

## SmartTrack Stations Program – Update

**Date:** March 7, 2023

**To:** Executive Committee

**From:** Deputy City Manager, Infrastructure and Development Services

**Wards:** All

### REASON FOR CONFIDENTIAL INFORMATION

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The attachment to this report contains commercial information, supplied in confidence to the City of Toronto, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization and involves the security of the property belonging to the City of Toronto.

### SUMMARY

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In February 2021, through EX20.02 - Advancing the SmartTrack Stations Program, City Council approved the terms negotiated with the Province of Ontario to allow the SmartTrack Stations Program (the “Program”) to proceed to construction. These terms established that the Program would be delivered by the Province and/or its agencies (Metrolinx and Infrastructure Ontario) and that its scope would consist of five stations, namely, Finch-Kennedy, East Harbour, King-Liberty, St. Clair-Old Weston and Bloor-Lansdowne. The City’s capital contribution to the Program was reconfirmed to be a total of \$1.463 billion (the “Program Budget”), inclusive of \$585 million in funding from the Government of Canada.

The Program represents a significant investment to improve transportation choices within Toronto and leverages existing transit infrastructure to serve more people. Combined with Metrolinx’s GO Expansion Program, SmartTrack will accelerate the transformation of heavy rail infrastructure in Toronto from a regional commuter service into an urban rapid transit network, thereby bringing transit faster to communities across the city.

Since the adoption of the aforementioned staff report, numerous unanticipated factors have caused the estimated costs of the Program to significantly increase. Metrolinx has advised the City that it has experienced cost pressures across its programs stemming from market economic challenges and market saturation for large and complex capital

projects, amongst other factors. Metrolinx's engagement with the market also identified several current conditions that led to higher costs in comparison to what was known in 2020 when the original Program Budget was established, including:

- Uncertainty in supply chain and market conditions including past effects on commodity prices and risk of availability;
- Significant concerns about the uncertainty of cost inflation, resulting in the project owner retaining the risk of future cost increases and needing to protect against future cost pressures beyond current projections;
- An increase of projects in the rail sector, as well as other construction sectors, leading to labour shortages and less market participation/competition, including opportunities with other clients in the market that have lower risk scenarios or require less time to deliver; and
- Maturation of schedules in contracts specific to work in a rail corridor with cost implications. These have been added to improve safety and to reduce/avoid impacts to service disruption.

The rationale provided by Metrolinx is consistent with current conditions experienced by the City through the planning and execution of its major capital projects.

As a result of the above factors, the estimated cost of the Program has now exceeded the existing Program Budget of \$1.463 billion. To deliver the existing five station scope, roughly \$234 million in additional funding is required at this time, with further details outlined in Table 1 of Confidential Attachment 1.

City staff are seeking City Council direction to request the Province of Ontario to pay for all amounts above the original Program Budget of \$1.463 billion to deliver the Program due to increased costs, which as of the date of this report is estimated at \$234 million. Since the Program will also benefit the Province through increased ridership on the GO system, and as the Province will own and maintain the SmartTrack Stations, there is a strong rationale for the Province to contribute towards the increase in Program's costs.

A decision on the future of the Program is required urgently in order to award the design-build (DB) procurement for the Bloor-Lansdowne Station contract in early April. With a DB procurement, the City, through Metrolinx, would be committing to proceed to detailed design and construction and as such, there may be no opportunity for the City to reconsider or "off-ramp" its commitment to the station's delivery once the contract is awarded. Metrolinx has secured an extension to the bid validity date with the proponent until April 5, 2023. Prior to making this commitment, City staff are seeking City Council's direction to notify Metrolinx that the City will not proceed with the delivery of the Bloor-Lansdowne Station until the Province has committed the additional funding required to deliver the Program as set out above.

To date, the City has made significant financial investments to advance the delivery of the SmartTrack Program. Current incurred costs per station are identified in Table 2 of Confidential Attachment 1.

## **RECOMMENDATIONS**

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The Deputy City Manager, Infrastructure and Development Services recommends that:

1. City Council authorize and direct the City Manager to negotiate with the Province of Ontario for the Province to commit to pay all amounts above the original SmartTrack Program Budget of \$1.463 billion which are required to deliver the Program due to increased costs, as further detailed in Table 1 of Confidential Attachment 1, and which as of the date of this report are estimated at \$234 million.
2. Conditional upon reaching an agreement with the Province of Ontario as contemplated in Recommendation 1, City Council authorize the City Manager to enter into and execute an amendment to the Revised Ontario Toronto Agreement in Principle with the Province of Ontario, dated August 13, 2021 (the "Revised AIP") and all other necessary agreements, including all amendments, renewals and ancillary agreements, with the Province and/or Metrolinx to give effect thereto, upon such other terms and conditions satisfactory to the City Manager, and in a form satisfactory to the City Solicitor.
3. If it is not possible to reach the necessary agreement with the Province of Ontario as contemplated in Recommendation 1, City Council direct the City Manager to report back to the Executive Committee as soon as possible with a full analysis of available options for consideration.
4. City Council direct the City Manager to notify Metrolinx that the design-build contract for the Bloor-Lansdowne Station should only be awarded once the Province has committed to paying the costs as set out in Recommendation 1.
5. City Council authorize the public release of Confidential Attachment 1 following completion of the SmartTrack Stations Program as it contains commercial information, supplied in confidence to the City, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization and involves the security of the property belonging to the City of Toronto.

## **FINANCIAL IMPACT**

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There are no financial implications to the City as a result of this report. Subject to City Council approval of the recommendations contained herein, City staff will request the Province of Ontario to pay for all increases required to deliver the existing scope of the SmartTrack Stations Program, which as of the date of this report is estimated at \$234 million. The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

## DECISION HISTORY

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In November 2016, City Council adopted with amendments *EX19.1 Transit Network Plan Update and Financial Strategy* and endorsed a Summary Term Sheet that established principles for cost-sharing on a number transit expansion initiatives, including the SmartTrack Stations Program.

Link: [Agenda Item History - 2016.EX19.1 \(toronto.ca\)](#)

In April 2018, City Council adopted with amendments *EX33.1 Implementation of the SmartTrack Stations Program and the Metrolinx Regional Express Rail Program* and approved a contribution of up to \$1.463 billion to Metrolinx for the SmartTrack Stations Program subject to the terms and conditions described in Attachment 1 of the report. The approved funding and financing strategy includes \$585 million in federal funding under Investing in Canada Infrastructure Program – Public Transit Stream.

Link: [Agenda Item History - 2018.EX33.1 \(toronto.ca\)](#)

In October 2019, City Council adopted with amendments *EX9.1 Toronto-Ontario Transit Update* and authorized the City Manager to negotiate, enter into and execute a Preliminary Agreement with the Province and/or any other relevant provincial agency, in accordance with the terms set out in the term sheet in Attachment 6 to the report.

Link: [Agenda Item History - 2019.EX9.1 \(toronto.ca\)](#)

In February 2021, City Council adopted *EX20.02 Advancing the SmartTrack Stations Program* and approved the recommended terms negotiated with the Province of Ontario, outlined in Attachment 1 to the report, to allow the SmartTrack Stations Program to proceed to construction. These terms provide that the Program, which will be delivered by the Province and/or its agencies (Metrolinx and Infrastructure Ontario), will consist of five stations at: Finch-Kennedy, East Harbour, King-Liberty, St. Clair-Old Weston and Bloor-Lansdowne. The City capital contribution to the Program remained at \$1.463 billion, which included \$585 million in funding from the Government of Canada.

Link: [Agenda Item History - 2021.EX20.2 \(toronto.ca\)](#)

## COMMENTS

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### SmartTrack Stations Program - Background

The SmartTrack Stations Program (the “Program”) is an investment to improve transportation choices within Toronto through the use of existing transit infrastructure to serve more people. Combined with Metrolinx's GO Expansion Program, SmartTrack will accelerate the transformation of heavy rail infrastructure in Toronto from a regional commuter service into an urban rapid transit network, thereby bringing transit faster to communities across the city.

### Program Scope

The scope of the Program consists of five stations: Finch-Kennedy, East Harbour, King-Liberty, St. Clair-Old Weston and Bloor-Lansdowne (see Figure 1).

**Figure 1. SmartTrack Stations Program**



Existing City Capital Contribution and Approved Federal Funding

In February 2021, City Council committed to contributing up to \$1.195 billion for Base Station Infrastructure and up to \$268 million for City-Initiated Station Requirements. The resulting total of \$1.463 billion is the budget for the Program inclusive of \$585 million in federal funding. Federal approval for the Program under the Public Transit stream of the Investing in Canada Infrastructure Program (ICIP) was officially confirmed in April 2022.

Similarly, the City’s funding and financing strategy approved by Council in 2018 was re-affirmed in 2021, with the necessary capital funding for the Program to be raised through federal funds, development charges, tax increment financing and the City Building Fund. City and Metrolinx staff are managing the existing budget in accordance with the [SmartTrack Revised Agreement in Principle](#), executed on August 13, 2021.

**Program Status Update**

Since City staff reported to City Council in February 2021, the Program has achieved several milestones, details of which are provided in Attachment 2. Targeted construction start, substantial completion and revenue service start dates, as provided by Metrolinx, are outlined below:

Station	Current Targeted Construction Start Date	Current Targeted Substantial Completion Date	Current Targeted In-Service Start Date
East-Harbour	March 2023	May 2028	August 2028
Finch-Kennedy	October 2023	July 2027	August 2027

<b>Station</b>	<b>Current Targeted Construction Start Date</b>	<b>Current Targeted Substantial Completion Date</b>	<b>Current Targeted In-Service Start Date</b>
<b>King-Liberty</b>	January 2024	December 2027	March 2028
<b>St Clair-Old Weston</b>	January 2024	December 2028	March 2029
<b>Bloor-Lansdowne</b>	February 2024	May 2027	November 2027

### **SmartTrack Station Program - Cost Increases**

Recently received cost estimates for the Program are higher than the total capital budget, consistent with cost pressures experienced across the City and on other Metrolinx capital projects. Metrolinx has advised the City that it has experienced cost pressures across its programs stemming from market economic challenges and market saturation for large and complex capital projects, amongst other factors. Metrolinx's engagement with the market also identified several current conditions that led to higher costs in comparison to what was known in 2020 when the original Program Budget was established, including:

- Uncertainty in supply chain and market conditions including past effects on commodity prices and risk of availability.
- Significant concerns about the uncertainty of cost inflation, resulting in the program owner retaining the risk of future cost increases and needing to protect against future cost pressures beyond current projections.
- An increase of projects in the rail sector, as well as other construction sectors, leading to labour shortages and less market participation/competition, including opportunities with other clients in the market that have lower risk scenarios or require less time to deliver.
- Maturation of schedules in contracts specific to work in a rail corridor with cost implications (such as Rail Corridor Access Schedules). These have been added to improve safety and to reduce/avoid impacts to service disruption. While common in other jurisdictions, it is newer to Canadian contractors.

Metrolinx has also advised the City that although it is understood that impacts may be transitory, many are expected to persist over the next few years and affect project capital costs through higher-than-expected cost escalation, including several indices trending higher than pre-pandemic conditions.

The rationale provided by Metrolinx is consistent with current conditions experienced by the City through the planning and execution of its major capital projects. The construction sector has been no exception to the adversities experienced across the international and Canadian economy over the last three years. As noted above, the top pressures driving growth in construction costs across Canada include, supply chain and logistics issues, rapid increases in cost of materials, rising labour costs, and inflation.

According to recent data from Statistics Canada on Construction Price Indexes for the third quarter of 2022<sup>1</sup>, the rate of growth for both, residential and non-residential building construction costs has slowed when compared to the past year and a half, following a peak in the previous quarter for the latter. However, in the case of Toronto, construction costs in the residential and non-residential sectors continued to report the highest growth from across the eleven census areas in Canada<sup>2</sup>. Overall, building construction costs seem to be attributed in part to shortages of skilled labour and high labour costs. Furthermore, limited availability of materials and equipment, especially concrete, steel glass and piping, as well as fuel prices are still contributing towards increased construction costs. Cost increases in non-residential building construction, specifically, continue to be driven mainly by price increases in cement and concrete. Price growth for cement, concrete, and other materials is linked to a steady demand, combined with supply challenges due to labour shortages and the temporary closings experienced at major plants early in the summer of 2022.

### *Additional Funding Required to Deliver the Program*

As a result of the above noted factors, the cost of delivering the City Council approved scope of five stations for the Program has increased by an estimated \$234 million at minimum as of the date of this report, with further details outlined in Table 1 of Confidential Attachment 1. This increase factors in:

- Cost increases per station based on value-engineered cost estimates from Metrolinx's contractors, excluding East Harbour, which has yet to proceed through the value engineering exercise;
- Owner and contractor retained risk contingency; and
- Maintaining program contingency at approximately 10%.

City staff are seeking City Council direction to request the Province to pay all cost increases over the existing Program Budget of \$1.463 billion to deliver the Program, which as of the date of this report is anticipated to be \$234 million, as further detailed in Table 1 of Confidential Attachment 1.

A decision on the future of the Program is required urgently as the Design-Build (DB) procurement for the Bloor-Lansdowne Station contract is set to be awarded in early April. With a DB procurement, the City, through Metrolinx, would be committing to proceed to detailed design and construction. As such, there may be no opportunity for the City to reconsider or "off-ramp" its commitment to the station's delivery once the contract is awarded. Metrolinx has secured an extension to the bid validity date with the proponent until April 5, 2023. Prior to making this commitment, City staff are seeking City Council's direction to confirm to Metrolinx that the City will not proceed with the

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<sup>1</sup> Building construction price indexes, third quarter 2022, Statistic Canada, [The Daily — Building construction price indexes, third quarter 2022 \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/2466827/202209001-eng.htm)

<sup>2</sup> The building construction price indexes are quarterly series that measure the change over time in the prices that contractors charge to construct a range of commercial, institutional, industrial and residential buildings in eleven census metropolitan areas (CMAs): St. John's, Halifax, Moncton, Montréal, Ottawa–Gatineau (Ontario part), Toronto, Winnipeg, Saskatoon, Calgary, Edmonton, and Vancouver.

delivery of the Bloor-Lansdowne Station until the Province has committed the additional funding required to deliver the Program as set out above.

To date, the City has made significant financial investments to advance the delivery of the SmartTrack Program. For example, contracts to advance the design of the Finch-Kennedy, St. Clair-Old Weston, East Harbour, and King-Liberty stations have been awarded, and as such the City, through Metrolinx, continues to incur costs on the Program each month. Current incurred costs per station are identified in Table 2 of Confidential Attachment 1.

Since the Program will also benefit the Province through increased ridership on the GO system, and as the Province will own and maintain the SmartTrack Stations, there is a strong rationale for the Province to contribute towards the increase in Program's costs.

If the City is not successful in securing the required funding noted above from the Province of Ontario, City staff will report back to the Executive Committee as soon as possible with a full analysis of available options for consideration.

### **Next Steps**

Subject to City Council's approval of the recommendations in this report City staff will:

- Negotiate with the Province to cover any increases to the Program Budget to deliver the existing SmartTrack Stations Program scope and to amend the Revised AIP accordingly.
- Subject to the Province agreeing to cover the increase noted above, the City will request Metrolinx to award the Bloor-Lansdowne Station design-build contract.

### **CONTACT**

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### **SIGNATURE**

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Tracey Cook  
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Infrastructure and Development Services



## **ATTACHMENTS**

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Confidential Attachment 1 – Program Costs

Attachment 2 – Technical Program Update