

Intergovernmental Infrastructure Funding in the 2020-2029 Recommended Capital Budget and Plan

Date: February 13, 2020

To: Special Executive Committee

From: City Manager and 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 2020-2029 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);
- Federal Gas Tax Fund;
- Federal Public Transit Infrastructure Fund - Phase 1;
- Federal Clean Water and Wastewater Fund;
- Federal Disaster Mitigation and Adaptation Fund; and
- Ontario Municipal Commuter Cycling Program.

The Government of Canada and the Province of Ontario are expected to contribute roughly \$4.8 billion (11%) towards the City of Toronto's \$43.46 billion 2020-2029 Staff Recommended Tax and Rate Supported Capital Budget and Plan (federal: \$3.2 billion; provincial: \$1.6 billion).

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

RECOMMENDATIONS

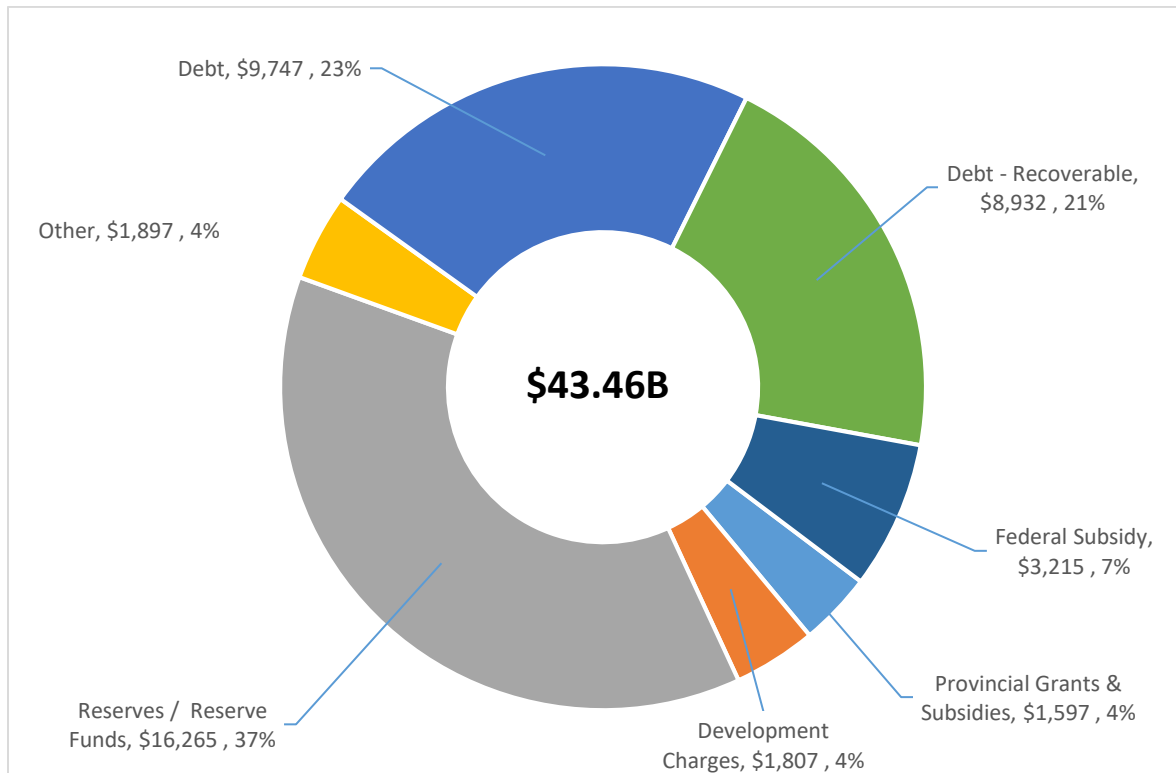
The City Manager and the Chief Financial Officer and Treasurer recommend that:

1. City Council request the federal government to permanently double the federal Gas Tax Fund and to increase its annual growth rate from 2 to 3.5 per cent, aligned with the request of the Federation of Canadian Municipalities.

FINANCIAL IMPACT

In total, the Government of Canada and the Province of Ontario are expected to contribute \$4.8 billion (11%) towards the \$43.46 billion 2020-2029 Staff Recommended Tax and Rate Supported Capital Budget and Plan (federal: \$3.2 billion; provincial: \$1.6 billion). Federal and provincial funding is summarized in Table 1 below.

Figure 1 - 2020-2029 Staff Recommended Tax and Rate Supported Capital Budget and Plan, Where the Money Comes From (\$43.46 billion)



In addition to the funding programs discussed in this report, the 2020-2029 Staff Recommended Tax and Rate Supported Capital Budget and Plan and appropriate budget notes provide details on intergovernmental funded projects and programs comprising the \$4.8 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 2020-2029 (\$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		600	600
Federal Gas Tax Fund	TTC - Conventional Capital Program		1,953,776	1,953,776
Ontario Municipal Commuter Cycling Program	Toronto Parking Authority (TPA) - Bike Share Expansion, Transportation Services - Cycling Infrastructure	17,223		17,223
Provincial Gas Tax ⁽²⁾	TTC - Conventional Program	956,522		956,522
Public Transit Infrastructure Fund - Phase 1 ⁽³⁾	TTC - Conventional Program; Transit Expansion Studies; Active Transportation Projects		6,814	6,814
Public Transit Infrastructure Fund Phase 2 - Future Year Estimates ⁽⁴⁾	SmartTrack ⁽⁵⁾		585,000	585,000
Other Programs <i>(CSIF; Federal Public Safety Canada Funding; Move Ontario; Ports Toronto Funding Grant, SHAI, DMAF, 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.	123,363	168,365	291,728
Intergovernmental Funding to be Identified	TTC - Relief Line Advance Works	500,000	500,000	1,000,000
Total		1,597,108	3,214,555	4,811,663

Notes:

- (1) Total federal/provincial allocation to Toronto from the CWWF is \$60 million. The 2020-2029 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) Total federal allocation to Toronto from PTIF1 is up to \$856 million. The 2020-2029 Staff Recommended Capital Budget and Plan reflects remaining funds (not including carry forwards).
- (4) Federal funding committed, subject to program approval and key terms and conditions.
- (5) Provincial investments in GO expansion/Regional Express Rail will support SmartTrack.

DECISION HISTORY

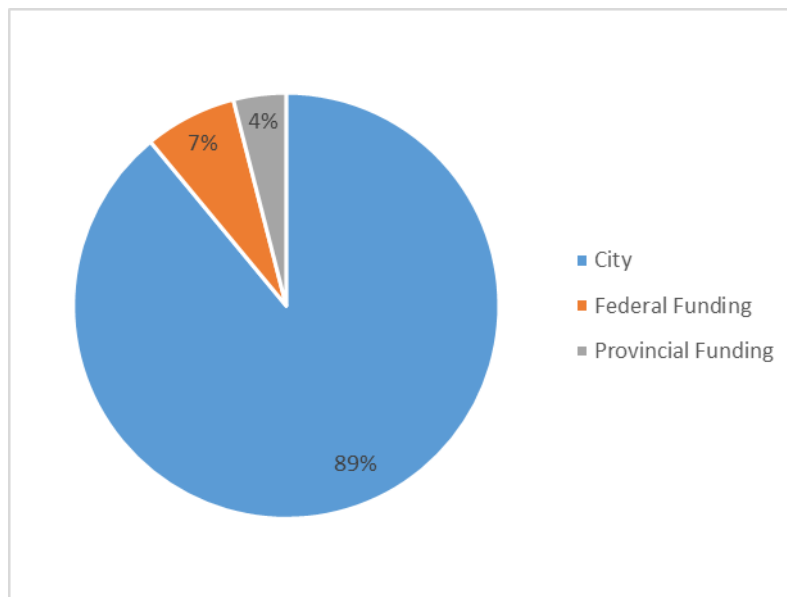
City Council provides the authority to enter into intergovernmental funding agreements and has approved funding for specific projects through the capital budget process. City Council has also authorized staff to negotiate and enter into agreements, as directed, for new intergovernmental funding for priority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

ISSUE BACKGROUND

The City's 2020-2029 Staff Recommended Tax and Rate Supported Capital Budget and Plan identifies \$43.46 billion in public investments to infrastructure such as transit and transportation, water and wastewater, environment 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 11% (\$4.8 billion) of the funding outlined in the 2020-2029 Staff Recommended Tax and Rate Supported Capital Budget and Plan (Figure 2).

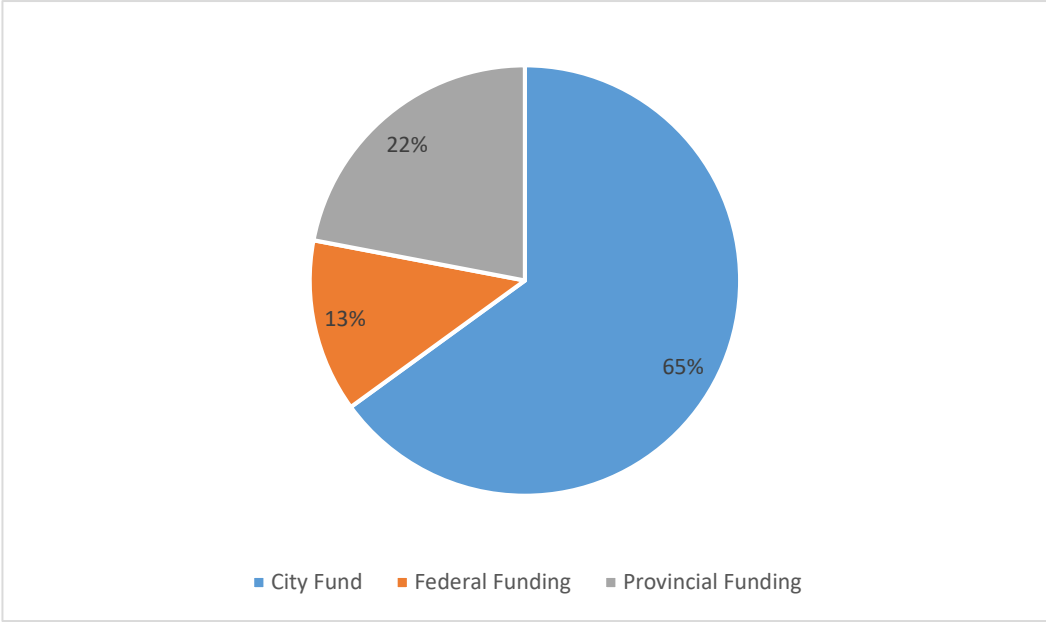
Figure 2 - Share of funding in the 2020-2029 Staff Recommended Tax and Rate Supported Capital Budget and Plan



Roughly 83% (\$3.99 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 and the SmartTrack Stations Program are assumed, subject to finalization of contribution agreements.

The TTC's base capital program is anticipated to be \$11.4 billion, 65% funded by the City (\$7.4 billion), 13% by the Government of Ontario (\$1.5 billion), and 22% by the Government of Canada (\$2.5 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 2020-2029 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) Federal Gas Tax Fund, (3) Federal Public Transit Infrastructure Fund - Phase 1, (4) Federal Clean Water and Wastewater Fund, (5) Disaster Mitigation and Adaptation Fund (DMAF), 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.

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.

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 Province has yet to announce the City's 2019-20 Provincial Gas Tax allocation.

The 2020-2029 Staff Recommended Capital Budget and Plan identifies a total of roughly \$956 million in Provincial Gas Tax investments.

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

2. 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 2019 the City received approximately \$2.1 billion from the federal GTF which has been directed to the TTC to leverage over \$4.2 billion of investments in the transit system. In 2019, the City received \$167.4 million in federal gas tax funding. On top of this funding, the Government of Canada's 2019 Budget announced a special one-time top up of gas tax funds for the 2018-19 federal gas tax program year. As such, the City received an additional \$167.4 million in federal gas tax funding.

In 2020, the City's 2020-2029 Staff Recommended Capital Budget and Plan reflects roughly \$166.6 million in funding from the federal GTF. The 2020-2029 Staff Recommended Capital Budget and Plan reflects roughly \$1.95 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.

The Federation of Canadian Municipalities (FCM) has called on the federal government to strengthen the federal gas tax fund by increasing its annual escalator from 2 to 3.5 percent - and explore options to maximize the impact of this proven funding model, for communities of all sizes, including phasing in a permanent doubling of the transfer. Doubling of the gas tax fund would provide additional funding for the City of Toronto to advance crucial infrastructure projects.

3. 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. City staff are currently reviewing the status of PTIF1 projects and will report back as needed. The 2020-2029 Staff Recommended Capital Budget and Plan reflects roughly \$592 million in remaining PTIF and PTIS funds, not including carry forwards.

4. 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. CWWF projects must be complete by March 31, 2020. The 2020-2029 Staff Recommended Capital Budget and Plan reflects \$0.6 million in remaining CWWF funds, not including carry forwards.

5. 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 of disasters triggered by natural hazards. DMAF provides funding of up to 40% of eligible costs for municipal projects. There is no provincial funding requirement. Projects must be complete by March 31, 2028.

To date, the City has received approval for four projects under DMAF. Funding has been approved for the following projects:

- Fairbank-Silverthorn Trunk Storm Sewer System (\$73.2M Fed / \$133.49M City)
- Midtown Toronto Relief Storm Sewer (\$37.16M Fed / \$82.84M City)
- Tree Canopy and Waterfront Shoreline (\$11.98M Fed / \$17.98M City)
- Toronto Culvert Rehabilitation (\$8.7M Fed / \$13.1M City)

The 2020-2029 Staff Recommended Capital Budget and Plan reflects \$130.2 million in DMAF funds, not including carry forwards. The Government of Canada's 2019 platform commitment indicated providing an additional \$1 billion over 10 year for projects under DMAF. In addition, the federal government's mandate letter to the Minister of Infrastructure and Communities instructs Minister McKenna to launch a new call for proposals under DMAF. City staff are monitoring federal communications for any additional DMAF intakes.

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 2020-2029 Staff Recommended Capital Budget and

Plan reflects roughly \$17.2 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.

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)
Public Transit Infrastructure (Less funds transferred for Ottawa LRT Stage 2 Project)	8.340B <u>(0.872B)</u> \$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) <u>(0.384B)</u> \$2.246B	\$2.350B
Community, Culture and Recreation Infrastructure	\$0.407B	\$0.336B
Rural and Northern Communities Infrastructure	\$0.250B	\$0.206B
Total before deductions for funding commitments (Less funds transferred) Total Funding for Ontario under the IBA	11.846B <u>(1.475B)</u> \$10.371B	\$10.171B

Under the ICIP IBA, the Province is 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."

ICIP – Public Transit Infrastructure Stream

The City has been allocated approximately \$4.9 billion in federal funding under the ICIP – Public Transit Infrastructure Stream (PTIS) based on ridership. This includes the federal government's \$660 million prior commitment to the Line 2 East Extension (SSE) project. In April 2019, Toronto City Council confirmed its priority transit expansion projects for its federal allocation under ICIP-PTIS as part of EX4.1 – Toronto's Transit Expansion Program – Update and Next Steps³. Subsequently, in October 2019, City Council revised its priority transit expansion projects based on discussions with the Province of Ontario. As such, City Council's priority transit expansion projects for ICIP-PTIS funding are the SmartTrack Stations Program, Bloor-Yonge Capacity Improvement Project, 3-stop Line 2 East Extension and the Ontario Line. The latter two projects are subject to the City entering into the Preliminary Agreement with Ontario, and in anticipation of the realization of the City's project expectations including project benefits as identified in EX9.1 – Toronto-Ontario Transit Update⁴.

³ <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX4.1>

⁴ <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX9.1>

In August 2019, the Province of Ontario and the Government of Canada announced priority funding consideration for SmartTrack Stations Program and Bloor-Yonge Capacity Improvement Project. Funding is subject to final provincial and federal Treasury Board approval. City staff continue to work with the Province and Infrastructure Canada to advance the City's ICIP-PTIS priority projects.

ICIP – Community, Culture and Recreation Infrastructure Stream

On September 3, 2019, the Province of Ontario launched an intake for the federal Investing in Canada Infrastructure Program (ICIP) – Community, Culture and Recreation (CCR) infrastructure funding stream. The ICIP-CCR stream supports projects that improve access to and/or quality of community, cultural, and recreation priority infrastructure projects. The federal government will contribute up to 40% of eligible project costs for municipal projects and requires the Province to provide no less than 33.33% matching contribution with municipalities funding the remainder (26.67%) or identifying alternative sources to cover the municipal portion. The Province, as a cost-sharing partner and administrator of the federal funding program, will be prioritizing and nominating to the federal government projects that are community-oriented, non-commercial and open to the public. The CCR stream is merit-based and does not have a specific allocation for municipal projects.

Toronto City Council approved the list of project applications in October 2019 under Attachments 1 and 2 of EX9.4⁵, and applications were submitted by the deadline of November 12, 2019. City staff are awaiting provincial and federal approvals, anticipated for spring or summer 2020.

ICIP – Green Infrastructure Stream

In October 2019, the Province of Ontario launched an intake for the federal Investing in Canada Infrastructure Program (ICIP) – Green Infrastructure stream for municipalities with populations under 100,000. As such, the City is not eligible to apply for roughly \$200 million in federal and provincial funding available under this intake. City staff continue to request that the Province open intake for municipalities with populations over 100,000. It is important to note that through Ontario's 2019 Budget, the Province of Ontario indicated its intentions to apply its federal funding under the ICIP – Green stream towards its subway projects⁶. The Green stream is merit-based and does not have a specific allocation for municipal projects.

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 been successful in its application for federal funding under the Low Carbon Economy Challenge (LCEC) to convert existing gas powered ambulance vehicles to low-carbon vehicles. Federal funding for

⁵ <https://www.toronto.ca/legdocs/mmis/2019/ex/bgrd/backgroundfile-139185.pdf>

⁶ <https://budget.ontario.ca/pdf/2019/2019-ontario-budget-en.pdf>

this project is up to \$1.16 million, with the City contributing the remainder of project costs (estimated at roughly \$1.74 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.

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. The City of Toronto submitted the Gardiner Expressway project for federal funding under the NTCF. However, in April 2019 Transport Canada deemed the project unsuccessful as it did not meet essential assessment criteria on trade diversification.

Conclusion

The City's 2020-2029 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 Intergovernmental and Agency Relations Unit coordinates many of these intergovernmental funding opportunities with support from key divisions including Financial Planning and Accounting Services. City staff continue to identify additional intergovernmental funding opportunities to leverage funds for City Council approved priority projects.

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SIGNATURE

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ATTACHMENTS

Attachment 1 – City Council Decision History

Attachment 2 – Intergovernmental Program Summary

Attachment 3 – Gas Tax Funding for TTC's 2020-2029 Staff Recommended Capital Budget and Plan

Attachment 4 – Public Transit Infrastructure Fund Phase 1 Toronto Projects