City/TTIL.</p> <p>Revenues in excess of the TIF and DC bond debt service return to the City.</p>	<p>Used as security for TIF and DC bonds issued by the City/TTIL.</p> <p>Revenues in excess of the TIF and DC bond debt service return to the City.</p>	<p>"Assigned" to private sector for use in raising private financing.</p> <p>All TIF and DC revenues in excess of the debt service obligations are retained by the private sector partner.</p>
Financial obligation to private sector related to private financing	None	<p>Availability payments made to private partner for 30 years following construction.</p> <p>City/TTIL to secure further funding from government contributions and/or other revenue tools to fund availability payments (if excess TIF and DC revenues are not sufficient to cover payments)</p>	None beyond allowing private sector to keep excess TIF and DC revenues.
Asset Maintenance and Rehabilitation After Completion	City/TTIL responsibility.	<p>City/TTIL to define performance requirements.</p> <p>Private sector partner responsible for asset maintenance and rehabilitation.</p>	<p>City/TTIL to define performance requirements.</p> <p>Private sector partner responsible for asset maintenance and rehabilitation.</p>

* This further funding from City/TTIL is required to achieve a commercially viable Concession Model and will be dependent upon the amount of financing that can be raised by the private sector partner using the TIF and DC revenues.

If a typical US-style TIF scheme is used instead of the scheme currently considered by the City, the amount of TIF revenues that can be generated could be significantly higher.

Quantification of potential TIF revenues requires forecasts of real estate growth over the long term. The ability to forecast real estate growth in Toronto requires a specialized skill-set. N. Barry Lyons Consultants Limited ("NBLC"), a multidisciplinary real estate consulting firm that focuses on market research, urban planning, financial analysis and development management, was tasked with generating estimates for City-wide and corridor specific real estate growth.

... 10.10. Property Values Near Higher Order Transit
(from N Barry Lyons) ...

Table 40: Property Values Near Higher Order Transit

Property Value Appreciation Matrix			
Author	City	Use	Price Premium
Hess, Daniel Baldwin and Tangerina Maria Almedia (2007)	Buffalo	Residential	4.0% - 11.0%
Cervero., (2004)	San Diego	Residential	17.0%
Cervero., (2004)	Philadelphia	Residential	6.4%
Cervero., (2004)	Atlanta	Commercial	0.0%
Cervero., (2004)	Dallas	Retail	37.0%
Cervero., (2004)	Dallas	Office	14.0%
Garrett, T (2004)	St. Louis	Residential - Single Family	32.0%
Weinstein., Clower., (2003)	Dallas	Residential	12.6%
Weinstein., Clower., (2003)	Dallas	Office	13.2%
Weinstein., Clower., (2003)	Dallas	Retail	-2.1%
Weinstein., Clower., (2003)	Dallas	Industrial	-8.5%
Cervero, R. et al. (2002)	Santa Clara	Residential - Rental Apartment	45.0%
Parsons., Brinkerhoff., (2001)	Philadelphia & Boston	Residential	6.7% - 8.0%
Cervero., Duncan., (2001)	Santa Clara	Commercial	23.0%
Cervero., Duncan., (2001)	Santa Clara	Retail: not in shopping centre	40.1%
Cervero., Duncan., (2001)	Santa Clara	Offices, Banks, Clinics	41.5%
Cervero., Duncan., (2001)	Santa Clara	Community Shopping Centre	1.1%
Cervero., Duncan., (2001)	Santa Clara	Neighbourhood Shopping Centre	5.6%
Cervero., Duncan., (2001)	Santa Clara	Industrial	2.8%
Cervero, R. et al. (2001)	San Diego	Residential - Rental Apartment	0.0% - 4.0%
Weinberger, R. (2001)	Santa Clara	Office	15.0%
Weinberger, R. (2001)	Santa Clara	Commercial	15.0%
Weinstein., Clower., (1999)	Dallas	Retail	36.8%
Weinstein., Clower., (1999)	Dallas	Office	13.9%
Weinstein, B. et al. (1999)	Dallas	Office	10.0%
Weinstein, B. et al. (1999)	Dallas	Retail	30.0%
Sedway Group (1999)	San Francisco	Residential - Rental Apartment	15.0% - 26.0%
Chen, Hong, Anthony Rufolo, and Kenneth Dueker (1998)	Washington, D.C.	Residential - Single Family	10.50%
Diaz., et al. (1997)	San Francisco	Residential	13.0%
Gruen, A. (1997)	Chicago	Residential - Single Family	20.0%
Cervero., (1996)	San Francisco	Residential	15.0%
Benjamin, John D., and G. Stacy Sirmin (1996)	Washington, D.C.	Residential - Rental Apartment	7.50%
Landis, J. et al. (1995)	Sacramento	Residential - Single Family	6.2%

Property Value Appreciation Matrix

Author	City	Use	Price Premium
Landis, J. et al. (1995)	Santa Clara	Residential - Single Family	-10.8%
Landis, J. et al. (1995)	San Francisco	Retail	0.0%
Armstrong, Robert J. (1994)	Boston	Residential - Single Family	6.70%
Al-Mosaind, M, et al. (1993)	Portland	Residential - Single Family	10.6%
Cevero, R. et al. (1993)	Washington, D.C.	Office	12.3% - 19.6%
Cevero, R. et al. (1993)	Atlanta	Office	11.0% - 15.1%
Bernick, M et al. (1991)	San Francisco	Residential - Rental Apartment	5.0%

Source: Aggregated Research performed by NBLC

EXECUTIVE SUMMARY

Metropolitan Toronto has reached a stage where the need for capital to construct infrastructure exceeds its ability to finance such expenditures in the traditional way. This study examines alternative funding sources for such infrastructure improvements with the Sheppard Subway being used as the basis for developing the concepts and as the basis for the analysis.

NON-TRADITIONAL REVENUE SOURCES WERE EXAMINED

The need for new sources of revenue was identified in a report by the Chief Administrative Officer on February 25, 1991. That report projected that an average of \$125 million per annum is required over the next ten years from new sources of revenue. Subsequent analysis has indicated this annual shortfall could increase to \$150 million.

This report examines a number of new tax revenue sources but emphasis is placed on the concept of "Value Charges", as a major municipal financing instrument.

The analysis which is the basis for this report lead to the conclusion that three taxing options should be considered, separately and together, as an alternative to increasing property taxes.

1. Value Charges which are based on taxing a portion of the increase in

real estate value attributable to infrastructure creation. These charges fall into two groups:

- (a) Charges that apply to the areas adjacent to the proposed Sheppard Subway, and
- (b) Charges that apply to the areas adjacent to the existing transit lines.

2. An Auto Licensing Charge which is a charge based on the benefit enjoyed by road users in Metro when traffic is diverted from the roads onto the transit system.
3. Development Charges which apply Metro wide to new development and which are designed to finance the required general upgrading of infrastructure that is required as Metro continues to develop.

It is recognized that all taxes are unpopular, however, these options are put forward as an alternative to property tax increases because it is felt that taxes which more closely link the costs and benefits may be more acceptable.



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Your Worship
Mayor Rob Ford
City Hall
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JANUARY 23, 2012

Dear Mayor Ford,

You directed that TTI (formerly TTCI) be revived for the specific purpose of preparing a best case analysis for a potential P3 procurement of the Sheppard Subway extension. I am pleased to submit our interim report — *Public Transit: Back on Track*.

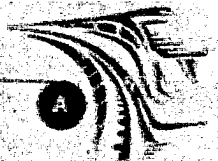
In this initial phase, we were mandated to examine the feasibility of the Sheppard Subway extension and more generally, to examine the feasibility of a future integrated transit network utilizing state-of-the-art [heavy rail] technology wherever possible for Toronto and the Greater Toronto Area (GTA).

While contemporary families are diverse in socio-economic terms, we are all confronted by a common problem — congestion on our roads and the lack of an integrated, fast, reliable and safe transit network. This transit deficit has the most profound impact on our underserved [in some cases, unserved] priority neighbourhoods in which the residents are totally dependent on public transit — “transit-captives” would be a good descriptor! Many reside in social housing without access to an automobile or are members of the cohort known as the “working poor” with limited access to a car.

This phenomenon has plagued us, been discussed and examined countless times by countless recognized authorities *ad nauseum*. The frequently repeated phrase “integrated transit network” is in danger of becoming nothing more than a cliché if substantive and sustained action is not taken soon.

The growing transit deficit has, not unexpectedly, evoked anger, frustration and cynicism from residents as to the sincerity of our political leaders. Many could be forgiven for thinking that politicians are really only interested in their near-term electoral prospects and their legacies when they see them grasp at quick fixes which are often second-class rather than first-class plans.

Public Transit: Back on Track reflects discussions [both formal and informal] that took place over the last several months with planners, engineers, lawyers, financiers and experienced, open-minded transit operators. The historical development and socio-economic context of subways was also reviewed. The focus was kept on the impact of our transit deficit on contemporary families and employers. In other words, we reviewed past decisions, planning documents, and technical specifications and impact analysis for the Sheppard Subway before arriving at conclusions and recommendations. The health and well-being of the residents of Toronto and the GTA was/is paramount in our consideration of this pressing issue.



ANSWER TO INQUIRY



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May 16, 2011

Ms. Ulli Watkiss
City Clerk
City of Toronto
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Toronto, ON M5H 2N2

Dear Ms. Watkiss:

The following is a response to the Administrative Inquiry from Councillor Janet Davis dated May 4, 2011 entitled "Administrative Inquiry Regarding the TTIL and City Accountability."

- Q1. Has the TTIL approved financial control, procurement and governance by-laws and policies? Will Council approve them, consistent with Council-adopted recommendation EX4.6 2.a.ii?
- A1. TTIL is a corporation created in and around 1981 pursuant to the *Canada Business Corporations Act*. The *City of Toronto Act* expressly permits the TTC or its subsidiary (TTIL) to provide consulting services within or outside of the City. TTIL has created separate Corporate By-laws addressing general corporate matters. In addition, at the April 6, 2011 Commission meeting, the Commission, as the shareholder of TTIL, adopted a motion requesting that TTIL develop specific policies relating to procurement, financial authorization and governance of meetings.
- Q2. Will the TTIL operate in an open and transparent manner, with notices, minutes of meetings and opportunities for deputations? If not, can the City require it to do so?
- A2. As noted above, at the Commission meeting of April 6, 2011, the Commission approved a motion that TTIL develop a policy with respect to the governance of its meetings.
- Q3. Was the process used to appoint Gordon Chong as Chair, CEO, and Secretary-Treasurer consistent with the City's Public Appointments policy, and what is the nature of the employment relationship? Is he an employee or retained by contract? How much is he getting paid?
- A3. Dr. Gordon Chong has been retained by TTIL as an employee on a short-term fixed contract. TTIL is a subsidiary corporation of the TTC and is not expressly governed by the City's Public Appointments Policy.
- Q4. At its April meeting, the TTC adopted a motion that TTIL invoices be processed "subject to the City of Toronto confirming an appropriate funding mechanism to cover costs incurred by TTIL." What Council

authority is required in order to establish an "appropriate funding mechanism"? Does this mean that the City needs to identify funds to cover the costs of the TTIL, and if so when will Council amend the 2010 Budget to accommodate those costs?

- A4. The City of Toronto is not funding any costs incurred by TTIL. The City of Toronto will be funding the cost of a preliminary capital financing study from existing 2011 budget approved sources.
- Q5. What was the intended purpose of the residual funds in the TTCL reserves? Was the purpose of those reserves established by Council? Are the current and proposed expenditures consistent with those purposes?
- A5. The residual funds were excess to the needs of the Corporation at the time that the Corporation was actively pursuing business. The residual funds remained with the Corporation during the period that Corporation was not actively seeking new business. The residual funds were retained as working capital should the Corporation become active again.
- Q6. Does the City have any involvement in the work being undertaken by the TTIL, or oversight for the consultants contracted to prepare the "business case" for the proposed P3 subway?
- A6. City staff are working with TTIL in the procurement and oversight of consultants to be contracted for the preparation of a preliminary capital financing assessment of the proposed subway initiative.
- Q7. What authority does the TTC have from the City to negotiate agreements or to make applications to other governments or funding sources?
- A7. The TTC is a separate legal entity that has been a party to numerous funding agreements with the Federal government. TTIL is a subsidiary of the TTC. On March 8, 2011, the Commission approved a proxy permitting its shares to be voted at a TTIL shareholder meeting. Pursuant to the TTC's approved proxy, TTIL was requested by the TTC to provide assistance and advice with respect to the City of Toronto Subway Project and to submit an application for approval to PPP Canada for potential funding. Any federal funding agreement in which the TTC is to be signatory will be subject to approval of the Commission prior to any funding being received and prior to the TTC signing any funding agreement.
- Q8. Will City Council approve the proposal for funding being submitted to the federal P3 Fund, as has been done in the past with RINC, Infrastructure and Housing funding proposals?
- A8. It is anticipated that any federal P3 funding agreement will be conditional on Council approval.
- Q9. Are the City of Toronto and the TTC signatories to the Memorandum for the new Transportation Plan? When is it coming to Council for consideration?
- A9. The TTC is not a signatory to the Memorandum. The Memorandum is a non-binding framework for the negotiation of agreements to be approved by Council. Therefore the Mayor signed the Memorandum as indicating his desire that the parties give consideration to the new Transportation Plan. Any agreements to implement the Memorandum will require Council approval.
- Q10. What role has the City's intergovernmental table played in discussions with other governments or funders for proposed transit infrastructure in Toronto? Who are the City representatives that are participating in these discussions?

- A10. Discussions between the Mayor's Office, senior city and TTC staff, the Premier's Office, provincial and Metrolinx staff concerning a re-alignment of transit infrastructure priorities have been on-going since the beginning of the year.
- Q11. What liability does the City bear in relation to the provisions contained in the Memorandum, such as the costs associated with the transit projects to date, cancellation penalties, and other associated costs?
- A11. The Memorandum does not create any legally binding provisions or obligations. Any liabilities associated with the agreements necessary to implement the provisions contained in the Memorandum will be set out in the report or reports seeking Council approval.

Yours truly,

Joseph P. Pennachetti
City Manager