



**STAFF REPORT
ACTION REQUIRED**

Toronto-York Spadina Subway Extension – Schedule and Budget Change

Date:	March 30, 2015
To:	City Council
From:	City Manager
Wards:	All Wards
Reference Number:	P:\2015\Internal Services\Cf\Cc15009Cf (AFS #21030)

SUMMARY

This report accompanies the Toronto Transit Commission (TTC) Board Report of March 26, 2015, entitled "Toronto-York Spadina Subway Extension – Schedule and Budget Change" (Attachment 1 to this report). The TTC Report addresses a revised timeline for the completion of the Toronto-York Spadina Subway Extension (TYSSE) Project by December 2017, at an additional cost that is currently estimated at \$150 million excluding potential cost of claims. Toronto Transit Commission staff, together with external consulting support, will determine the total cost of the project schedule extension, including an assessment of contractor claims, and report back to the TTC Board and Council by the end of 2015.

The purpose of this report is to identify the financial impact of the schedule extension, and to obtain the appropriate funding authorities consistent with the revised schedule and expenditure forecast for project completion by December 2017.

The report and the decision of Regional Municipality of York ("York Region") Council, also a TYSSE project funding partner (Attachment 2 to this report) is consistent with the recommendations contained in this report.

RECOMMENDATIONS

The City Manager Recommends that:

1. Council increase the approved 2015 Capital Budget and 2016-2024 Capital Plan for the Toronto-York Spadina Subway Extension project by \$150 million gross, and \$90 million net, representing the City of Toronto's share of costs, with the remaining \$60 million reflecting the Regional Municipality of York's share.

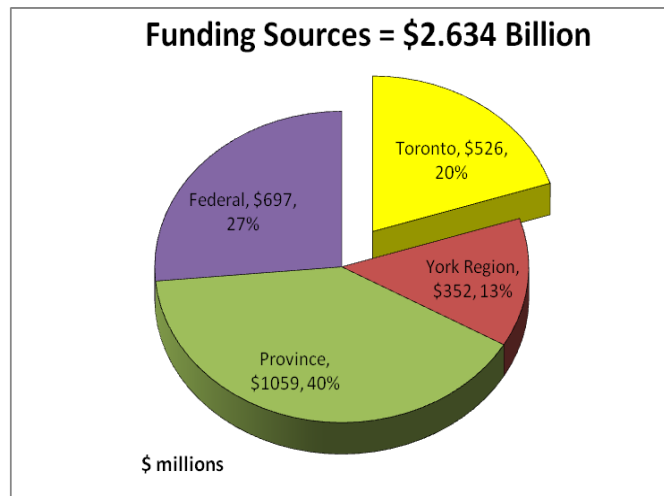
2. Council request the federal government to increase its funding for the Toronto-York Spadina Subway Extension project to reflect one-third funding of the original total project cost.
3. Council request the Province of Ontario to ensure that its contribution to the Toronto-York Spadina Subway Extension project, through the Move Ontario Trust is no less than \$1.059 billion as projected at the outset of the project.
4. Council direct the City Manager and the CEO of the Toronto Transit Commission to report back to Executive Committee by December 31, 2015, with
 - a. the results of requests made to the Federal and Provincial Governments in support of the Toronto-York Spadina Subway Extension project, and
 - b. the final estimated project cost as informed by the pending review of construction claims costs by the Toronto Transit Commission CEO, with recommended sources of funding to complete the project by December 31, 2017.
5. Council authorize a request to the federal Minister of Infrastructure, Communities & Intergovernmental Affairs to extend the Building Canada Fund Contribution Agreement for the Toronto-York Spadina Subway Extension, to a date to be agreed upon by the parties in recognition of the amended project schedule.

FINANCIAL IMPACT

Project Budget and Funding Partners

The original TYSSE budget of \$2.634 billion was funded one-third by the City and York Region, and the remainder through contributions from the Federal and Provincial governments. The specific funding shares are set out in the chart below:

Chart 1: Funding Sources by Partner



Federal funding of \$697 million was provided as an up-front payment of \$75 million, and \$622 million by way of a Building Canada Fund Contribution Agreement, representing 26.5% of the original project budget. This report recommends that the Federal government be requested to increase its funding to the original full one-third of the project budget, which amounts to an additional \$181 million in project funding.

The Province provided TYSSE funding of \$870 million through the Move Ontario Trust, which together with anticipated interest earnings of 4%, was estimated to generate total provincial funding of \$1.059 billion, or 40.2% of the original project budget.

Of the one-third portion shared between the municipalities, Toronto is responsible for 59.96% and York Region, 40.04%. The City's \$526 million share of the project is funded through a combination of debt, development charges and reserves.

Incremental Project Costs

A report to the TTC Board meeting of March 26, 2015 addresses the TYSSE project schedule, and recommends a commercial project reset in order to complete the project by December 31, 2017. That report estimates preliminary incremental costs of \$150 million that would be required in order to complete the project, for a total amended project cost of \$2.784 billion. Pending the outcome of discussions with Federal government officials on additional funding, the City and York Region will be responsible for \$90 million, and \$60 million, respectively.

TTC staff, together with external consulting support, will be undertaking further work to determine the total financial impact of a TYSSE reset, including a review of project contractor claims associated with the revised project completion date, the result of which will be reported back to the TTC Board and Council by the end of 2015.

Provincial/Move Ontario Trust Revenue Shortfall

A funding shortfall, currently estimated at \$85 million, relates to the inability of the Move Ontario Trust to achieve anticipated interest earnings of 4%, which were included in the original funding plan to provide for a total contribution of \$1.059 billion from the Trust. This report recommends that the Province commit to ensuring that its contribution, through the Move Ontario Trust, is no less than \$1.059 billion.

City Sources of Funding

There are compelling reasons for the requested funding contributions from the other orders of government as described in this report. However, should such funding not be forthcoming, the City's share of the revised costs would be funded from the Capital Financing Reserve. In this instance, staff would investigate opportunities to fund this reserve through transit sources as may be identified by the TTC CEO and the DCM & CFO.

This report recommends that the City Manager and the TTC-CEO report back to Executive Committee by the end of 2015 with the results of funding requests made to other orders of governments, along with a final determination of project costs and project funding details.

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

Decision History

At its meeting of September 25, 26, 27, 2006, Council adopted the recommendations of Policy and Finance Committee Report No 7, Clause 35.

<http://www.toronto.ca/legdocs/2006/agendas/council/cc060925/pof7rpt/cl035.pdf> including a municipal cost sharing of 59.96 % City of Toronto/ 40.04 % Regional Municipality of York. In addition, York Region agreed to pay the City \$29.98 million in recognition of investment previously made in the subway system.

At its meeting of May 23, 24, 25, 2007 (EX 8.5),

<http://www.toronto.ca/legdocs/mmis/2007/ex/reports/2007-04-30-ex08-cr.pdf>

Council directed that "the capital contribution from the City not exceed its share (59.96%) of the one-third funding that would be attributable to the municipal sector

At that meeting, Council also approved a project delivery structure that included TTC as Project Manager, and the principles of an Operating Memorandum of Understanding (MOU) between Toronto, TTC, and York Region.

Finally, on June 23, 2008 (EX21.8), Council authorized senior City and TTC staff

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.EX21.8>

to "negotiate on behalf of the City, a Building Canada Fund Contribution Agreement relating to the Toronto-York Spadina Subway Extension with the Federal Government of Canada and the Regional Municipality of York". This agreement was signed in September 2008, by the Mayor of the City of Toronto, and the Chair of York Region, and included a project completion date of March 31, 2016, and an agreement end date of March 31, 2017.

Schedule

A Toronto Transit Commission Board Report of October 24, 2012 (Supplementary Agenda, Report #13) extended the TYSSE Project Completion date from December 2015 to the fall of 2016.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2012/October_24/Supplementary_Reports/TYSSE_Schedule_Statu.pdf

Issue Background

Project Budget and Funding

The current approved TYSSE budget is \$2.634 billion. The total cost is split between the Federal government, the Province of Ontario, the City of Toronto and the Regional Municipality of York ("York Region"). The one-third municipal share is split between Toronto (59.96%) and York Region (40.04%), and the municipalities are responsible for funding any cost overruns, allocated under the same formula.

Total TYSSE funding by funding partner to the end of December 2014 is set out in the table below.

Funding Partner:	\$ Millions	% of funding	December 31, 2014 Total Life to Date (\$ millions)
Federal	\$697	26.5%	\$565
Provincial/Move Ontario Trust	\$1,059 *	40.2%	\$528
City of Toronto	\$526	20%	\$327
York Region	\$352	13.3%	\$219
Total	\$2,634	100.0%	\$1,639

* including investment income as projected in 2007

In 2006, the Province provided funding of \$670 million for TYSSE costs, creating the "Move Ontario Trust" to hold and invest project funds. In 2007, the Province added funding of \$200 million to the Trust, for total principal of \$870 million. It was envisioned at the time that this amount together with investment income (\$189 million) would result in contributions to the project of \$1.059 billion.

The Province, the City, York Region, and the TTC submitted a joint application for federal funding to the Building Canada Fund in early 2008. That application identified the project as fully funded on the assumption that the Move Ontario Trust assets would be earning interest income of 4% (\$189 million), for a total provincial investment of \$1.059 billion.

In 2007, the Federal government pledged \$697-million towards eligible Project costs, subsequently providing \$75 million up-front, and \$622 million by way of a Building Canada Fund Contribution Agreement. That agreement was signed in September 2008, and included a project completion date of March 31, 2016 and an agreement end date of March 31, 2017.

Governance

In May 2007, Council (EX 8.5) approved the terms of an Operating MOU between the City, TTC, and York Region, based on TTC ownership of the entire TYSSE subway extension infrastructure.

Under this arrangement, York Region would continue to participate in funding the capital cost of building TYSSE, and at revenue service, TTC/City would assume full responsibility for operating and maintaining the extension.

Council also approved a TYSSE Project Delivery Structure, including:

- TTC acting as TYSSE Project Manager,
- the establishment of a joint City/York Region "Executive Task Force" comprised of 3 senior staff members from each municipality, to perform an oversight function in order to ensure Project delivery in accordance with Council directions.

COMMENTS

This report accompanies a concurrent TTC Board report (March 26, 2015) in relation to an extension to the TYSSE project schedule. Various issues have resulted in additional schedule delays to TYSSE project completion, including late design changes, continued contractor performance issues and conflicts between different contractors.

In mid-2014, TTC conducted a schedule review workshop, concluding that a December 2016 project completion date was no longer achievable. The following completion dates were identified as achievable with varying levels of certainty:

- May 2018 – low probability;
- October 2018 – medium probability; and
- January 2019 – high probability.

External Expertise

Following reporting on this issue from TYSSE staff, the Executive Task Force (ETF) joined the TTC-CEO in efforts to turn around contractor performance. The ETF and TTC-CEO subsequently determined that additional independent review was required in order to determine an amended TYSSE completion date. As a result, the TTC-CEO engaged the following external experts to review the schedule and cost implications of this schedule delay:

- A panel of transit experts from the American Public Transit Association (APTA) undertook such a review, the results of which were presented to the ETF at its meeting in November 2014; and
- Bechtel, a large multi-national construction company with significant experience in large project management and delivery, conducted an assessment of the schedule to determine how quickly the project could be completed along with the potential cost implications. A preliminary draft report was prepared and presented to the TTC CEO, and its findings were presented to the ETF at its meeting of

February 2015. The concurrent TTC report seeks authorities to retain Bechtel to continue its work, and provide a more fulsome assessment of the cost challenges.

Project Reset

Both the APTA panel and Bechtel confirmed that project completion in 2016 was no longer achievable. The APTA panel concluded that it was possible to achieve a completion date earlier than 2018, dependent on implementing an overall project “reset”. The Bechtel review agreed with the APTA panel that a project “reset” was necessary and concluded that under such a scenario, it would be possible to achieve a December 2017 completion.

As a result, the TTC Board report approved a project reset in order to complete the project by December 31, 2017. The TTC, together with external consulting support, is currently undertaking further work as is required to determine total financial impacts of a TYSSE reset, including a review of project contractor claims, the result of which to be reported back to the TTC Board and Council by the end of 2015.

Funding Agreement Extension

This report seeks authority to request the following extensions to existing funding arrangements.

- (Federal) Building Canada Fund Contribution Agreement for TYSSE to June 30, 2018. This request is required to be sent in writing, to be signed by the Mayor of the City of Toronto and the Chair of the Regional Municipality of York.
- (Provincial) Move Ontario Trust end date, to be extended to coincide with an amended project completion date to December 2017.

Federal Funding

Federal staff have communicated in the past that the Federal Government would not provide additional funding in support of any project cost overruns. Accordingly, the request for additional federal funding is based on the original project budget of \$2.634 billion.

This report recommends requesting the federal government to increase its funding for TYSSE to one-third of the original total project budget, for an additional \$181 million. In the absence of this additional funding, the portion of incremental costs that would be attributable to the City would be \$90 million.

The current Federal Government funding falls short of one-third of the total TYSSE project cost, having been capped at \$697 million, or 26.5% of the original total. Typically, large rapid transit infrastructure projects are shared between the Federal, Provincial and municipal governments at one-third each. Furthermore, a Federal cost sharing adjustment is not without precedent and has occurred in the past, as for example, on the Vancouver/TransLink Canada Line.

Provincial/Move Ontario Trust Revenue Shortfall

In early 2008, the City of Toronto, the Regional Municipality of York, the Toronto Transit Commission, and the Province of Ontario submitted an application for federal funding to the Building Canada Fund. That application committed to a fully funded project of \$2.634 billion, including \$1.059 billion from the Province through the Move Ontario Trust.

At the outset of the TYSSE project, the Province had placed \$870 million in funding into the Move Ontario Trust. Interest earnings projected on the Trust assets were forecast at a rate of 4%, for total stated provincial funding of \$1.059 billion.

However, due to the shift in capital market conditions since that time, the Trust has been unable to achieve projected revenues, resulting in a revenue shortfall that is estimated at \$85 million.

This report recommends that the Province be requested to contribute additional funds to remedy this shortfall. However, should additional provincial funding not be forthcoming, it would result in additional municipal funding pressures, the City's portion of which would be \$51 million.

It is important to also note that in December 2006, the Province passed the *Tax Increment Financing Act, 2006*, which would have provided the municipalities with an additional funding tool for TYSSE. Tax Increment Financing (TIF) would have allowed the municipalities access to substantial funding by applying both incremental municipal and (provincial) educational property tax revenues in support of TYSSE. However, as an enabling general regulation has not been passed to date by the Province, the City and York Region will not have the ability to access this source of funding. This serves to further emphasize the importance of receiving additional provincial funding.

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SIGNATURE

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ATTACHMENTS

Attachment 1 - TTC Board Report of March 26, 2015 - Toronto-York Spadina Subway Extension – Schedule and Budget Change

Attachment 2 – Minutes No. 72 – Meeting of the Council of the Regional Municipality of York, March 26, 2015