TORONTO

Andy Byford
Chief Executive Officer

Vincent Rodo
Chief Financial and Administration Officer

Toronto Transit Commission
1900 Yonge Street
Toronto, Ontario
M4S 1Z2

Tel: ( 416) 393-3914
Fax: ( 416) 393-2068
vincent.rodo@ttc.ca
www.ttc.ca

# 2013 CAPITAL BUDGET BRIEFING NOTE
# Rail Vehicle Financing Sources

## Issue/Background:

- The Budget Committee on December 6, 2012 requested that the CEO of the Toronto Transit Commission (TTC) provide a briefing note showing the comparison between Toronto and other cities of the percentage of the cost of light rail vehicles paid for by debt;
- The funding strategies for the procurement of long life rail vehicles vary significantly between properties within Canada and are further impacted by other factors in the United States and internationally. Contracts and the underlying financing of such large scale rail vehicle projects are dependent upon the structure of the transit agency, the financial situation and funding strategy of the municipality including the involvement of political influences on the decision making, and restrictions resulting from eligibility and contracting requirements imposed by various government level funding programs;
- The funding arrangements for TTC rail vehicles is impacted by the application of Federal and Provincial gas tax funds and the eligibility requirements set out in funding agreements while making every effort to streamline the overall administration;
- Funding from other programs has also been available in past years and the general principle of funding application has been to maximize the utilization of all available non-City funding first and to minimize the remaining funding required through City debt.

## Key Points:

- An 80/20 split between Federal and local funds is common based on experience for US rail vehicle procurements, with local funds primarily derived from bonds;
- In the US market, local funds can be a mix of state, city, district or agency including any or all of the above;
- The governance structure of the agency, as well as whether it is City or state funded, are factors in determining how the financing of rail vehicles is packaged;
- Certain situations also drive decisions due to local policy or legislation. For example, US Federal funding requirements do not allow for local preference for manufacture. As a result, some decision makers direct local funds only be used to allow a preference for local manufacturing and the resultant economic benefits;

- This results in wide variation in financing strategies for large vehicle procurements, such that it is difficult to provide a definitive standard or best practice approach
    - Boston's (MBTA) last LRV procurement (1995) for $220M was restricted to state funds only for this reason;
    - New York City (NYCY) also used local funds only to avoid restrictions imposed by Federal funding;
    - Montreal (STM) used a mix of federal and provincial funds for their metro car procurement;
    - Calgary utilized federal and provincial funding for their light rail vehicles with no municipal debt portion;
    - Vancouver utilized federal and provincial funding for light rail cars with about 47% debt portion through Translink, and for their Commuter Rail cars they utilized similar government funding with about one-third debt portion through Translink;
    - For the recent procurements of Toronto Rocket cars (360 cars at a cost of $944.778 million) and LRVs (204 cars at a cost of $1.186 billion), the principle of first utilizing all available non-city funding has been applied as shown in the following table:

| | ***Toronto Rockets (234 H4 & H5; 126 H6)*** | | | | ***204 LRVs*** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Life To Date** | | **Estimated Final Cost** | | **Life To Date** | | **Estimated Final Cost** | |
| | ***$ millions*** | ***%*** | ***$ millions*** | ***%*** | ***$ millions*** | ***%*** | ***$ millions*** | ***%*** |
| Provincial Transfer Payment Agreement (dedicated) | | 0.0% | | 0.0% | 87,492 | 33.1% | 385,786 | 32.5% |
| Federal (Gas Tax) | 319,689 | 51.9% | 503,514 | 53.3% | 108,900 | 41.2% | 307,890 | 25.9% |
| Provincial (Gas Tax) | 244,669 | 39.8% | 307,023 | 32.5% | 16,434 | 6.2% | 16,434 | 1.4% |
| Development Charges | 6,332 | 1.0% | 37,328 | 4.0% | 8,704 | 3.3% | 35,388 | 3.0% |
| Asset Monetization | | 0.0% | | 0.0% | 0 | 0.0% | 297,128 | 25.0% |
| City Debt | 44,711 | 7.3% | 96,913 | 10.3% | 43,105 | 16.3% | 143,877 | 12.1% |
| **Total** | **615,401** | **100.0%** | **944,778** | **100.0%** | **264,635** | **100.0%** | **1,186,503** | **100.0%** |

- 
    - As shown in the table, this funding strategy will result in overall City Debt of approximately 10.3% on Toronto Rocket cars and 12.1% on the LRVs;
    - It is not until post 2011 (LTD) that the Asset Monetization is applied to the LRV project thus resulting in a decreased application of debt financing.

**Prepared by:** Dave Presley, Director – Capital Projects; Finance Department, TTC,david.presley@ttc.ca

**Date:** December 10, 2012