

**REPORT FOR ACTION****Intergovernmental Funding in the 2019-2028
Recommended Capital Budget and Plan**

Date: March 4, 2019

To: Special Executive Committee

From: City Manager and the Chief Financial Officer and Treasurer

Wards: All

SUMMARY

This report, completed on an annual basis as part of the budget process, summarizes federal and provincial infrastructure funding programs which are identified in the 2019-2028 Staff Recommended Capital Budget and Plan.

The City receives funding from intergovernmental funding programs, including, but not limited to:

- Provincial Gas Tax Fund (Dedicated Gas Tax for Public Transportation Program);
- Toronto-TTC-Ontario Streetcar (LRV) Fleet Replacement Program;
- Federal Gas Tax Fund;
- Federal Public Transit Infrastructure Fund - Phase 1;
- Federal Clean Water and Wastewater Fund; and
- Ontario Municipal Commuter Cycling Program.

The Government of Canada and the Province of Ontario are expected to contribute \$8.3 billion (20%) towards the City of Toronto's \$40.7 billion 2019-2028 Staff Recommended Tax and Rate Supported Capital Budget and Plan (federal: \$3.9 billion; provincial: \$4.4 billion).

This report also provides an update on the City's efforts towards securing additional intergovernmental funding opportunities.

RECOMMENDATIONS

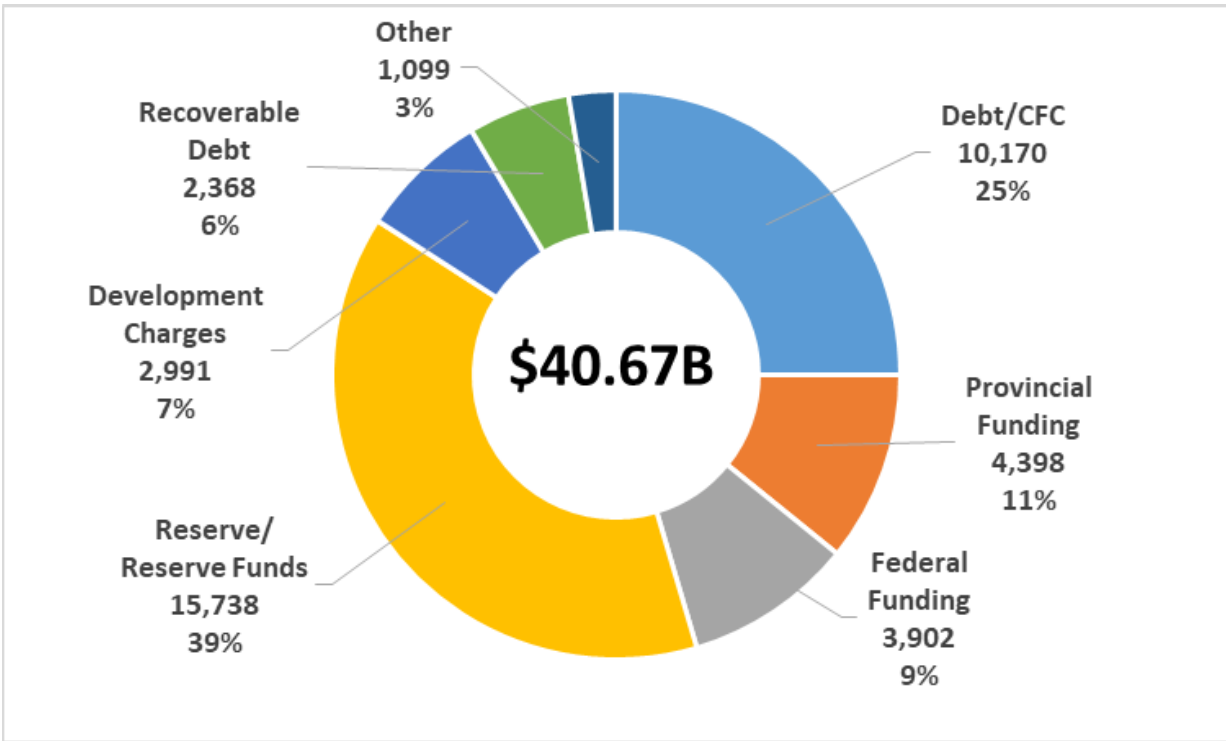
The City Manager and the Chief Financial Officer and Treasurer recommend that:

1. City Council receive this report for information.

FINANCIAL IMPACT

In total, the Government of Canada and the Province of Ontario are expected to contribute \$8.3 billion (20%) towards the \$40.7 billion 2019-2028 Staff Recommended Tax and Rate Supported Capital Budget and Plan (federal: \$3.9 billion; provincial: \$4.4 billion). Federal and provincial funding is summarized in Table 1 below.

Figure 1 - 2019-2028 Staff Recommended Tax and Rate Supported Capital Budget and Plan, Where the Money Comes From (\$40.67 billion)



In addition to the funding programs discussed in detail in this report, the 2019-2028 Staff Recommended Tax and Rate Supported Capital Budget and Plan and appropriate budget notes provide details on intergovernmental funded projects and programs comprising the \$8.3 billion total in expected intergovernmental funding. This includes projects and programs in Shelter Support and Housing Administration, Transportation Services, Waterfront Revitalization, Fire Services, Toronto Parking Authority, Toronto Water, Facilities, Real Estate, and Environment and Energy and the Toronto Transit Commission (TTC).

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

Table 1 – Summary of Intergovernmental Funding Programs 2019-2028 (\$000s)

Intergovernmental Funding Program	Summary of Division/Projects/Programs	Provincial	Federal	Total
Clean Water and Wastewater Fund ⁽¹⁾	Waterfront - Cherry Street Lake Filling and Naturalization	1,250	2,500	3,750
Federal Gas Tax Fund	TTC - Conventional Capital Program	-	1,774,449	1,774,449
Ontario Municipal Commuter Cycling Program	Toronto Parking Authority (TPA) - Bike Share Expansion, Transportation Services - Cycling Infrastructure	24,428	-	24,428
Provincial Gas Tax ⁽²⁾	TTC - Conventional Program	1,868,997	-	1,868,997
Provincial Grant ⁽³⁾	TTC - Scarborough Subway Extension	1,987,148	-	1,987,148
Public Transit Infrastructure Fund - Phase 1 ⁽⁴⁾	TTC - Conventional Program; Transit Expansion Studies; Active Transportation Projects	-	207,678	207,678
Public Transit Infrastructure Fund Phase 2 - Future Year Estimates ⁽⁵⁾	Transit Expansion Projects – SSE ⁽⁶⁾ ; SmartTrack ⁽⁷⁾	-	1,876,399	1,876,399
Toronto-Ontario LRV Funding	TTC Conventional Capital Program	111,187	-	111,187
Other Programs <i>(CSIF; Federal Public Safety Canada Funding; Move Ontario; Ports Toronto Funding Grant, SHAIP, etc.)</i>	Facilities and Real Estate- FREEE; Waterfront Initiatives - Public Realm; Fire Services – Heavy Urban Search and Rescue (HUSAR) Building Expansion; Toronto Water - Watercourse Erosion Control, TTC - Conventional Capital Program; TCHC SOGR Backlog.	242,678	41,300	283,978
Intergovernmental Funding to be Identified ⁽⁸⁾	TTC - Relief Line Advance Works	162,525	-	162,525
Total		4,398,213	3,902,326	8,300,539

Notes:

(1) Total federal/provincial allocation to Toronto from the CWWF is \$60 million. The 2019-2028 Staff Recommended Capital Budget and Plan reflects remaining funds (not including carry forwards).

(2) \$91.6 million of the annual Provincial Gas Tax allocation is applied to the TTC operating budget.

(3) Provincial funding for the Scarborough Subway Extension expressed in inflated dollars (\$1.48 billion in 2010\$).

(4) Total federal allocation to Toronto from PTIF1 is up to \$856 million. The 2019-2028 Staff Recommended Capital Budget and Plan reflects remaining funds (not including carry forwards).

(5) Federal funding committed, subject to program approval and key terms and conditions.

(6) Federal funding committed under the New Building Canada Fund in 2013 has been re-profiled into the Investing in Canada Plan – Phase 2 program.

(7) Provincial investments in GO expansion/Regional Express Rail will support SmartTrack.

(8) Relief Line South – The budget includes \$325 million in added funding to implement a schedule improvement strategy/early work opportunities. The City has identified \$162.5 million; remaining 50% is required from partners.

DECISION HISTORY

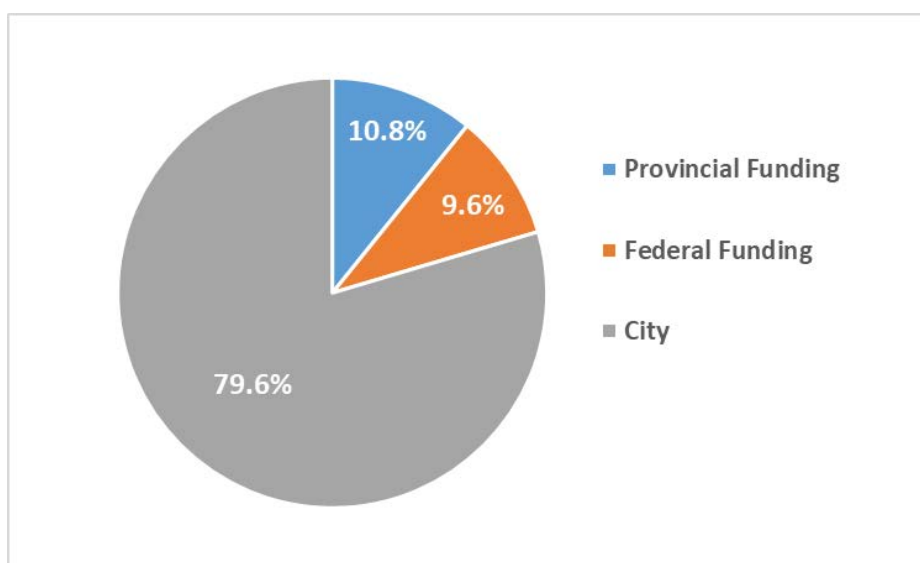
City Council provides the authority to enter into intergovernmental funding agreements and has approved funding for specific projects through the capital budget process. City Council has also authorized staff to negotiate and enter into agreements, as directed, for new intergovernmental funding for priority projects. The full itemized decision history is included in Attachment 1.

ISSUE BACKGROUND

The City's 2019-2028 Staff Recommended Tax and Rate Supported Capital Budget and Plan identifies \$40.7 billion in public investments to infrastructure such as transit and transportation, water and wastewater, and other capital assets. Capital projects are funded from user fees (rates), reserves, development charges, borrowing (debt), and by federal and provincial government transfers.

Contributions from the federal and provincial governments account for a total of 20% (\$8.3 billion) of the funding outlined in the 2019-2028 Staff Recommended Tax and Rate Supported Capital Budget and Plan (Figure 2).

Figure 2 - Share of funding in the 2019-2028 Staff Recommended Tax and Rate Supported Capital Budget and Plan

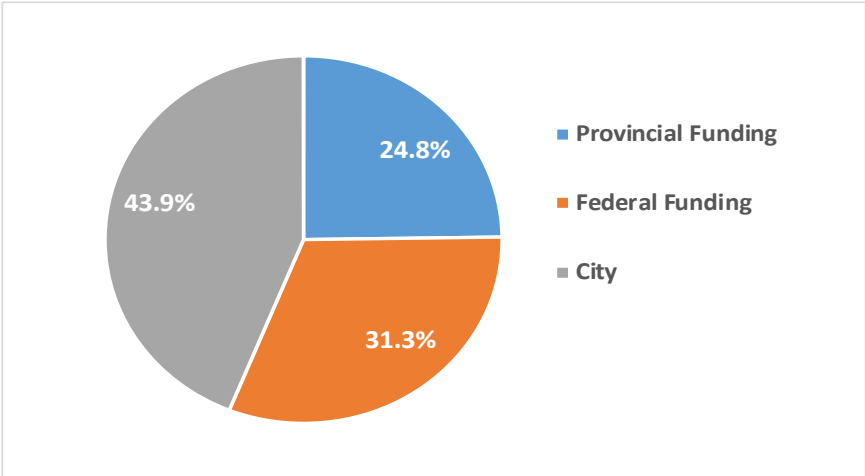


Roughly 97.1% (\$8.1 billion) of the anticipated provincial and federal investments contained in the Tax and Rate Supported Capital Budget and Plan will support the City's existing and future transit network including the Toronto Transit Commission's (TTC) base capital budget. Intergovernmental funding commitments to the Line 2 East Extension (SSE) and the SmartTrack Stations Program are assumed, subject to finalization of contribution agreements.

The TTC's base capital program is anticipated to be \$6.2 billion, 43.9% funded by the City (\$2.7 billion), 24.8% by the Government of Ontario (\$1.5 billion), and 31.3% by the

Government of Canada (\$2.0 billion) (Figure 3). Stable, predictable and long-term federal and provincial funding is necessary to invest in state of good repair projects and plan for system expansion which can only proceed with contributions from all orders of government.

Figure 3 - TTC Base 2019-2028 Staff Recommended Capital Budget and Plan*



*Inclusive of TTC's base capital program. Excludes \$91.6 million per year in Provincial Gas Tax which is applied to the TTC operating budget.

COMMENTS

Current committed intergovernmental funding agreements include the: (1) Provincial Gas Tax Fund, (2) Streetcar (LRV) Fleet Replacement Program, (3) Federal Gas Tax Fund, (4) Federal Public Transit Infrastructure Fund - Phase 1, (5) Federal Clean Water and Wastewater Fund, and (6) Ontario Municipal Commuter Cycling Program. A summary is included in Attachment 2. There are also a range of smaller funding programs that the City currently leverages to support specific projects, outlined in Table 1 above. There are executed Transfer Payment Agreements (TPAs) in place for \$4.2 billion in federal and provincial funding.

Additional intergovernmental funding programs that could potentially deliver funding for the City of Toronto include amongst others (7) Government of Canada Phase 2 Investing in Canada Plan, and (8) Disaster Mitigation and Adaptation Fund.

Intergovernmental funding for social and affordable housing and child care flows through operating budgets, with further details contained in the appropriate budget notes.

1. Provincial Gas Tax

Introduced in 2004, the Provincial Gas Tax (PGT) currently transfers two cents per litre of provincial gas tax revenues to municipalities to expand and improve their public transit systems. The program was phased in over time, and in 2013 legislation was passed that permanently dedicates a portion of annual provincial gas tax revenues to municipalities for public transportation.

Municipal allocations change annually, and are determined using a provincial allocation formula based on transit ridership (70% weighting) and population (30% weighting). Revenues must be used to support municipal public transportation expenditures above municipal baseline spending.

From 2004-2018, the City has received over \$2.3 billion which has been invested in the operating and capital requirements of the TTC.

The 2019-2028 Staff Recommended Capital Budget and Plan identifies a total of \$1.9 billion in Provincial Gas Tax investments. For the 2018-2019 program year the City of Toronto will receive approximately \$184.9 million from the Province of Ontario. Funding will be roughly \$3 million higher than the prior program year, with no change to the provincial allocation formula. The increase in funding is largely a result of the provincial funding envelope which grew based on an increase in actual fuel taxes collected.

On January 27, 2017, the previous Ontario government announced that the Provincial Gas Tax program would be enhanced by doubling the municipal share from two cents per litre to four cents per litre. The Province has committed to increasing Gas Tax funding from 2 cents per litre to 2.5 cents per litre in 2019-2020, to 3 cents per litre in 2020-2021 and to 4 cents per litre in 2021-2022. The 2019-2028 Staff Recommended Capital Budget and Plan incorporates the Provincial Gas Tax increased contribution.

The new provincial government has committed to continue the gas tax transfers as planned but has not released further details on the program enhancement.

The full list of planned PGT funded projects is in Attachment 3.

2. Toronto-TTC-Ontario Streetcar Fleet Replacement

In 2009, the Province of Ontario allocated a maximum of \$417 million for the purpose of funding up to one-third of the eligible costs of the TTC streetcar (LRV) fleet replacement project. 204 new streetcars (total project cost of \$1.2 billion) will replace the aging fleet and accommodate future growth. 122 new streetcars were in service as of January 31, 2019.

The 2019-2028 Staff Recommended Capital Budget and Plan accounts for a total of \$111 million of provincial funding (not including funding to be carried forward from 2018 into 2019) to be applied against this purchase. The cash flows and projections reflect what is currently known based on the revised delivery schedule and projected expenditures.

3. Federal Gas Tax Fund

Originally established in 2005 and extended in 2010 and 2014, the federal Gas Tax Fund (GTF) provides Canadian municipalities with over \$2 billion per year for investment in infrastructure which is allocated on a per capita basis. In 2013, the federal government indexed the federal GTF to grow at two percent per year, with actual funding increases to be applied to the program in \$100 million increments.

The federal GTF is a source of infrastructure funding, allowing municipalities the flexibility to select local priority projects within eighteen categories of eligible infrastructure. As directed by City Council, Toronto entered into an Administrative Agreement with the Government of Canada, the Province of Ontario and the Association of Municipalities of Ontario (AMO) in 2014 which governs the flow of funds until 2023.

Between 2005 and 2018 the City received approximately \$1.8 billion from the federal GTF which has been directed to the TTC to leverage over \$4 billion of investments in the transit system. In 2018, the City received \$167.4 million in federal gas tax funding.

In 2019, the City's 2019-2028 Staff Recommended Capital Budget and Plan reflects \$169.4 million in funding from the federal GTF. The 2019-2028 Staff Recommended Capital Budget and Plan reflects \$1.8 billion in federal GTF funding to be received over the 10 year period, however actual allocations beyond 2023 will be determined as part of a new (or extended) agreement.

Federal GTF allocations over the 10-year period continue to focus on fleet replacement and state of good repair projects. The full list of planned federal GTF funded projects is in Attachment 3.

4. Federal Public Transit Infrastructure Fund (PTIF) - Phase 1

The PTIF - Phase 1 is a \$3.4 billion national program that provides ridership based allocations to be used for eligible investments in transit and active transportation. The City of Toronto has been allocated up to \$856 million from the PTIF 1 program. Federal funding can cover up to 50% of eligible costs, requiring the City to match federal investments.

Initial priority projects for the PTIF were confirmed by City Council in December 2016 (EX20.4) and as appropriate, were incorporated into the 2018-2027 Recommended Capital Budget and Plan. Further details are provided in the appropriate budget notes, including TTC and Transportation Services.

In November 2017, City Council received an update on the PTIF program expenditures and requested the federal government to consider an extension of the program deadline from March 31, 2019 to March 31, 2020 in order to enable completion of projects on the approved PTIF list (EX28.3). The PTIF Transfer Payment Agreement (TPA) has been subsequently amended by the Province and City to extend the program deadline to March 31, 2020.

As per City Council direction, City staff have amended the project list within the parameters approved by City Council in November 2017 and federal requirements including the program extension in order to utilize available federal funding. The full list of Toronto's federally approved PTIF projects is provided in Attachment 4. The federal government will not contemplate further modifications to this list.

The total combined investment by the Government of Canada and the City of Toronto under PTIF – Phase 1 is approximately \$1.8 billion. Projects are underway across the

City, TTC and the Toronto Parking Authority, and must be completed by March 31, 2020. The 2019-2028 Staff Recommended Capital Budget and Plan reflects \$207.7 million in remaining PTIF funds, not including carry forwards.

5. Federal Clean Water and Wastewater Fund (CWWF)

The CWWF is a \$2.0 billion national program that provides funding for up to 50% of eligible costs for capital planning and infrastructure projects related to water, storm water and wastewater. The Province of Ontario will contribute additional funding of up to 25% of eligible costs, leaving municipalities to match the remaining 25%. The Province allocated CWWF funds to municipalities in Ontario based on local economic conditions and the amount of water, wastewater and storm water assets that are owned. The resulting allocation for the City of Toronto is \$60 million (federal - \$40 million, provincial - \$20 million). Funding under the CWWF has been directed to two projects (1) Cherry Street Stormwater and Lakefilling Project and (2) structural lining of 17km of Watermains in 29 locations in Toronto. The 2019-2028 Staff Recommended Capital Budget and Plan reflects \$3.8 million in remaining CWWF funds, not including carry forwards.

6. Ontario Municipal Commuter Cycling (OMCC) Program

In 2017, the Province of Ontario announced the OMCC Program. Program funding of \$93 million was allocated province-wide in the 2017-2018 fiscal year through proceeds from the Province's cap and trade program and was directed towards 120 municipalities for new bicycle lanes and other cycling infrastructure. Additional funding was to be allocated by the Province in future years to be determined based on availability of cap-and-trade proceeds. Under OMCC, the Province will contribute up to 80% of eligible project costs with municipalities funding the remaining 20%.

The City of Toronto received 2017-2018 funding in the amount of \$25.6 million, which can be spent until December 30, 2020. A Transfer Payment Agreement is in place and the funds have been received. The City must provide funding for at least 20% (\$6.4 million) of the eligible costs. The 2019-2028 Staff Recommended Capital Budget and Plan reflects \$24.4 million in remaining OMCC funding, not including carry forwards.

In July 2018, the Province of Ontario confirmed that as part of its cancellation of the cap and trade program that no further funding would be issued under the OMCC, but that the existing 2017-2018 funding can be spent until December 30, 2020. Funding is being applied to projects that meet the OMCC program criteria and are included in the Ten Year Cycling Network Plan or other Council-approved active transportation infrastructure projects/plans. The Province approved the list of eligible projects as part of the Transfer Payment Agreement.

7. Government of Canada Investing In Canada Plan Phase 2

Infrastructure Canada (INFC) is delivering \$33 billion over 11 years (2017-18 to 2028-29) through Integrated Bilateral Agreements (IBAs) with Provinces/Territories. This includes the following national funding envelopes:

- \$20.1 billion for public transit;
- \$9.2 billion for green infrastructure;
- \$1.3 billion for community, culture and recreation infrastructure; and
- \$2.4 billion for infrastructure needs in rural and northern communities.

On March 14, 2018, the federal and provincial government signed the Canada-Ontario IBA for the Investing in Canada Program¹. The agreement outlines federal investments to Ontario. The IBA includes a requirement of a minimum 33% matching contribution from provincial governments for municipal projects. The federal government will contribute up to 40% of eligible project costs with municipalities funding the remainder.

Through the IBA, Ontario has been allocated \$11.8 billion in federal funding, which is expected to be matched by \$10.2 billion in provincial funding as per the March 2018 provincial announcement². Approximately \$1.5 billion of Ontario's federal allocation has been transferred to other Infrastructure Canada funding programs in order to administer federal funding commitments to the Ottawa LRT Stage 2 Project and the Toronto Port Lands Flood Protection Project. As a result the IBA notes a total federal commitment of \$10.4 billion to Ontario.

On May 1, 2018, the City, the Province of Ontario, and the Government of Canada signed an agreement for the Port Lands Flood Protection and Enabling Infrastructure Project in the amount of approximately \$1.2 billion, funded equally between all three parties. Through this funding, Waterfront Toronto is directly receiving approximately \$416 million each from the Province of Ontario and the Government of Canada.

Phase 2 Funding Streams Canada-Ontario Integrated Bilateral Agreement	Federal Allocation to Ontario under IBA¹	Provincial Funding under IBA² (Province Wide)
Public Transit Infrastructure (Less funds transferred for Ottawa LRT Stage 2 Project)	8.340B (0.872B) \$7.468B	\$7.279B
Green Infrastructure (Less funds transferred for Ottawa LRT Stage 2 Project) (Less funds transferred for Port Lands Flood Protection)	2.849B (0.219B) (0.384B) \$2.246B	\$2.350B
Community, Culture and Recreation Infrastructure	\$0.407B	\$0.336B
Rural and Northern Communities Infrastructure	\$0.250B	\$0.206B

¹ <http://www.infrastructure.gc.ca/alt-format/pdf/agreements-ententes/2018/2018-ON-Bilateral-Agreement-EN.pdf>

² <https://news.ontario.ca/moi/en/2018/03/under-the-180-billioninvesting-in.html>

Phase 2 Funding Streams Canada-Ontario Integrated Bilateral Agreement	Federal Allocation to Ontario under IBA¹	Provincial Funding under IBA² (Province Wide)
Total before deductions for funding commitments (Less funds transferred)	11.846B (1.475B)	
Total Funding for Ontario under the IBA	\$10.371B	\$10.171B

In December 2016, City Council confirmed its Phase 2 Federal Infrastructure Funding priority projects in Attachment 3 of the report [EX20.4 Federal Infrastructure Funding – Phase 1 and 2](#). City Council identified a number of transit expansion projects for consideration under the Public Transit stream and additional priority projects that could be considered under the Green Infrastructure or Community, Culture and Recreation Infrastructure streams.

The City has been allocated approximately \$4.9 billion in Phase 2 funding under the public transit stream based on ridership. This includes the federal government's \$660 million prior commitment to the Line 2 East Extension (SSE) project. In March 2018, the Province announced approximately \$4.0 billion for public transit in Toronto in order to meet the minimum matching requirements of the federal program under the IBA³. The IBA did not identify a specific allocation for municipal projects under the Community, Culture and Recreation and Green Infrastructure streams.

The Province in Fall Economic Statement 2018 noted that it is committed to reform provincial transfer payments with a view to finding efficiencies and greater value for money⁴. Under the Phase 2 IBA, the Province will be responsible for "identifying and prioritizing eligible projects through engagement with local and regional governments, and will submit eligible projects to Canada for approval". The IBA also stipulates the requirement that "Ontario will ensure that projects submitted for Canada's approval represent, to the satisfaction of Canada and Ontario, a fair balance of municipal and provincial projects."

The Province has not launched the formal application intake process for projects under the Phase 2 funding streams. The City continues to engage with the Ontario Ministry of Infrastructure on expected program launch and details. Staff will report as required once further details from the Province are available on the Phase 2 federal funding program.

7. Disaster Mitigation and Adaptation Fund (DMAF)

In May 2018, the federal government announced DMAF, a national merit-based disaster mitigation program under the Investing in Canada Plan that will invest \$2 billion to support large-scale infrastructure projects to help communities better manage the risks

³ *Ibid.*

⁴ <https://www.fin.gov.on.ca/fallstatement/2018/fes2018-en.pdf>

of disasters triggered by natural hazards. DMAF provides funding of up to 40% of eligible costs for municipal projects.

The City submitted six expressions of interest in July 2018. Four applications were selected to move forward to the full application stage and were submitted to the federal government in January 2019. Projects were identified based on Council approved budgets and plans, with consideration for the DMAF program requirements and deadlines for submission of applications. The projects currently under consideration by the federal government include (1) construction of the Midtown Toronto storm sewer, (2) construction of the Fairbank-Silverthorn storm sewer, (3) a flood proofing landform at Broadview and Eastern Avenue, (4) and waterfront shoreline protection measures and tree canopy works. Applicants will be notified of the results in spring 2019. The total costs of these four projects is \$456.6 million. The City is seeking up to \$161.8 million in federal funding to support these projects. Staff will report to City Council as required once the outcome of the federal review process is complete.

Other Intergovernmental Infrastructure Funding Programs

The City continues to monitor and leverage other intergovernmental infrastructure funding opportunities as they become available.

In addition to the above programs, the City has also submitted an application to the Low Carbon Economy Challenge (LCEC) to convert existing gas powered ambulance vehicles to low-carbon vehicles. The total project cost is \$2.9 million with up to \$1.2 million requested from the federal government under LCEC. The City would contribute the remaining funding of \$1.7 million. With over \$500 million in funding nationally, LCEC funds projects that reduce emissions and generate clean growth in support of the Pan-Canadian Framework on Clean Growth and Climate Change. The City is awaiting a response from the federal government regarding the status of the application.

On January 15, 2019, Transport Canada launched the second intake of the National Trade Corridors Fund (NTCF). The NTCF will invest over \$750 million in infrastructure projects that support trade diversification and increase Canada's exports to overseas markets. Staff are currently identifying potential projects for submission based on City Council approved priorities.

Conclusion

The City's 2019-2028 Staff Recommended Capital Budget and Plan focuses investments in both state of good repair and new capital construction while addressing City Council priorities for critical but previously unmet needs. Partnerships with other orders of government through funding agreements provide significant capital contributions that help address many of the City's key strategic priorities.

The Strategic and Corporate Policy Division coordinates many of these intergovernmental funding opportunities with support from key divisions including Financial Planning, Corporate Finance, and Accounting Services. City staff continue to identify additional intergovernmental funding opportunities to leverage funds for City Council approved priority projects.

CONTACT

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SIGNATURE

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City Manager

ATTACHMENTS

Attachment 1 – City Council Decision History

Attachment 2 – Intergovernmental Program Summary

Attachment 3 – Gas Tax Funding for TTC's 2019-2028 Staff Recommended Capital Budget and Plan

Attachment 4 – Public Transit Infrastructure Fund Phase 1 Toronto Projects