STAFF REPORT
ACTION REQUIRED

Metrolinx Investment Strategy Update

Date:	March 5, 2014
To:	Executive Committee
From:	City Manager and Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	

SUMMARY

As required under the *Metrolinx Act,* Metrolinx delivered an investment strategy to fund the regional transportation plan (The Big Move). Consultation with municipalities, stakeholders and the public were held, with specific focus on new revenue tools to fund the $34 billion Next Wave of projects. As directed by Executive Committee, City staff also conducted public consultations in early 2013 and developed a recommended City position on new revenue tools for Council's consideration and input to Metrolinx.

On May 7, 2013 City Council adopted *EX31.3 Metrolinx Transportation Growth Funding-Dedicated Revenues*, with amendments. City Council endorsed the need for dedicated revenues to be implemented by the Province to fund the Metrolinx Big Move plan. However, Council did not endorse any specific new revenue tool, and identified twelve revenue tools they would not support. Council's support was conditional on several principles, notably that 25 percent of new funds raised be allocated to local transportation priorities determined at the discretion of municipalities. Council also requested the City Manager to report back on principles for allocating new funds for local transportation expansion, changes to the Metrolinx governance structure, and opportunities for utilizing new provincial revenues to fund 50 percent of existing transit operations.

On May 27, 2013 the Metrolinx Board approved an investment strategy, "*Investing in our Region, Investing in our Future*" ("IS Report"). The IS Report proposes 24 recommendations for investing in transit and transportation infrastructure in the Greater Toronto and Hamilton Area (GTHA). In September 2013, the Premier of Ontario appointed the Transit Investment Strategy Advisory Panel ("The Panel") to review the recommendations put forward by Metrolinx and provide advice to the Province. Chaired by Anne Golden, the Panel delivered three discussion papers and a final report in December 2013 entitled, "*Making the Move: Choices and Consequences*".

The purpose of this report is to provide an overview of the recommendations put forward in the IS Report and the Panel Report, prior to the Province announcing their position in spring 2014. Specifically, the report provides a response to Council's request for further advice on the matters outlined above. The report recommends Council request the Province to undertake a more fulsome review of the Metrolinx Board governance structure than has been conducted to date. Consideration should be given to the inclusion of political municipal and citizen representatives, in addition to the equitable distribution of membership on the Board based on population. The report also recommends Council request the Province to reconsider the Metrolinx recommendation that the 25 percent of funds dedicated to local transportation capital projects be apportioned according to specific categories defined by Metrolinx. Flexibility for municipalities to determine local priorities is preferred. Finally, the report recommends Council request the Province to contribute 50 percent of net municipal transit operating expenditures on all existing operations and future transit lines.

RECOMMENDATIONS

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

1. City Council request the Province to undertake a comprehensive review of the Metrolinx Board governance structure that includes:

    a) Changes to the board composition of Metrolinx, including political municipal and citizen representation, and equitable distribution of membership on the Board based on population.

    b) Consultation with Greater Toronto and Hamilton Area (GTHA) municipalities and key stakeholders in the process; and

    c) Enhancing the transparency of the Metrolinx Board decision-making processes to the public.

2. City Council request the Province distribute the 25 percent allocation of new revenues for local municipal transportation priorities by emulating existing provincial gas tax funding agreements, with the allocation of funds among municipalities based on municipal shares of transit ridership and population.

3. City Council request the Province to reconsider the Metrolinx Investment Strategy recommendation that identifies specific capital expenditure categories (15% local transit-5% highways-5% other) for the 25% of local transportation funding, and that the Province instead apply the following principles to this funding:

    a) That municipalities have the discretion to determine how funds received are allocated to local transportation priorities; and

b) Eligible transportation capital costs include municipal transportation expansion projects, service improvement, and major capital replacement and rehabilitation projects.

4. City Council request the Province to consider amendments to the *Development Charges Act* that would address changes previously endorsed by Council consistent with amendments for the Toronto-York Spadina Subway Extension project.

5. City Council request the Province restore funding of 50 percent of all net municipal transit operating expenditures on all existing operations and future transit lines, including Metrolinx Big Move transit lines.

Financial Impact

Metrolinx had identified a target for new revenues of $2 billion per year. The Panel Report identified potential revenue options for provincial consideration, estimating resultant revenues of approximately $1.6 billion (option A) to $1.8 billion (option B). Accordingly, the value of a 25 percent municipal share could range from $400 - $440 million per year to GTHA municipalities. If shared on the same basis as the current Provincial Gas Tax formula, the City could receive funding in the range of $280 to $305 million.

This report builds on previous Council resolutions, recommending a request for a Provincial contribution of 50 percent of all net municipal transit operating expenditures on existing operations and future transit lines. The City's 2014 operating budget includes a TTC operating subsidy of $537.5 million (including WheelTrans), so a 50 percent provincial subsidy would be worth $268.8 million. In addition, the City's 2014 net debt charges associated with TTC capital is estimated at $233.3 million, for a total operating budget impact of $770.8 million. The return of a 50 percent transit operating subsidy could help resolve the impasse regarding how the incremental net operating cost burden of new Big Move projects is to be calculated and potentially shared with municipalities. Additionally, it would help all municipalities divert funds to unmet capital needs, such as the $2.5 billion unfunded TTC capital priorities.

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

DECISION HISTORY

In March 2012, City Council considered *CC20.1 Report from the Sheppard Transit Expert Advisory Panel Regarding Transit on Sheppard Avenue East*. Council directed the City Manager to prepare a long term rapid transit funding strategy outlining revenue tools that could be implemented to generate sustainable dedicated funding for rapid transit expansion.

In October 2012, Executive Committee considered the report *EX23.1 Long Term Transportation Plan and Funding (Investment) Strategy* and requested the City Manager to undertake public consultation and report back with a recommended City position on new revenue tools dedicated to transportation expansion. The report also outlined a process for developing a long term transportation plan for Toronto including the development of a decision making framework to identify future transit priorities as part of the Official Plan review process (also known as Feeling Congested).

The results of public consultation and staff analysis were presented to Council in May 2013 in the report *EX31.3 Metrolinx Transportation Growth Funding-Dedicated Revenues*. The report recommended revenue tools for Council's endorsement and input to the Metrolinx Investment Strategy. City Council supported regional transportation expansion in the GTHA, and dedicating revenues to support the Big Move Plan. Council did not endorse any specific revenue tool and identified twelve revenue tools that it would not support. Council also requested Metrolinx to consider a number of principles for the implementation of new revenue tools, including the allocation of 25 percent of the new revenues to fund local municipal transportation priorities.

In addition, Council directed staff to report back to Council regarding the following key issues that are addressed in this report:

- the opportunity to utilize the new Metrolinx revenue tools to finance 50 percent of the existing transit operation for the GTHA municipalities (*EX31.3 Directive #4)*
- principles for the allocation of the 25 percent share of new revenues for local municipal transportation expansion priorities *(EX31.3 Directive #18)*
- appropriate changes to the Metrolinx governance model *(EX31.3 Directive #18)*

At the January 29 and 30, 2014 City Council meeting on *EX37.1 2014 Capital and Operating Budgets*, City Council requested the Chief Executive Officer, Toronto Transit Commission and the City Manager to continue discussions on partnering with the Province for permanent sustainable funding in order to return the TTC's provincial funding for TTC operations to the 50 percent level of the mid-1990s.

ISSUE BACKGROUND

As required by the *Metrolinx Act*, Metrolinx developed an investment strategy for the regional transportation plan (The Big Move). The agency reported to the Minister of Transportation with a proposal for new revenue tools to fund the $34 billion next wave of capital projects under The Big Move Plan. Next Wave projects identified to date include the Relief Line subway and Yonge-North subway extension.

The City provided input to the Metrolinx Investment Strategy. Per Executive Committee direction, in early 2013 the City conducted a public consultation on new revenue tools to be raised by Metrolinx, dedicated to transportation expansion. In May 2013, the City Manager and Deputy City Manager & Chief Financial Officer reported on the results of the public consultation process and staff analysis, recommending new revenue tools and implementation principles that should be considered by Council as input to the Metrolinx Investment Strategy. The report recommended a mix of revenue tools that would enable Metrolinx to raise the necessary $2 billion per year to build the next wave of projects under The Big Move. The report also recommended that in order to support new revenue tools, 25 percent of the funds raised should be dedicated to complementary local transportation expansion priorities determined by municipalities.

City Council endorsed the need for dedicated revenues for transit expansion and supported The Big Move Plan, however specific revenue tools were not supported. City Council also requested further information from staff on appropriate changes to the Metrolinx board governance structure, opportunities for addressing transit operating costs, in addition to recommending principles for the allocation of the 25 percent of Investment Strategy funds towards local transportation priorities.

Metrolinx delivered an investment strategy to the Province on May 27, 2013 outlining 24 recommendations to support funding the next wave of capital projects. In addition to proposing dedicated new revenue sources for transit and transportation, the Investment Strategy also included recommendations pertaining to integrating transportation and land use planning, optimizing system and network efficiency, and a range of recommendations on accountability and governance matters.

Following receipt of the Metrolinx Investment Strategy, the Premier appointed the Transit Investment Strategy Advisory Panel ("the Panel") in September 2013. Chaired by Anne Golden, the Panel was given a mandate to review the Metrolinx Investment Strategy, engage with the public, and recommend how transportation in the GTHA should be funded. A final report was submitted to the Premier of Ontario and Minister of Transportation on December 12, 2013, called *Making the Move: Choices and Consequences*. The report outlines twenty recommendations with respect to specific funding tools, land use planning, board governance, and mechanisms to improve accountability and transparency.

The Province of Ontario is currently reviewing the Metrolinx Investment Strategy and the recommendations from the Panel Report. The Minister of Transportation has indicated the Province will complete their review and provide their plan for transit investment in spring 2014[1].

The report highlights new information for Council and addresses outstanding requests from Council for further advice.

[1]Ministry of Transportation, December 12, 2013, "Minister's Statement on Final Transit Investment Strategy Report" http://news.ontario.ca/mto/en/2013/12/ministers-statement-on-final-transit-investment-strategy-report.html

COMMENTS

Toronto City Council provided input to Metrolinx in May 2013 on new revenue tools for transit and transportation infrastructure in the region. The Metrolinx Investment Strategy (IS Report) released in late May 2013 put forward a wide range of recommendations to the Province, in addition to identifying potential new revenue tools. The IS Report comprises twenty four recommendations organized according to the following areas:

- Building Accountability and Trust
- Integrating Transportation, Growth and Land Use Planning.
- Maximizing the Value of Public Infrastructure Investment
- Optimizing System and Network efficiency
- Dedicating New Revenue Sources for Transit and Transportation

The Panel Report also provided recommendations to the Province that addressed a wide range of issues including project evaluation and phasing of the Next Wave projects, accountability and transparency measures, land use planning and integration with transportation planning, and specific recommendations on the governance model of the Metrolinx Board.

Appendix A of this report compares Toronto City Council decisions in May 2013 (EX31.3), the recommendations contained in the IS Report, and the Panel's recommendations. The complete IS Report can be found in Appendix B, and the final Panel report can be found in Appendix C for reference.

Metrolinx Board Governance

Metrolinx has experienced a series of changes to the composition of its board since the agency was first established in 2006 as the Greater Toronto Transportation Authority (GTTA). Under the *GTTA Act*[2], the first Board of Directors consisted of eleven members appointed by the Province, composed of:

- two persons to be the chair and vice-chair;
- four persons recommended by the City of Toronto; and
- one person recommended by each of the City of Hamilton and Regions of Halton, Peel, York and Durham.

The governance structure of the GTTA under the Act provided Toronto 4 out of 11 seats, reflecting Toronto's role and the TTC's contribution to transit ridership in the region. City Council recommended the following representatives for the City of Toronto[3] who were appointed by the Province as directors to the Board:

- the Mayor (or his designate);
- the Chair of the Toronto Transit Commission;

[2] GTTA Act, June 22, 2006 http://www.e-laws.gov.on.ca/html/source/statutes/english/2006/elaws_src_s06016_e.htm
[3] http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/2007-ex2-2_582.pdf

- the Chair of the Planning and Growth Management Committee; and
- a citizen with experience in the transit and transportation field, and knowledge of growth management and regional planning

In 2009, the *GTTA Act* was amended and renamed the *Metrolinx Act, 2006*. Changes to the legislation included a restructuring of the agency's board composition, including eligibility requirements to be a Board Director. Section 9 of the *Metrolinx Act* places an upper limit of 15 board members appointed on the recommendation of the Minister of Transportation, and precludes elected officials and public sector employees from participating as members. In its current form, Metrolinx is governed by a skills based board with 12 citizen members from across the region, with no direct accountability link to the municipalities and their local transit authorities in the GTHA.

Municipal Representation Required

Since the regional transportation agency was first established in 2006, the roles and responsibilities of Metrolinx have evolved. As the Big Move Plan has moved into an implementation phase, Metrolinx is now taking a leadership role in the delivery of major transit infrastructure projects, requiring municipal collaboration. Many of the Investment Strategy recommendations also address issues with significant municipal interest, such as improving the integration of transit and land use planning, developing regional operating customer service standards, and continuing to push forward regional fare and service integration. A review in 2014 of the Big Move has also been recommended.

A formal partnership with municipalities is preferred to successfully achieve the priorities identified. The composition of the Board should therefore take into consideration the mandate and priorities of the organization. New dedicated revenue tools to fund the Next Wave of the Big Move Plan also demands greater transparency and accountability to ensure appropriate administration of funds. The Board of Directors will play a critical role in ensuring the accountability of the agency for funds collected and determining how they are spent on transportation in the region.

Toronto City Council at the May 2013 meeting requested the City Manager to report on appropriate governance changes to the Metrolinx Board model. In addition to requesting a report on the subject, Council also indicated the need for municipal representation on the Board that included political appointees (i.e. Mayor or designate) and assurance that the City of Toronto has equitable representation on the board (see EX31.3 May 7-9 2013 Decision History). Other municipalities in the GTHA have also noted concerns with the Metrolinx Board in its current form. Durham Region Council has requested that the "governance structure of Metrolinx be modified to include elected municipal councillors to ensure fair representation of municipal concerns"[4]. In May 2013, the Large Urban Mayor's Caucus of Ontario (LUMCO) requested that the Metrolinx board include

[4] Durham Region Council, *Report No.2013-F-55 Region of Durham's Response to Metrolinx Investment Strategy for the Big Move*, June 18, 2013 (Report Link)

municipal representation (including political appointees) to ensure accountability and fairness[5].

Metrolinx Recommendation

Both the IS Report and Panel Report identify the need for Metrolinx to have strong partnerships with municipalities to deliver transit and transportation infrastructure projects in the region, given the municipal role in land use planning, local roads and transit systems. Metrolinx has proposed one option for amending the Board governance structure, recommending municipalities be allowed to nominate up to six citizen members to the existing board. The IS Report does not provide details on how the six new citizen members would be allocated among GTHA municipalities, only stating "this would create an opportunity for the municipalities to come together as a group, to decide how to select nominees that would be subsequently appointed by the Province" (IS Report, p. 41).

The Panel is satisfied with the Metrolinx recommendation noting that a scan of international practices shows municipal representation on regional transportation bodies is common practice. The Panel also noted that there are advantages and disadvantages to including municipal politicians, depending on the context (Panel Report, p. 19).

The Need for a Comprehensive Review

Given the significant scale of investment proposed under the investment strategy and implications for transit and transportation decision making in the region, a more comprehensive review of the board governance structure is required.

The IS Report does not provide guidance on how the recommended 6 new citizen members will be allocated among municipalities, or the rationale for adding these new members to the existing board. For instance, an equal allotment of 1 new member per municipality based on the four upper tier municipal governments, the City of Hamilton, and the City of Toronto, will leave Toronto residents underrepresented. Providing Toronto its fair level of representation based on ridership and population, will leave other municipalities in the region without a voice on the Board if only six municipal representatives are provided. The issue of whether the board should comprise elected officials, citizens or a hybrid has also not been sufficiently addressed. The IS Report and Panel recommendation therefore requires greater consideration. A review of the Board in its current form is also timely to determine if it continues to be effective in guiding the agency as it continues to evolve.

Any recommendation to change the board structure should consider a range of good governance principles. For example a recent review of Metro Vancouver's TransLink[6]

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[5]LUMCO, May 6, 2013 (Link to Press Release)
[6] TransLink is the regional transportation authority for Metro Vancouver, British Columbia, responsible for regional transit, cycling and commuting options.(www.translink.ca)

governance model considered the following principles based on a comprehensive literature review[7]:

- *Accountability:* Degree to which governance structure has political, administrative, environmental and social accountability linkages.
- *Transparency:* Accessibility of information to those affected by decisions and visibility of governance process
- *Responsiveness*: Extent of citizen orientation, public friendliness in decision-making and redress if needed
- *Clarity of purpose*: Degree to which the prime agency understands and acts on its direct and indirect purposes
- *Advocacy:* Speaking out, leading and encouraging public dialogue on major relevant public policy issues
- *Productive Relationships*: Relative strength of relationships and recognition of dependencies with other entities

This report recommends City Council request an assessment of the board's composition to allow for greater municipal representation, in addition to reviewing other opportunities to enhance municipal input to decision making through the creation of sub-committees or advisory boards to provide advice to a restructured Board of Directors. The review should consider municipal political representation and citizen representation, in addition to equitable representation amongst GTHA municipalities based on population. Consultation with municipalities and other key stakeholders on proposed changes should also be undertaken as a component of a larger governance review.

Transparency to the Public

Enhancing transparency and accountability to the public with respect to Metrolinx decision making processes is also important. Both Metrolinx and the Panel identified the need to ensure a robust reporting structure on the expenditure of funds, project delivery including budget and schedule is put in place to provide accessible information to the public. The Panel recommends that the new Fund publish its financial statements in a stand-alone annual report that tracks spending against plans using "plain language".

There are also a number of other opportunities that Metrolinx and the Province should consider in terms of opening up the decision-making process to the public. In particular, City Council in July 2010[8] requested the Province to make the agency more open to the public by requiring it to conduct its meetings in public, consistent with the rules governing municipal government. Specifically providing advance public notice of meetings, allowing public deputations, and publishing all reports, agendas, and minutes.

Under current legislation, the *Metrolinx Act* requires the Board hold public meetings on the following occasions:

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[7] *TransLink Governance Review*, March 2013, Acura Consulting, Silex Consulting, Steer Davies Gleave http://www.acuere.ca/docs/TransLink_Governance_Review_-_March_21_2013_Final_Report.pdf

[8] City Council,July 2010, MM50.5 For an Open, Transparent and Accountable Metrolinx, MM50.5 Link

- On any occasion determined by the board.
- When the board is considering the adoption of a transportation plan for the regional transportation area or change to a previously adopted transportation plan.
- When the board is considering approval of an investment strategy.
- When the Corporation's annual report is being presented to the board.
- When the board is considering a by-law to change the fares charged for a transit service provided by the regional transit system.

Improvements have been made with respect to how the Metrolinx Board conducts business. There is regularly a public session of the Board with agendas and meeting minutes provided. Further action could be taken, most notably with respect to providing opportunity for public input at meetings. The legislation could also be strengthened to require all meetings be held in an open forum, with exception only under circumstances consistent with the rules governing municipal government. This report recommends City Council request the Province and Metrolinx to consider opportunities to enhance the transparency of Metrolinx Board decision-making processes to the public.

25 Percent Funding for Local Transportation

In the IS Report, Metrolinx identified a target of $2 billion per annum to be raised in support of the Next Wave of Big Move transit projects, indicating that 25 percent of this amount would be devoted to local roads and transit, improvements to the highway system and various other transportation initiatives.

The Panel Report reached similar conclusions regarding the need for dedicating revenues to local roads and transit, improvements to the highway system and various other transportation initiatives, and recommended that funding be allocated as follows:

> *Recommendation 18b:* "Up to 25 percent for other key elements of the transit and transportation system - local roads and transit, improvements to the highway system and various other transportation initiatives including:

- "Municipal funding of up to 15 percent, to be matched by local contributions, for local transit, road and bridge improvements that are intended to increase transit ridership and the carrying capacity of roads and streets for all users;
- Up to 5 percent for strategic investments in the provincial and municipal controlled access highway network to improve the mobility for people and goods; and
- Up to 5 percent for other transportation and mobility initiatives, including walking and cycling infrastructure, fare integration, mobility hubs, urban freight movement, intelligent transportation systems and user information systems; and
- The allocation of funding among these categories should be reviewed regularly."

The Metrolinx and the Panel Report positions are somewhat different than those adopted by Council. In particular, Council sought a full 25 percent of the dedicated funding to be allocated to local transportation expansion priorities.

At its meeting of May 7-9, 2013 (EX31.3) Council considered the issue of a transfer of a portion of new (GTHA) revenues to be raised by Metrolinx to municipalities in support of local municipal transportation priorities. The report noted the following:

- the Metrolinx regional Big Move plan recognizes the need for concurrent investment in local roads and highways, local transit and active transportation networks as a critical part of a fully functioning regional transportation system that can mitigate increasing congestion;
- Big Move projects will impose an added fiscal burden on municipalities related to the growth and intensification enabled by these projects, and the resultant requirement to consider accelerating growth-related capital projects to the time of construction;
- There remains a question of liability for operating and maintenance costs related to the Big Move plan. There is some risk that a portion of these costs will also be borne by municipalities, imposing an additional fiscal burden on municipalities;
- Property tax is already greatly relied upon for current municipal operations, including transportation related expenses. For example, in the City of Toronto, 26 percent of the property tax levy is already being used to fund transportation related expenses; and
- Other jurisdictions have recognized the need to transfer a portion of newly raised infrastructure funds to local municipalities to address local needs.

Accordingly, Council adopted recommendations relating to the 25 percent of new revenues to be allocated to local GTHA transportation expansion priorities including:

- Council support for new revenue tools (that were not explicitly rejected) is conditional upon a 25 percent allocation of new revenues for the incremental funding of local municipal transportation expansion priorities at the discretion of municipal councils.
- Council indicated that it does not support the use of a regional property tax to fund regional transportation expansion, noting that the municipal tax base is required to finance existing operations, capital maintenance requirements, and expected contributions to local transportation expansion not funded by the 25 percent share of new revenues.
- Council further directed the City Manager to report back regarding principles for the allocation of the 25 percent share of new revenues for local municipal transportation.

Municipalities need the flexibility to determine local transportation project priorities, and the ability to allocate funding in support of local transportation priorities through the Official Plan, and through the Annual Capital Budget and Ten-Year Capital Plan processes. The subdivision of categories (i.e. 15%-5%-5%) is considered to be arbitrary, overly prescriptive, and would likely result in a sub-optimal allocation of funds. Furthermore some of the uses of the 25 percent proposed in the Metrolinx and Panel reports are unrelated to local transportation priorities, such as urban freight movement, and should not be included in the 25 percent allocation.
Consequently, this report recommends that municipalities have the discretion to determine how funds received are allocated to local transportation priorities, and that

eligible transportation capital costs include municipal transportation expansion projects, service improvements, and major capital replacement and rehabilitation projects.

Funding Allocation Formula

The method of distributing the funds between municipalities and administering the program is also important. The funding formula that will be used to allocate the 25 percent of the dedicated funding amongst the GTHA municipalities should balance the needs of municipalities with different modes/levels of transportation services and growth rates. It should be transparent, accountable, and easy to administer. It should also give strong consideration to local transit ridership as the revenues to be raised by the Province are primarily for transit expansion in support of intensification of development and the *Places to Grow Act*.

This report recommends that Council request that the transfers from the Province/ Metrolinx to GTHA municipalities in support of local transportation allocations be administered using a similar methodology as that used in existing provincial gas tax allocation funding agreements.

The provincial gas tax allocation formula has been used since 2003, and is successful and widely accepted for the administration of provincial transfers to municipalities. It maximizes municipal flexibility to allocate funds to transit needs as determined by the municipality, with minimal administrative reporting and overhead. The key features include:

- Allocation formula combining annual transit ridership and municipal population data, e.g. 70 percent transit ridership and 30percent population in the existing gas tax formula
- Eligible expenditures including growth and state of good repair, capital and operating
- Use of funds subject to general rules but not tied to specific projects
- Funds transferred irrespective of expenditure status, and unspent funds to be placed into a dedicated reserve fund administered by municipalities
- No municipal matching required and no restrictions on combining (stacking) with other sources of funding (e.g. Federal grants)
- Reasonable administration required on the part of municipalities in relation to reporting back on funding allocation to local transportation priorities.

The administration mechanism for the Provincial Gas Tax program is well established, and it would be more efficient to use the same allocation formula for more than one program. The data required is easily accessible and verifiable. Urban transit ridership data is collected by the Canadian Urban Transit Association (CUTA) and published by the Ministry of Transportation annually, while population data is available from the Census.

The formula for allocating the local municipal transportation component (i.e. 25%) should place a high weighting on ridership, recognizing that the majority of costs to accommodate intensification will be transit related. The requirement will be highest in

Toronto for investment in local transportation infrastructure, collateral investment to support intensification, and potential operating and maintenance costs for new infrastructure. This is because in Toronto transit demand is most intense, and City roadways are often directly involved (unlike accommodation for GO rail expansion elsewhere, for example).

Any allocation formula requires weighting of input variables. If the ridership and population weighting of the gas tax formula were used, the City's estimated portion of the 25 percent local allocation based on the Panel Report's GTHA local transportation allocation estimates of $400 million (option A) - $440 million (option B), would be $280 - $305 million per annum. Similar allocation formulae are being used in other North American jurisdictions for municipal transit properties. Please refer to Appendix D which contains a more fulsome description of transportation funding in comparable North American jurisdictions and London, England.

Development Charges Implications

This report recommends that the Province amend the *Development Charges Act, 1997* to enable the City to maximize development charges funding for transit. The amendments that are sought are consistent with those the Province previously approved with respect to the Toronto-York Spadina Subway Extension (TYSSE) project. Amendments included:

a) Exempting transit from the use of the service level cap in the calculations.
b) Including transit in the list of services for which there is no requirement for a 10 percent reduction.

The Metrolinx IS report also proposed amendments to the *Development Charges Act, 1997,* including:

a) Removal of the 10% reduction and 10-year average historical service level cap on development charges levied for transit growth.
b) Introduction of an "integrated transportation service" category that combines various transportation modes and determines charges based on new service improvement standards.
c) Introduction of a new reporting standard for municipalities to demonstrate accountability and transparency for the revenues raised by Development Charges, and dedicated to achieve transit and transportation expansion and improvement."

The amendments proposed above by Metrolinx are acceptable from a staff perspective. Recommendation #4 of this report recommends the Province consider amending the *Development Charges Act, 1997* in order to address changes previously endorsed by Council consistent with amendments made for the TYSSE project.

Operating Subsidy

Between 1971 and January 1, 1998, the Province provided municipal transit operators with a 50 percent operating subsidy. Subsequent to this date, municipalities have been responsible for funding 100 percent of net transit operating costs.

Since 1998, TTC ridership has increased by more than 40 percent, at an average annual rate of over 2 percent, more than double the annual population growth. Also, municipal funding requirements have increased by more than 7 percent annually, compared with a 1.8 percent average property tax increase. In 2014, TTC fare box and other revenues funded almost 70 percent of the total TTC operating costs, which is very high in comparison to other North American jurisdictions. Despite this, the City's 2014 net operating budget includes a total TTC operating subsidy of $537.5 million.

From 1998 through 2013, the City has funded TTC net operating costs totalling $5 billion, approximately $2.5 billion more than would have been required had the provincial subsidy continued. On a net basis, in 2014, the TTC represents 14.2 percent of the total approved City tax supported operating budget of $3.77 billion, compared with 7.4 percent in 1998. If net debt charges associated with TTC capital is also taken into consideration, the TTC represents 20.4 percent ($770.8 million) of the total approved City tax supported operating budget for 2014. Additionally, the rate of growth in TTC operating costs has made it more difficult to fund other capital program requirements. In 2014, $2.56 billion in currently unaffordable TTC system maintenance, health and safety, accessibility and expansion projects have been identified.

Not unlike the transfer of social housing responsibility, the elimination of transit operating cost sharing hit Toronto disproportionately hard, due to the high per capita transit use in the city. The Big Move expansion projects could further increase municipal transit operating costs. To date there has been no agreement on how any related operating cost increases will be determined, and who will bear the cost. In addition, the City's "Feeling Congested" study has identified preliminary transit expansion priorities not included in the Big Move plan, which if undertaken, would further increase City transit funding costs.

The answer to these problems is to restore the 50 percent provincial subsidy of net municipal transit operating expenditures. The TTC's total 2014 operating subsidy is budgeted at $537.5 million, therefore a 50 percent provincial subsidy in 2014 would be $268.8 million. The return of a 50 percent transit operating subsidy could help resolve how the incremental net operating cost burden of new Big Move projects is to be calculated and potentially shared with municipalities. In addition, it would help all municipalities divert funds to unmet capital needs, such as the $2.5 billion unfunded TTC capital priorities.

Many major North American cities, with whom Toronto competes for investments rely on transit operating funding from other orders of government (see Appendix D for detail). There is a strong business case for providing provincial support for transit operations using a wider tax base. The rationale includes:

- *Ridership benefits cross municipal boundaries* – many transit users cross municipal boundaries and use more than one transit service during their trip. Also, using local transit helps ease congestion on regional roads and highways. The cost of providing these services should not be borne solely by the local tax base.

- *Social contribution* – Local transit typically benefits a high proportion of low income users, in part providing a social benefit.
- *Environmental benefits* – The environmental benefits of intensification and related transit use benefit all society, not just the local jurisdiction.
- *Public health benefits* – Faster commutes using transit may also result in public health benefits that mitigate provincial health system costs.
- *Increased economic effectiveness of urban growth patterns* – Higher density development facilitated by local transit eases traffic congestion and promotes more efficient economic activity, benefiting provincial and federal revenues.

At its meeting of May 7, 2013, (EX31.3) Council adopted a recommendation to advise the Province that any new taxes, fees, charges or levies should not be implemented or collected until such time as:

> "b. the operating costs of expanded transit are fully costed; and
> c. the Province of Ontario agrees to fund one-half (1/2) of the operating, state of good repair and rolling stock costs in the City of Toronto."

This report builds on previous Council resolutions, recommending that Council request the Province to contribute 50 percent of all net municipal transit operating expenditures on all existing operations and future transit lines. This operating subsidy should not be paid from the 25 percent allocation to local transportation, which is required to support expansion and intensification related pressures.

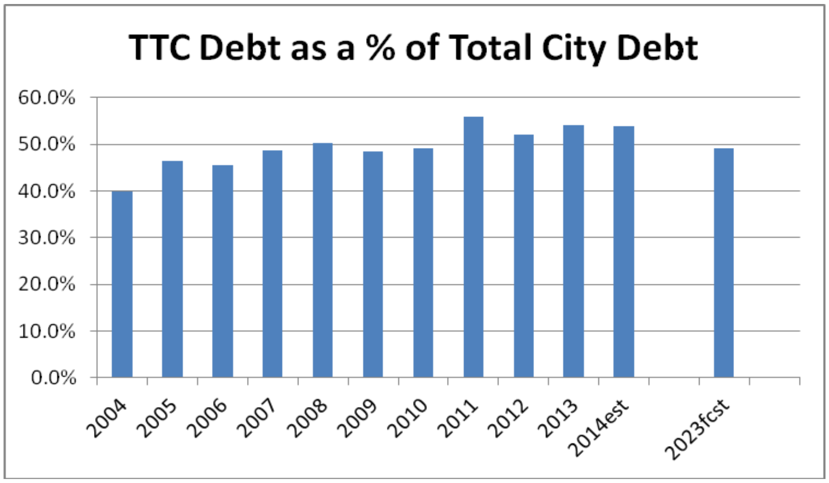
Municipal Debt Funding for Transportation Capital

The Panel Report recommends that municipalities in the GTHA" make greater use of their borrowing capacity to finance local transit improvements."

City financing policy is set by Council in accordance with section 212 (1) 8 of the *City of Toronto Act*, *2006*, including "…limits on the annual costs associated with the financing". In setting financing policy, the City takes into consideration its capital needs, debt affordability, as well as any potential impact on the City's credit rating, which if adversely impacted would increase its cost of borrowing. The City's current financing policy (EX3.3, Council February 23, 24, 2011) restricts the City's debt service cost limit (i.e. principal and interest) to no more than 15 percent of property taxes, which means that no less than 85 cents of every tax dollar raised is available for operating priorities.

Additionally, as the City sets out an annual 10-year Capital Budget and Plan, comprised of necessary capital expenditures to keep the City's current assets in a state of good repair, and to improve, expand, acquire and/or construct new capital assets required to meet service demands and support service growth, strong consideration is given to debt affordability. This capital plan balances City infrastructure funding needs for all programs.

The City already makes significant use of its borrowing capacity to fund TTC capital projects (currently $2.67 billion on a gross basis) making up approximately 54 percent of total City debt, an increase from 39 percent ten years prior. Other sources of capital funding for transit include development charges and subsidies from other orders of government (including gas taxes).



* Forecast data based on 2014-2023 Capital Budget and Plan

While to date, the City has been keeping its total debt at a moderate level, in light of its overall growing capital infrastructure needs, there is a sizeable and growing gap between future capital expenditure needs and ongoing sustainable revenue sources. As a result, the City lacks sufficient fiscal capacity to address necessary growth-related expenditures, resulting in an unfunded backlog of TTC capital projects of $2.526 billion.

This is consistent with a statement made in a 2011 Toronto Board of Trade study ("Reaching Top Speed"), which indicated that Toronto region municipalities "…are not able to absorb infrastructure expansion projects, and will face an increasingly steep battle in the next ten years to maintain their existing infrastructure in a state of good repair."

CONCLUSION

In summary, the report recommends Council request the Province to undertake a more fulsome review of the Metrolinx Board governance structure, with consideration given to enhance the accountability of the Board to the public through the inclusion of political municipal and citizen representatives. Equitable distribution of membership on the Board of Directors based on population distribution in the region should also be considered. The report also recommends Council request the Province to reconsider the Metrolinx recommendation that the 25 percent of funds dedicated to local transportation capital projects be apportioned according to specific categories (15% transit, 5% highways, 5% other) defined by Metrolinx. Municipal discretion in setting local priorities is preferred. Finally, the report recommends Council request the Province to contribute 50 percent of net municipal transit operating expenditures on all existing operations and future transit lines.

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SIGNATURE

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City Manager

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ATTACHMENTS

Appendix A: Comparison of Report Recommendations
Appendix B: Metrolinx Investment Strategy Report
Appendix C: Transit Investment Strategy Advisory Panel Final Report
Appendix D: Transportation Funding in Other Jurisdictions