



STAFF REPORT ACTION REQUIRED

Federal Gas Tax Fund Renewal

Date:	January 16, 2014
To:	Executive Committee
From:	City Manager
Wards:	All
Reference Number:	

SUMMARY

This report summarizes the terms and conditions of the new, permanent federal Gas Tax Fund (GTF) program and seeks authority to enter into an Administrative Agreement (the "New Agreement") among the Government of Canada, the Province of Ontario, the City of Toronto and the Association of Municipalities of Ontario (AMO) for the transfer of federal revenues from 2014 to 2023. The New Agreement will provide for over \$1.5 billion over ten years in federal revenues to the City for infrastructure investments.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council authorize the City Manager, in consultation with the Deputy City Manager and Chief Financial Officer, and the City Solicitor, to negotiate on behalf of the City, an Administrative Agreement on the federal Gas Tax Fund program (the "New Agreement") with the Government of Canada, the Province of Ontario and the Association of Municipalities of Ontario ("AMO"), in a form satisfactory to the City Solicitor, on terms and conditions substantially in accordance with those set out in Appendix A to this report, and authorize execution of the New Agreement by the Mayor;
2. City Council direct the City Manager and the Deputy City Manager and Chief Financial Officer, in consultation with appropriate City divisions and agencies, and in accordance with the terms of the proposed New Agreement, to:
 - a. establish a list of priority projects eligible to be funded under the New Agreement; and

- b. report annually to City Council through the capital budget process on the planned eligible projects to be funded under the New Agreement;
3. City Council direct that the appropriate City staff be authorized and directed to take all necessary actions in respect of the administration of the New Agreement; and
4. City Council direct that the Mayor be authorized to execute any amendment to the New Agreement as may be required, in a form satisfactory to the City Solicitor, provided that the amendment does not substantially alter the terms and conditions outlined in this report.

Financial Impact

The New Agreement will provide federal funding of \$791,445,000 to the City of Toronto between 2014 and 2018. Allocations for 2019-2023 have not been determined and will be based on 2016 census data.

Based on the existing federal GTF agreement, estimated annual funding of \$154,367,000 is included in the 2014-2023 Recommended Capital Plan for the Toronto Transit Commission (TTC). As reflected in the table below and based on the updated federal GTF program allocations, the City can now expect an increase in funding over the initial 5-year period of the New Agreement in the amount of \$19,610,000 as compared to anticipated funding included in the Capital Plan.

The table in Appendix B lists TTC projects that are planned to be funded by the federal GTF as reflected in the 2014-2023 Recommended Capital Plan and compares funding against the allocation under the New Agreement for the 2014 to 2018 planning period. These allocations are subject to change.

While funding will increase by \$19,610,000 over the 5-year period, there is a funding shortfall of \$2,166,000 in each of 2014 and 2015. The 2014 funding shortfall of \$2,166,000 will be addressed through the reallocation of existing funding sources following the final review of 2013 year-end capital expenditures. This will be achieved through the allocation of increased Provincial Gas Tax funding of \$1,040,000 into the 2014 Budget from funds received in 2013, which were not anticipated and as such did not form part of 2013 budgeted funding sources for the TTC. The remaining shortfall of \$1,126,000 will be addressed by applying 2013 GTF funding not utilized in 2013 as a result of under-spending, for projects that do not require funds to be carried forward from 2013 into 2014.

The 2015 funding shortfall will be addressed during the 2015 capital budget process through either a reallocation of funding and/or cash flow deferrals into 2016.

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

DECISION HISTORY

The Canada-Ontario-AMO-City of Toronto Agreement for the Transfer of Federal Gas Tax Revenues under the New Deal for Cities and Communities (the "Current Agreement") was signed by the Mayor on June 17, 2005 and ratified by City Council on July 19, 2005.

<http://www.toronto.ca/legdocs/2005/agendas/council/cc050719/pof7rpt/cl013.pdf>.

In January 27 and 28, 2009, City Council ratified the Current Agreement to extend the Canada-Ontario-AMO-Toronto Agreement for the Transfer of Federal Gas Tax Revenues under the New Deal for Cities and Communities to 2014.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX28.3>

ISSUE BACKGROUND

In 2004, the Government of Canada announced the "New Deal for Cities and Communities." Among the provisions was the transfer of federal gas tax revenues for investment in environmentally sustainable municipal infrastructure.

In 2005, the City of Toronto entered into the Canada-Ontario-AMO-City of Toronto Agreement for the Transfer of Federal Gas Tax Revenues (the "Current Agreement"), providing for the transfer of \$407.3 million to the City of Toronto for public transit over five years from 2005 to 2010. At the time the agreement was executed, Ontario decided that it did not want to play a role in the allocation of federal gas tax funding to all 444 municipalities in the province. As a result, the Ontario gas tax model is unique in Canada, as the City is a direct signatory to the agreement, administering its allocation directly, while AMO administers funding for its 443 member municipalities and the Province administers for unincorporated areas in northern Ontario.

In the 2007 Federal Budget, the Government of Canada committed to extending the transfer of the federal gas tax to municipalities to 2014. The Current Agreement expires on March 31, 2014.

To date, federal GTF contributions to the City of Toronto from 2005-2013 have resulted in over \$1 billion in federal infrastructure funding for TTC projects. As examples, this federal investment has resulted in close to \$1 billion for new streetcars, Rocket Subway cars and diesel buses.

In 2011, Canada introduced Section 161 of the *Keeping Canada's Economy and Jobs Growing Act*, S.C. 2011, c. 24, under which the Government of Canada agreed to make up to \$2 billion per year available for allocation by the Government of Canada for the purpose of municipal, regional and First Nations infrastructure starting in 2014-2015.

In 2012, Canada introduced the *Economic Action Plan 2013*, through which the renewed GTF would be indexed at two percent per year, with increases to be applied to the overall program at \$100 million increments. The renewed \$21.8 billion GTF is a major

component of the New Building Canada Plan, which will provide \$53 billion in infrastructure funding between 2014 and 2023.

Additional information regarding the Toronto's GTF program may be found at <http://www.toronto.ca/gastaxworks>.

COMMENTS

Negotiation process

The Government of Canada, through the department of Infrastructure Canada, began discussions with Ontario and other provinces and territories on new GTF agreements in June 2013.

Canada has conducted a collaborative negotiation process. Ontario's Ministry of Municipal Affairs and Housing, Ministry of Infrastructure, Ministry of Transportation, AMO and the City of Toronto have reached consensus on the key terms and conditions outlined below.

The Province of Ontario agreed to maintain the current administrative model and, as such, Canada, Ontario, AMO, and Toronto will be signatories of the New Agreement.

Terms and Conditions

The following are the key terms and conditions of the New Agreement, which will be in place from 2014-2023.

Allocations: Allocations are on a per capita basis between Ontario, AMO and Toronto reflecting 2011 census data. In the New Agreement, GTF allocations will be indexed at 2% per year, with increases to be applied to the overall program at \$100 million increments. The City's allocations in 2014-2018 are:

- \$152M in 2014 and 2015
- \$159.8M in 2016 and 2017
- \$167.4M in 2018.

Toronto's allocations in 2014 and 2015 are lower than in 2013 due to slower population growth as compared to other municipalities in Ontario. Allocations from 2019-2024 will be updated to reflect 2016 census data.

Eligible Project Categories: In setting out the terms of the New Agreement, Canada decided to broaden the eligible project categories available to municipalities to include those listed in Appendix A . City staff are of the view that the expanded project categories will offer the City more flexibility in deciding where to apply GTF funding. Note that since 2005, the City has directed GTF investments to TTC capital projects.

Communications: City staff agree with the enhanced communications requirements in the New Agreement. Under the new provisions, the City must: provide advance notification of where it plans to allot GTF funds; prepare a communications approach to be approved by Canada; and have signage on GTF-funded projects. GTF funds may be used to offset joint federal communication activities and federal signage.

Asset Management Plans: Under the New Agreement, all municipalities, including Toronto, must have asset management plans that conform to the Province's *Building Together: Guide for Municipal Asset Management Plans*. City staff note that the City already meets the Province's asset management guidelines through its ten-year capital planning budget and process.

Incrementality: The New Agreement requires that any GTF funding to the City is not intended to replace or displace existing sources of capital funding. For reporting purposes, a 2000-2004 base year has been negotiated by all parties as the appropriate baseline for existing sources of capital funding. As such, the New Agreement requires that the City demonstrate that municipal capital expenditures, other than development charges and provincial contributions, do not fall below the City's capital expenditures in the 2000-2004 base year. The base year will be locked in for the duration of the agreement. Given the increase in capital expenditures since 2000-2004, City staff are of the view that the City will meet this requirement in the New Agreement. The City will report on incrementality in its 2018 and 2023 outcomes reports.

Annual Reporting Requirements: A significant improvement for the City's administration of the GTF program is the streamlining of annual reporting requirements in the New Agreement. Under the Current Agreement, the City was required to conduct an annual, external audit on GTF expenditures, which cost the City between \$18,000 and \$22,000 and which required substantial staff time. Under the New Agreement, the Deputy City Manager and Chief Financial Officer will attest to the accuracy and compliance of GTF expenditures, which models the approach taken in other bilateral funding arrangements.

Outcomes Reporting: Each party to the New Agreement will be obligated to provide to Canada, and to make publicly available, outcomes reports in 2018 and 2023. The requirements are consistent with the Existing Agreement. The report will provide detailed information on how investments are achieving the following program benefits:

- a) Beneficial impacts on communities;
- b) Enhanced impact of GTF as a predictable source of funding including incrementality; and
- c) Progress made on improving municipal planning and asset management. This includes demonstrating how asset management plans are being used to guide infrastructure planning and investment decisions, and how GTF funding is being used to address priority projects.

Oversight Committee: The Oversight Committee will now include Ontario as a full member. Canada will be the permanent Chair of the Oversight Committee, and AMO,

Ontario and the City will alternate as Co-Chairs. As under the Current Agreement, each Co-Chair will have two representatives. The Oversight Committee will have an enhanced workplan in 2014, including the establishment of performance methodology for asset management. City staff will commit the necessary resources to participate on the Oversight Committee.

Implementation

The City Manager's Office, together with the Deputy City Manager and Chief Financial Officer, will continue to oversee the implementation of the New Agreement. One staff member from each of the two offices will serve on the Oversight Committee.

The City Manager's Office will ensure that the communications requirements are met, and will coordinate the preparation of the 2018 and 2023 Outcomes Reports. The City Manager's Office will also manage any issues that may arise in consultation with Strategic Communications, TTC, Financial Planning, the Treasurer's Office and other City stakeholders, and liaise with Canada, AMO and the Province.

In consultation with appropriate City divisions and agencies, Financial Planning will oversee the investment of GTF funds, identify priority projects to receive GTF funds, will prepare annual capital budget notes, and will ensure that the asset management and incrementality requirements of the agreement are met.

City staff will report to City Council annually on GTF expenditures as part of the capital budget process.

CONTACT

Stephen Conforti
Financial Planning
416-397-0958, sconfor@toronto.ca

Peter Notaro
Strategic and Corporate Policy
416-392-8066, pnotaro@toronto.ca

SIGNATURE

Joseph P. Pennachetti, City Manager

ATTACHMENTS

- A. Terms and Conditions of the New Agreement
- B. Planned Federal GTF Funding for TTC, 2014-2023 Recommended Capital Plan

Appendix A: Terms and Conditions of the New Agreement

Issue	Requirements under the Agreement
Allocations	<ul style="list-style-type: none"> • Allocations are on a per capita basis between Ontario, AMO and Toronto reflecting 2011 census data • In the New Agreement, GTF allocations will be indexed at 2% per year, with increases to be applied to the overall program at \$100 million increments. • Toronto's allocations in 2014-2018 are: <ul style="list-style-type: none"> – \$152M in 2014 and 2015 – \$159.8M in 2016 and 2017 – \$167.4M in 2018. • Toronto's allocations in 2014 and 2015 are lower than in 2013 due to slower population growth as compared to other municipalities in Ontario. • Allocations from 2019-2024 will be updated to reflect 2016 census data.
Eligible project categories	<p>Gas tax funding may be used for any of the following eligible project categories:</p> <ol style="list-style-type: none"> 1. Local roads and bridges – roads, bridges, tunnels and active transportation infrastructure (active transportation refers to investments that support active methods of travel. This can include: cycling lanes and paths, sidewalks, hiking and walking trails). 2. Highways: highway infrastructure. 3. Short-sea shipping – infrastructure related to the movement of cargo and passengers around the coast and on inland waterways, without directly crossing an ocean. 4. Short-line rail – railway related infrastructure for carriage of passengers or freight. 5. Regional and local airports – airport-related infrastructure (excludes the National Airport System). 6. Broadband connectivity – infrastructure that provides internet access to residents, businesses, and/or institutions in Canadian communities. 7. Public transit – infrastructure that supports a shared passenger transport system which is available for public use. 8. Drinking water – infrastructure that supports drinking water conservation, collection, treatment and distribution systems. 9. Wastewater – infrastructure that supports wastewater and storm water collection, treatment and management systems. 10. Solid waste – infrastructure that supports solid waste management systems including the collection, diversion and disposal of recyclables, compostable materials and garbage.

Issue	Requirements under the Agreement
	<ol style="list-style-type: none"> 11. Community energy systems – infrastructure that generates or increases the efficient usage of energy. 12. Brownfield redevelopment - remediation or decontamination and redevelopment of a brownfield site within municipal boundaries, where the redevelopment includes: <ol style="list-style-type: none"> a. the construction of public infrastructure as identified in the context of any other category under the GTF, and/or; b. the construction of municipal use public parks and publicly-owned social housing. 13. Sport infrastructure – amateur sport infrastructure (excludes facilities, including arenas, which would be used as the home of professional sports teams or major junior hockey teams (e.g. Junior A)). 14. Recreational infrastructure - recreational facilities or networks. 15. Cultural infrastructure – infrastructure that supports arts, humanities, and heritage. 16. Tourism infrastructure – infrastructure that attract travelers for recreation, leisure, business or other purposes. 17. Disaster mitigation – infrastructure that reduces or eliminates long-term impacts and risks associated with natural disasters. 18. Capacity building for asset management.
Communications	<ul style="list-style-type: none"> • Each year, prior to the start of the construction season, the City will need to provide advance notification of where it plans to allot GTF funds. • The City must prepare a communications approach to be approved by Canada. • The City must include signage on GTF-funded projects. • GTF funds may be used to offset joint federal communication activities and federal signage.
Asset management plans	<ul style="list-style-type: none"> • All municipalities, including Toronto, must have asset management plans that conform to the Province's <i>Building Together: Guide for Municipal Asset Management Plans</i>. • The City already meets the Province's asset management guidelines through its ten-year capital planning budget and process. • The Oversight Committee will jointly establish performance methodology for asset management. • The City will need to report on asset management planning as part of its 2018 and 2023 Outcomes Reports.
Incrementality	<ul style="list-style-type: none"> • The New Agreement requires that any GTF funding to the City is not intended to replace or displace existing sources of capital funding.

Issue	Requirements under the Agreement
	<ul style="list-style-type: none"> • For reporting purposes, a 2000-2004 base year has been negotiated by all parties as the appropriate baseline for existing sources of capital funding. • The City must demonstrate that municipal capital expenditures, other than development charges and provincial contributions, do not fall below the City's capital expenditures in the 2000-2004 base year. • The 2000-2004 base year will be locked in for the duration of the agreement. • The City will report on incrementality in its 2018 and 2023 outcomes reports. •
Annual reporting requirements	<ul style="list-style-type: none"> • The City must report annually on GTF expenditures. • Annual reporting requirements have been streamlined. • The City's Chief Financial Officer may attest to the accuracy and compliance of GTF expenditures.
Outcomes reporting	<ul style="list-style-type: none"> • Outcomes reports must be provided to Infrastructure Canada in 2018 and 2023. • Outcomes reports must also be made publicly available. • The reports will provide detailed information on how investments are achieving the following program benefits: <ul style="list-style-type: none"> a) Beneficial impacts on communities; b) Enhanced impact of GTF as a predictable source of funding including incrementality; and c) Progress made on improving municipal planning and asset management. This includes demonstrating how asset management plans are being used to guide infrastructure planning and investment decisions, and how GTF funding is being used to address priority projects. • The Outcomes Report will present performance data and a narrative on how each program benefit is being met. For Toronto, performance measurement methodology for beneficial impacts and incrementality will be approved by Canada and Toronto. Performance methodology for asset management will be proposed to the Oversight Committee jointly by Ontario, AMO and Toronto.
Oversight Committee	<ul style="list-style-type: none"> • The Chair of the Oversight Committee is Canada. • Each Co-Chair will have two staff representatives. The City's representatives will be from the offices of the City Manager and the Deputy City Manager and Chief Financial Officer, who will each implement the New Agreement.

Appendix B: Planned Federal GTF Funding for TTC, 2014-2023 Recommended Capital Plan

Project Description	2014	2015	2016	2017	2018	2014-2018 Total	2019	2020	2021	2022	2023	2014-2023 Total
Subway Track						-		8,000	9,000	9,000	5,000	31,000
Surface Track						-			13,000	13,000	13,340	39,340
Traction Power						-			10,000	12,000		22,000
Power Distribution/Electric Systems						-		5,000	5,000	5,000		15,000
Signal Systems						-		3,000				3,000
Finishes						-		10,000	10,000	11,000	5,000	36,000
Equipment						-		21,000	20,000	16,000	5,000	62,000
On-Grade Paving Rehabilitation Program						-		10,000	9,386	10,683	5,000	35,069
Bridges & Tunnels						-	32,720	43,000	45,000	46,000	40,000	206,720
Fire Ventilation Upgrade						-			6,000	7,000		13,000
Replacement Wheel-Trans Vehicles					3,014	3,014	11,077	28,262			24,684	67,037
Subway Car Purchases	8,936	3,949	4,331	11,455		28,671						28,671
Streetcar Overhaul Program						-					2,014	2,014
Environmental Programs						-		4,000				4,000
Computer Equipment & Software						-		7,817				7,817
Other Buildings & Structures Projects		20,455	22,479	15,340	6,261	64,535						64,535
Purchase of Buses	84,715	21,322	21,695	32,554		160,286						160,286
Bus Overhaul	18,123				33,681	51,804	60,000	3,000	8,000		36,013	158,817
Purchase of Streetcars	27,142	56,645	46,888	50,241	43,611	224,527	22,192					246,719
YUS ATC Resignalling Project	5,105	16,277	33,479	38,644	50,224	143,729	28,378	11,288	18,981		43,000	245,376
Leslie Barns	10,346	7,311	10,000			27,657						27,657
Toronto Rocket / T1 Rail Yard Accommodation		28,408	12,828		17,576	58,812						58,812
McNicoll Bus Garage Facility			2,667	6,133		8,800						8,800
Total FGT funding in 2014-2023 Recommended Capital Plan	154,367	154,367	154,367	154,367	154,367	771,835	154,367	154,367	154,367	154,367	154,367	1,543,670
Allocations under new agreement	152,201	152,201	159,811	159,811	167,421	791,445	N/A	N/A	N/A	N/A	N/A	N/A
Variance	(2,166)	(2,166)	5,444	5,444	13,054	19,610	N/A	N/A	N/A	N/A	N/A	N/A

*N/A = Not available at this time as allocations from 2019-2023 will be updated to reflect 2016 census data

*The list of projects funded by Federal Gas Tax is subject to change