



REPORT FOR ACTION

Relationship Framework: Roadmap to Modernization of Toronto Parking Authority's Operating Mandate and Financial Model

Date: April 26, 2022

To: Audit and Risk Management Committee of the Board of Directors of Toronto Parking Authority

From: President, Toronto Parking Authority

Wards: All

SUMMARY

Toronto Parking Authority (TPA) is North America's largest municipal operator of public parking. TPA is unique from most City Agencies in that it fully funds its operations from revenues. It also contributes significant amounts to the City's general revenues. Based on the current Net Income Sharing Agreement, TPA remits to the City 85 percent of its net annual income and since 2002 has contributed more than \$1.3 billion to the City of Toronto to fund other municipal services and programs, including, affordable housing, transit and parks development.

Throughout the pandemic, TPA has aggressively managed its head count, operating expenses and capital spending to maintain its cash reserves. In fact, the TPA delivered positive net income throughout the pandemic with over \$19.7 million provided to the City of Toronto in 2021; virtually unheard of in the transportation sector. In addition, TPA's Bike Share program achieved record ridership numbers in 2021 while squarely positioning itself as the trusted executional arm responsible for delivering the public network of Electric Vehicle Charging Infrastructure that will contribute to meeting the City's TransformTO policy objectives.

As the City continues to recover from the pandemic, the TPA is focused on becoming the world's best provider of sustainable parking, bike share and last mile mobility experiences for our customers, our partners and our City. Achieving this vision will require that TPA change its value proposition to create a seamless customer experience that delivers on choice, ease and speed through the City. Conceptually, our new go to market proposition will position TPA as an integrator of mobility services across an expanded array of channels in both the B2C and B2B sectors.

TPA is well positioned to capture and monetize these opportunities in 2022 and beyond; however, it requires a modernization of its mandate to reflect a changing city landscape. The risk statements included in TPA's 2022 Annual Operating Plan (and 2023 - 2031 Capital Plan) identified a number of issues that could negatively impact the TPA's ability to execute its strategy.

In particular, the absence of an integrated City-wide parking strategy defining our winning aspirations and establishing clarity of responsibilities and accountabilities remains a barrier to fully realizing our objectives. Secondly, the welcome expansion of the TPA's scope including Bike Share and EV Charging has placed an incremental burden on the TPA's capacity to fund the required capital infrastructure and opex associated with these initiatives. Thirdly, the planned re-purposing of 40 TPA parking assets for other city-building purposes will have a negative impact on our top line performance over the mid-term.

Notwithstanding the foregoing, management remains confident these challenges are manageable and can be resolved satisfactorily within our current financial envelope. The TPA business generates substantial net income each year - averaging \$65 million annually pre-pandemic, which is more than sufficient to meet our long-term requirements. Fundamentally, Management's task is to engage our City partners and develop an updated revenue sharing model that not only reflects current market conditions, but more importantly, supports the ambitious growth strategy of the TPA while providing the City with a sustainable source of financial dividends. The current revenue sharing model assigns an 85percent/15percent net income split with the city. This change was executed in 2017; prior to 2017 the dividend distribution was 75percent/25percent.

TPA has conducted a financial analysis that assesses various revenue, operating expense and capital spending scenarios over the next five years. This analysis will be presented to TPA Board of Directors via an in-camera presentation in order to protect commercially sensitive information.

RECOMMENDATIONS

The President, Toronto Parking Authority recommends that:

1. The Board of Directors, Toronto Parking Authority, receive this report for information.

FINANCIAL IMPACT

There is no financial impact to this report.

DECISION HISTORY

City-Wide Real Estate Model and Fair Market Value Policy

At its meeting of February 18, 2022, the Board of Directors of Toronto Parking Authority received PA28.3, which provided an update on the advancement of key policy initiatives, programs and projects impacting Toronto Parking Authority. These include the development of a City of Toronto – Toronto Parking Authority Relationship Framework, the continued implementation of the City-Wide Real Estate Model, the Parking Portfolio Review being undertaken by CreateTO and the development of a City-Wide Parking Strategy being led by Transportation Services.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.PA28.3>

At its meeting of November 9, 10 and 12, 2021, City Council amended the "Policy Governing Land Transactions Among City Agencies, Boards, Commissions and Departments and Proceeds from Sale of Surplus City-Owned Real Property" (Clause 1 of Report 9 of the Policy and Finance Committee, as adopted by City Council on June 18, 19 and 20, June 2002) to delete clause (9) so that if there is a jurisdictional transfer or sale of land under the jurisdiction of the Toronto Parking Authority which was purchased by the City with parking revenues, the land will no longer be valued at fair market value with all net proceeds going to the Parking Reserve Fund, and the Toronto Parking Authority will no longer be required to pay fair market value if it is receiving a jurisdictional transfer of land.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX27.4>

At its meeting of November 8, 2021, the Board of Directors of Toronto Parking Authority received PA27.1, which included a presentation from TPA that provided an overview of TPA's 2022 Annual Operating Plan. Priority projects identified in the 2022 Annual Operating Plan included the identification of the City-Wide Parking Strategy, City of Toronto / TPA Relationship Framework.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PA27.1>

At its meeting of September 29, 2021, the Board of Directors of Toronto Parking Authority received PA26.3, which provided an update on the status of TPA facilities identified for city building opportunities and initiatives or which are otherwise being redeveloped through joint venture projects. This report also provided an update on the continued implementation of the City-Wide Real Estate model, CreateTO's Parking Portfolio Review and the need for further alignment between TPA's Net Revenue Share Agreement with the City and the potential removal of the Fair Market Value Policy.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PA26.3>

At its meeting of September 29, 2021, the Board of Directors of Toronto Parking Authority approved the 2022 Operating Budget and 2022-2031 Capital Budget for Toronto Parking Authority, as outlined in the report (September 10, 2021) from the President, Toronto Parking Authority. This report identified the need to co-create a new

integrated relationship framework with City partners (Revenue Share Agreement, Fair Market Value Policy, Enforcement, City Parking Strategy) as priority areas needed to future proof sustainability. The risk statement included in TPA's 2022 Capital Budget and 2023 - 2031 Capital Plan identified a number of risks that could impact upon TPA's ability to deliver its Capital Budget and Plan and ultimately deliver on its vision and mission statement. These included, the fragmented governance of City-wide parking programs, the significant capital investments needed to address TPA's legacy on-street parking payment equipment, a backlog of structural, safety, security and technology investments needed in TPA's off-street facilities and the need to respond to market driven demands for electric vehicle charging infrastructure.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PA26.2>

At its meeting of July 19, 2021, the Board of Directors of Toronto Parking Authority received PA26.1, which included a presentation from the City Manager's Office about the development of a City of Toronto / TPA Relationship Framework, including its purpose, content and structure.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PA25.12>

At its meeting of July 19, 2021, the Board of Directors of Toronto Parking Authority received PA25.12, which included an update on TPA's Parking Management Portfolio Update. In this report, TPA identified that TPA is working to address the concerns it has with the use of Parking Management Agreement with other City Divisions and more generally to address TPA's current financial state and how TPA can ensure it has access to the funding needed to sustain its business. Key initiatives include: the development of a relationship framework, review of the fair market value policy, TPA's development of an Asset Management Plan; and replacement of the expired Net Revenue Share Agreement with the City.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PA25.12>

At its meeting of July 19, 2021, the Board of Directors of Toronto Parking Authority received PA25.1, Toronto Parking Authority - 2021 Second Quarter Financial Update. This report highlighted the need to both develop a Relationship Framework with the City and update TPA's net revenue sharing agreement with the City.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PA25.1>

At its meeting of May 12, 2021, the Board of Directors of Toronto Parking Authority received PA23.5, which provided an update on the status of TPA facilities identified for city building opportunities and initiatives or which are otherwise being redeveloped through joint venture projects. This report identified that TPA, CreateTO and the Corporate Real Estate Management Division were working through the full implementation of the City-wide real estate model and identified the "fair market value policy" as a key issue requiring alignment with relevant policies.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PA23.5>

At its meeting of May 12, 2021, the Board of Directors of Toronto Parking Authority received PA23.4, which included a presentation, City-Wide Real Estate - Next Phase of Implementation, from David Jollimore, former Director, City-wide Real Estate Program.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PA23.4>

At its meeting of April 7 and 8, 2021, City Council approved the Toronto Parking Authority Procedures By-law included in Attachment 1 to the January 25, 2021 report from the Interim City Clerk.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX22.11>

At its meeting of January 30, 2019, City Council adopted EX1.2 and requested that TPA Board of Directors to develop a governance and procedural policy, which addresses among other items the governance roles and duties of Board members, the Chair and TPA President.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX1.2>

City-Wide Parking Strategy

At its meeting of April 6 and 7, 2022, City Council received IE28.8 for information, which sets out a framework for the development of a city-wide parking strategy for Toronto, and requested the General Manager, Transportation Services, to include in the development of the Parking Strategy a review of the impact to City revenues when on-street parking spaces are displaced due to other uses, and to include a proposed approach to maximizing those revenues post-COVID recovery.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.IE28.8>

Net Income Sharing Agreement

At its meeting of February 15 and 16, 2017, City Council adopted EX22.2 and renewed the Net Income Sharing Agreement with the City of Toronto. The Extended Net Income Sharing Agreement increased the TPA's contribution to 85 percent of its net income for the year from on-street and off-street parking operations to the City, instead of the 75 percent previously provided.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.2>

COMMENTS

As TPA continues its transformation into a mobility services provider, it will require the governance structure, mandate and access to retain earnings needed to successfully deliver the world's best sustainable parking, bike share and last mile mobility experiences. A roadmap of the strategic initiatives that will help TPA to transform itself and access the supports it needs to be successful, is provided below.

Relationship Framework

At its meeting of January 30, 2019, City Council adopted EX1.2 and requested that TPA Board of Directors to develop a governance and procedural policy, which addresses among other items the governance roles and duties of Board members, the Chair and TPA President. To address these requests, the Board of Directors of the TPA has

adopted a Procedure By-Law for the Board of Directors in February 2021, approved by City Council in April 2021.

TPA is working with the City Manager's Office (CMO) on the development of a City of Toronto / TPA Relationship Framework. The framework will promote an effective and collaborative relationship between the City and TPA, while at the same time providing clarity about TPA's mandate, City Council's delegations of authority, the responsibilities and obligations of TPA, including key operating principles, reporting requirements and expectations around governance, transparency and accountability.

TPA and the CMO will be presenting a draft framework to the Board of Directors at its meeting of May 27, 2022. Subject to the feedback received, it is anticipated that City Council will be requested to adopt the Relationship Framework at its meeting of July 19 and 20, 2022.

As TPA continues its transformation, it is expected that both the Relationship Framework and City Council's delegated authorities will require further updates/amendments to include a more fulsome extension of TPA's mandate and the adjustments to TPA's delegation of authorities to provide it with the operational flexibility needed to accelerate its growth agenda. These subsequent changes are expected in the first quarter of 2023.

Parking Portfolio Review

Following the implementation of the City-wide Real Estate Model, City Council adopted a City-wide real estate strategy in 2019 and directed CreateTO to undertake a strategic review of 11 real estate asset types owned by the City, including a review of the City's portfolio of parking assets. Generally, the review of each asset class involves data collection, evaluation of performance and potential, stakeholder consultations, evaluation of program needs, and recommendations to the CreateTO Board and City Council regarding the best use of real estate to meet a range of City Council objectives. This process measures operational, financial and strategic impacts and aims to maximize City-wide benefits.

The parking portfolio review is being carried out in close consultation with TPA and will help to define which properties may be underutilized from a city-building perspective and therefore flagged for future city-building opportunities. Additional information about the scope and schedule of the parking portfolio review is expected to be provided to TPA Board of Directors by CreateTO in the second quarter of 2022.

City-Wide Parking Strategy

As part of the development of the Parking Portfolio Review, it became apparent that a broader city-wide parking strategy was needed to help inform decisions about the future of TPA's parking portfolio, the value that parking provides to residents, visitors,

businesses and stakeholders and how TPA service delivery and its changing value proposition contribute towards city-building aspirations.

At the same time, there is an opportunity to review the governance structure of the parking programs that are operated by a variety of City Divisions and Agencies to better understand roles, responsibilities and areas of overlap. This review will provide critical insights on how to best achieve efficiencies and strategic alignment with a focus on city-wide and city-building outcomes.

The development of a City-Wide Parking Strategy will be led by Transportation Services in close collaboration with TPA and other partner Divisions and Agencies. Completion of the strategy is anticipated in 2023 and updates to TPA Board of Directors will be provided as the work continues to progress.

City-Wide Real Estate Model

As Management has outlined on numerous occasions to TPA Board of Directors (refer to decision history), Corporate Real Estate Management (CREM) continues to work through the full implementation of the City-Wide Real Estate (CWRE) Model with TPA, CreateTO and others to ensure City-owned assets and relevant policies are aligned with the model. The removal of the "Fair Market Value" policy at the November 9, 10 and 12, 2021 meeting of Council, will mean that TPA will not retain earnings on a portion of the gain on sale of properties it acquired. Furthermore, as TPA is required to transfer properties under its operational management outside of the fair market value structure, TPA will be required to write off the property acquisition costs and any undepreciated capital equipment costs that are on TPA's books at the time of transfer.

At the present time, there are at least 18 TPA facilities that have been identified for repurposing where TPA is not anticipating to receive new parking facilities or other assets through the redevelopment of these sites. The 18 sites are in various stages of development and the timelines for transfer will be distributed over a number of years beginning in 2024.

TPA is working with Corporate Services, CREM and Finance and Treasury Services to assess the financial impacts to both the TPA and the City and is exploring the feasibility of the divisions/agencies receiving TPA facilities as being responsible for offsetting the net book value of the TPA facilities that would otherwise have to be written off when transferred outside of a fair market value framework.

Asset Management Strategy & Plan

Historically, TPA employed a buy and hold strategy that resulted in the acquisition of real estate and the operation of parking facilities as interim uses. As property values increased over time, these assets were redeveloped through joint venture partnerships

with TPA being provided new parking facilities and proceeds that could be reinvested into the parking program. Because TPA's facilities were intended as interim uses, TPA would typically make minimal capital investments in its facilities avoiding major restorative works wherever possible.

As TPA's business model has adapted to reflect the CWRE model, there are now minimal opportunities to leverage real estate assets to replace aging infrastructure with new facilities. Given the lack of investment that has occurred in TPA facilities over the years, TPA is now facing a backlog in its state-of-good-repair (SOG) capital work that is estimated to be in the order of \$80 - \$100 million. TPA is working to confirm these estimates by undertaking condition assessments of its parking garages and surface parking facilities. Parking garages that are older than ten (10) years have already been assessed while the consultant services needed to carry out an assessment of TPA's surface parking facilities is currently being procured.

Following the completion of the condition assessments, TPA will develop an asset management strategy and plan that prioritizes investments in TPA's facilities. Prioritization will consider, among other things, health and safety issues, financial performance, coordination with other planned/required capital works, etc. Procurement of the consultant services needed to support the development of an asset management strategy is targeted for release in the second quarter of 2022.

Net Income Sharing Agreement

Under TPA's Net Income Sharing Agreement with the City, the TPA pays the City the greater of \$38 million or 85 percent of net income earned annually, subject to certain exceptions which may have an adverse and material effect on the net income as defined under the Income Sharing Agreement.

As TPA's revenues have been impacted by its new business model, a reduction in activity associated with the pandemic and the new and expanded services that TPA is now providing, TPA has had to increasingly rely on its cash reserves instead of its retained earnings to fund its capital programs. Given the uncertainty with its financial outlook, TPA has carried out a financial analysis that considers various revenue, opex and capital spending forecast scenarios that could impact the stability of its cash reserves. The results of the financial analysis will be presented to the Board of Directors in a confidential presentation.

In addition, TPA has initiated discussions with the City about collaborating with Finance and Treasury Services around a modernization of the current Net Income Sharing Agreement. An updated agreement is anticipated to be presented with TPA's proposed 2023 Operating and Capital Budgets.

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SIGNATURE

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