REPORT FOR ACTION

Toronto Parking Authority - 2024 Operating Budget and 2024-2026 Capital Budget

Date: September 22, 2023
To: Board of Directors, Toronto Parking Authority
From: President, Toronto Parking Authority
Wards: All

SUMMARY

The purpose of this report is to provide the Board of Directors with a preview of Management's proposed 2024 Operating Budget and 2024 – 2026 Capital Budget. Management will subsequently review the proposed budget in greater detail with the Audit & Risk Management Committee on November 2, 2023. Formal approval of the 2024 Operating Budget and 2024 – 2026 Capital Budget will be requested at the November 23, 2023 Board meeting where Management will also present the 2024 Annual Operating Plan. This timeline affords both the Board and Management sufficient opportunity to discuss the proposed budget and the 2024 Annual Operating Plan, while adhering to the City's Budgetary process.

Building off a strong performance through the first two quarters of 2023, Management is forecasting full year net income of $35.2 million, which is +$9.8 million versus 2023 plan. Revenues are forecasted at $143.0 million, +$2.4 million versus plan while operating expenses are projected at $100.7 million; +$4.6 million versus plan. Cash reserves at the end of 2023 are expected to drop from $101.0 million to $50.0 million as a result of Management executing its capital plan of $67.1 million in 2023.

Capital delivery highlights in 2023 include increasing the number of electric vehicle (EV) chargers from 117 to 402 (+285), increasing the number of Bike Share stations from 620 to 780 (+130), deploying 1,300 e-bikes, investing more than $20 million to address health & safety issues and state-of-good-repair (SOGR) projects at three (3) parking facilities and purchasing 225 new Pay-by-Plate machines to help modernize TPA's parking equipment. Forecasted spend against plan of 81.3 percent represents a marked gain in productivity (+50% in 2022) from a professionalized capital delivery team that executed TPA's capital plan with precision.

In 2024, Management is planning full year Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) of $47.7 million which is +$5.4 million versus 2023 Forecast

and +$12.4 million versus 2023 Budget. 2024 Net income is forecasted at $31.9 million, which includes $18.5 million of amortization due to spending of +$140 million of capital and $2.7 million of Finance Income.

Management's 2024 proposed Capital Budget of $76.8 million is designed to support Management's continued execution against TPA's five (5) Strategic Priorities: Build a Great Place to Work; Drive Sustainable Growth; Strengthen the Core, Execute with Excellence; Connect with our Customers; and Engage and Innovate with our Strategic Partners. This includes $19.5 million in carry forward and $57.3 million in new spending on priority projects that include critical health and safety initiatives, continued delivery of SOGR projects involving TPA's parking structures, the modernization of legacy parking equipment and continued investments to expand TPA's Bike Share Toronto and Electric Vehicle (EV) Charging programs.

Based on the financial outlook for 2023 and 2024, TPA expects that delivery of its operating plan and demonstrated capability to deliver its capital plan will fully deplete its cash reserves by the end of 2024. Discussions with City Finance about securing a sustainable net income sharing agreement that expired in December 2019 have been ongoing for the past year but remains in flight. It is Management's expectations that a new agreement will be secured as part of the City's budgetary process in 2024.

RECOMMENDATIONS

The President, Toronto Parking Authority recommends that:

The Board of Directors of Toronto Parking Authority receive the proposed 2024 Operating Budget and 2024 - 2026 Capital Budget for Toronto Parking Authority as outlined in this report for information.

FINANCIAL IMPACT

Toronto Parking Authority's annual distribution to the City of Toronto for the 2024 financial year is budgeted to be $27.1 million; + $5.5 million better than 2023 plan.

DECISION HISTORY

At its meeting of February 15th, 2023, City Council considered and debated Item MPB4.1, including Toronto Parking Authority's proposed 2023 Operating Budget and 2023 - 2025 Capital Budget. The Mayor's Proposed Budget was deemed adopted, as amended by City Council, as the Mayor did not exercise the power to veto under subsection 226.14(4) of the City of Toronto Act.
https://secure.toronto.ca/council/agenda-item.do?item=2023.MPB4.1

At its meeting of June 15 and 16, 2022, City Council adopted 2022.IE30.11 and requested TPA Board of Directors to identify in its proposed 2023 Operating and Capital

Budgets and 2024 – 2032 Capital Plan, the operating (including staffing) and capital budget requirements needed to support the operation, maintenance and continued expansion of the on-street Electric Vehicle Charging Program. Council also directed the Chief Financial Officer and Treasurer to ensure that the City of Toronto / Toronto Parking Authority Net Income Revenue Share Agreement provides Toronto Parking Authority with sufficient retained earnings to fund the incremental costs associated with the operation, maintenance and continued expansion of the on-street Electric Vehicle Charging Program.
https://secure.toronto.ca/council/agenda-item.do?item=2022.IE30.11

At its meeting of February 15 and 16, 2017, City Council approved the net income sharing agreement between the City and the Toronto Parking Authority for a three year period, effective January 1, 2017, based on terms and conditions that generally include: the net income available for distribution be defined as net income based on the Toronto Parking Authority's annually audited financial statements, which includes gains on the sale of properties and air rights but excludes income earned on rented properties which is paid into the Rented Properties Fund held by the City; and the TPA paying to the City annually the greater of $38.0 million or 85 percent of net income earned by TPA, subject to unforeseen circumstances which result in interruptions in service, any other unplanned occurrence or Council decision, which may have an adverse and material effect on the net income as defined under the Income Sharing Agreement. Additional information can be found here:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.2

COMMENTS

2024 Operating Budget and 2024 – 2033 Capital Budget Highlights:

City of Toronto Income Share

$000's	2024 Budget	2023 Forecast	2023 Budget	2024 Budget vs 2023 Forecast		2024 Budget vs 2023 Budget		2023 Forecast vs 2023 Budget	
Net (loss) income from operations	31,921	35,221	25,444	(3,299)	-10%	6,478	25%	9,777	38%
Income share from operations	27,133	29,937	21,627	(2,804)	-10%	5,506	25%	8,310	38%
Distribution on the sale of assets	-	-		-	n/a	-	n/a	-	n/a
Total City of Toronto distribution	**27,133**	**29,937**	**21,627**	**(2,804)**	**-10%**	**5,506**	**25%**	**8,310**	**38%**

TPA's annual distribution to the City of Toronto for the 2024 financial year is budgeted to be $27.1 million, up by $5.5 million or 25 percent better than the 2023 Budget of $21.6 million.

At its meeting of February 15 and 16, 2017, City Council adopted EX22.2af and in so doing increased the TPA’s contribution from 75 percent to 85 percent of its net income to the City for a three-year period effective January 1, 2017. The TPA’s Net Income Sharing Agreement with the City expired December 31, 2019. The TPA is forecasting that meeting its operating and capital requirements will result in its cash reserves being exhausted by the end of 2024. Management has been actively engaging with City

Finance over the last 24 months to negotiate a new income share agreement but has been unsuccessful to date.

2024 Operating Budget

$000's	2024 Budget	2023 Forecast	2023 Budget	2024 Budget vs 2023 Forecast		2024 Budget vs 2023 Budget		2023 Forecast vs 2023 Budget	
Off-Street revenue	84,643	80,243	76,992	4,401	5%	7,652	10%	3,251	4%
On-Street revenue	59,722	50,492	51,282	9,229	18%	8,440	16%	(790)	-2%
Bike Share revenue	13,288	10,415	10,663	2,873	28%	2,625	25%	(248)	-2%
Total parking & user revenue	**157,653**	**141,150**	**138,936**	**16,503**	**12%**	**18,716**	**13%**	**2,213**	**2%**
Other revenue	1,939	1,849	1,673	90	5%	266	16%	176	11%
Total revenue	**159,592**	**142,999**	**140,610**	**16,593**	**12%**	**18,983**	**14%**	**2,389**	**2%**
Direct expenses - operating	(67,154)	(58,959)	(61,462)	(8,195)	-14%	(5,692)	-9%	2,503	4%
Municipal property tax	(23,918)	(22,434)	(22,686)	(1,483)	-7%	(1,232)	-5%	252	1%
Total Operating Expenses	**(91,072)**	**(81,394)**	**(84,149)**	**(9,678)**	**-12%**	**(6,923)**	**-8%**	**2,755**	**3%**
Total Operating Income	**68,520**	**61,605**	**56,461**	**6,915**	**11%**	**12,059**	**21%**	**5,144**	**9%**
Indirect expenses	(20,823)	(19,301)	(21,173)	(1,522)	-8%	350	2%	1,872	9%
EBITDA	**47,697**	**42,304**	**35,288**	**5,393**	**13%**	**12,409**	**35%**	**7,017**	**20%**
Finance Income	2,766	3,432	1,302	(667)	-19%	1,463	112%	2,130	164%
Amortization of property and equipment	(18,541)	(10,516)	(11,146)	(8,025)	-76%	(7,395)	-66%	630	6%
Net income	**31,921**	**35,221**	**25,444**	**(3,299)**	**-9%**	**6,478**	**25%**	**9,777**	**38%**

Note: 2024 Budget assumes that rate changes will be approved for both on-street and off-street parking.

2023 Highlights

2023 EBITDA is forecasted to be $42.3 million which is +$7.0 million versus 2023 plan. 2023 Net income is $35.2 million, which includes $10.5 million of amortization and $3.4 million of Finance Income, +$9.8 million versus plan.

Strong performance to plan driven by +$2.4 million in revenues, +$4.6 million favourability in operating expenses, +$2.1 million in other income resulting from higher interest earned against cash balances and +$0.6 million from amortization.

Operating revenues and parking transactions continue to trend upwards due to improving downtown core traffic and modestly improved return to work behaviours. Forecasted revenues are indexing at 85.5 percent of 2019 levels while transaction volumes are indexing at 82.8 percent.

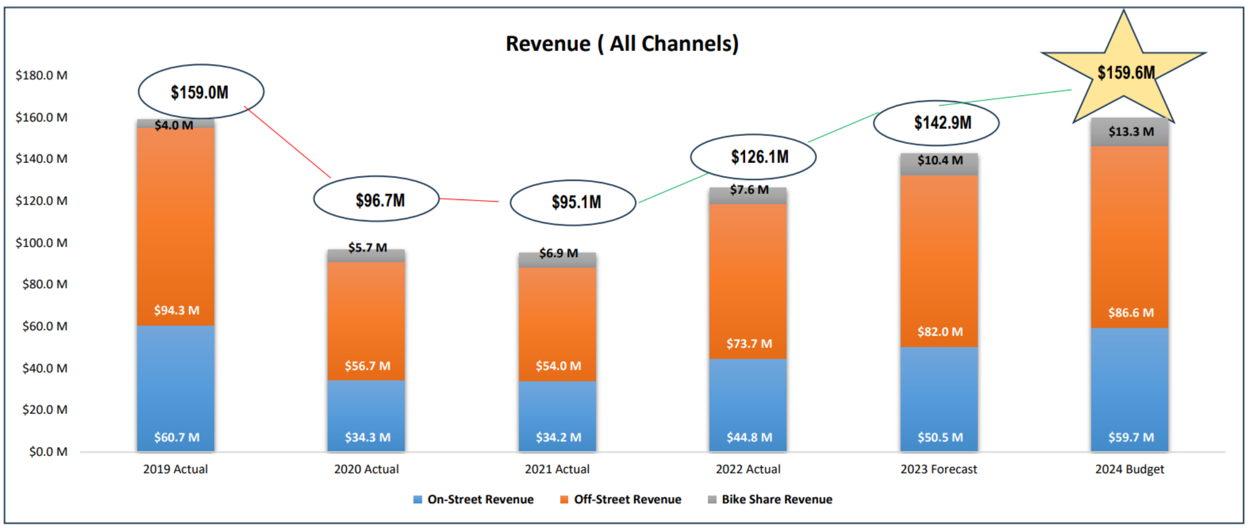
Cost management initiatives, including staffing level management, drove savings of $4.6 million versus budget. TPA is forecasting a year-end cash position of $50.0 million, which will be sufficient to meet operational and financial obligations in 2024. Notwithstanding, cash reserves are expected to be exhausted by the end of 2024 and any future year plans are at risk without securing a net income sharing agreement with our Shareholder, the City of Toronto.

__2024 Highlights__

Management's priorities for 2024 support TPA's strategic framework and are designed to accelerate TPA's vision of becoming the world's premiere operator of Sustainable Parking, Bike Share and Last Mile Mobility Solutions. In support of TPA's proposed 2024 Operating and Capital Budgets, Management will present the 2024 Annual Operating Plan at the November 23, 2023 Board meeting, which will outline our action plan to deliver our commitments.

TPA's 2024 EBITDA is budgeted to be $47.7 million, +$5.4 million versus 2023 Forecast and +$12.4 million versus 2023 plan tracing to +$16.6 million on the top line and +$11.2 million in operating expense investments. 2024 Net income of $31.9 million is ($3.3) million lower than 2023 due to +$8.0 million of amortization resulting from 2023 and 2024 capital expenditures of $140+ million and ($0.7) million lower interest income as a result of a lower cash balance.

Total Revenue



$000's	2024 Budget	2023 Forecast	2023 Budget	2024 Budget vs 2023 Forecast		2024 Budget vs 2023 Budget		2023 Forecast vs 2023 Budget	
Off-Street revenue	84,643	80,243	76,992	4,401	5%	7,652	10%	3,251	4%
On-Street revenue	59,722	50,492	51,282	9,229	18%	8,440	16%	(790)	-2%
Bike Share revenue	13,288	10,415	10,663	2,873	28%	2,625	25%	(248)	-2%
Total parking & user revenue	**157,653**	**141,150**	**138,936**	**16,503**	**12%**	**18,716**	**13%**	**2,213**	**2%**
Other revenue	1,939	1,849	1,673	90	5%	266	16%	176	11%
Total revenue	**159,592**	**142,999**	**140,610**	**16,593**	**12%**	**18,983**	**14%**	**2,389**	**2%**

2024 budgeted revenue of $159.6 million is +$16.6 million versus 2023 forecast and will exceed pre-pandemic levels. The 2024 revenue forecast assumes:

- $8.1 million in incremental revenue generated through increased parking rates ($6.5 million from on-street and $1.6 million from off-street); and
- $8.5 million in new volume ($4.4 million in parking, $2.9 million from Bike Share and $1.2 million in growth initiatives).

Parking revenues are expected to reach 94 percent of 2019 levels or +9 percent versus forecasted 2023 levels. Although the run rate for parking revenues between January to September 2023 has averaged 87 percent, Management is budgeting a higher index for 2024 based on increased transactions and the planned increases to parking rates across our parking portfolio. Recommended changes to the on and off-street parking rates will be included in Management's presentation to the Audit & Risk Management Committee.

In addition to the forecasted improvements in customer traffic next year, management is expecting to onboard two new parking garages, St. Lawrence Market North and 121 St. Patrick Street.

Total Operating Expense

$000's	2024 Budget	2023 Forecast	2023 Budget	2024 Budget vs 2023 Forecast		2024 Budget vs 2023 Budget		2023 Forecast vs 2023 Budget	
Salaries and Benefits	(31,038)	(30,041)	(33,466)	(997)	-3%	2,428	7%	3,424	10%
Municipal Taxes	(23,918)	(22,434)	(22,686)	(1,483)	-7%	(1,232)	-5%	252	1%
Service & Maintenance	(49,375)	(44,514)	(43,725)	(4,861)	-11%	(5,650)	-13%	(789)	-2%
Other Operating expenses	(7,564)	(3,705)	(5,445)	(3,859)	-104%	(2,119)	-39%	1,740	32%
Total Operating Expenses	**(111,895)**	**(100,695)**	**(105,322)**	**(11,201)**	**-11%**	**(6,573)**	**-6%**	**4,627**	**4%**

Operating expenses are budgeted to reflect full staffing, increased security and maintenance levels to support the execution of strategic initiatives and meet TPA's mandate. Administration expenses also include a full staffing complement, as well as additional strategic project expenses. Budgeted operating expenses of +$11.2 million are driven by:

- $4.9 million increase in service and maintenance expenses driven by increased customer transactions;
- $3.8 million increase in other operating expenses supporting IT infrastructure, organizational development, consulting and marketing activities and inflationary pressures;
- $1.5 million increase in municipal taxes; and
- $1.0 million in additional expenses for salary and benefits due to the impact of merit pay and the annualized impact of hiring.

Off-Street performance

$000's	2024 Budget	2023 Forecast	2023 Budget	2024 Budget vs 2023 Forecast		2024 Budget vs 2023 Budget		2023 Forecast vs 2023 Budget	
Off-Street parking revenue	84,643	80,243	76,992	4,401	5%	7,652	10%	3,251	4%
Other revenue	1,939	1,849	1,673	90	5%	266	16%	176	11%
Total revenue	**86,583**	**82,092**	**78,665**	**4,491**	**5%**	**7,918**	**10%**	**3,427**	**4%**
Direct expenses - operating	(38,502)	(35,906)	(38,744)	(2,596)	-7%	241	1%	2,838	7%
Municipal property tax	(23,918)	(22,434)	(22,686)	(1,483)	-7%	(1,232)	-5%	252	1%
Total Operating expenses	**(62,420)**	**(58,340)**	**(61,430)**	**(4,080)**	**-7%**	**(990)**	**-2%**	**3,090**	**5%**
Total Operating Income	**24,162**	**23,751**	**17,235**	**411**	**2%**	**6,928**	**40%**	**6,516**	**38%**
Indirect expenses	(11,939)	(11,754)	(13,347)	(185)	-2%	1,408	11%	1,593	12%
EBITDA	**12,223**	**11,997**	**3,888**	**226**	**2%**	**8,336**	**214%**	**8,109**	**209%**

2024 off-street operating income is budgeted to increase $0.4 million or 2 percent over the 2023 forecast. The budgeted increase is driven by:

- $4.5 million in revenue from growth initiatives (+$2.9 million) and price increase (+$1.6 million), partially offset by $4.1 million in operating expenses, including:
  - an additional $1.4 million in municipal taxes (three (3) percent higher due to higher tax assessments);
  - an additional $1.1 million in maintenance costs resulting from increased commercial tenant portfolio repairs, electric vehicle direct costs on expansion and other maintenance costs from aging infrastructure; and
  - $1.1 million for other operational costs related to security and upkeeping of facilities.

Operating Performance– On-Street

$000's	2024 Budget	2023 Forecast	2023 Budget	2024 Budget vs 2023 Forecast		2024 Budget vs 2023 Budget		2023 Forecast vs 2023 Budget	
On-Street parking revenue	**59,722**	**50,492**	**51,282**	**9,229**	**18%**	**8,440**	**16%**	**(790)**	**-2%**
Direct expenses - operating	(12,548)	(9,944)	(10,398)	(2,603)	-26%	(2,150)	-21%	453	4%
Total Operating expenses	**(12,548)**	**(9,944)**	**(10,398)**	**(2,603)**	**-26%**	**(2,150)**	**-21%**	**453**	**4%**
Total Operating Income	**47,174**	**40,548**	**40,884**	**6,626**	**16%**	**6,290**	**15%**	**(336)**	**-1%**
Indirect expenses	(3,891)	(3,255)	(3,582)	(635)	-20%	(309)	-9%	327	9%
EBITDA	**43,283**	**37,293**	**37,302**	**5,991**	**16%**	**5,981**	**16%**	**(10)**	**0%**

2024 on-street operating income is expected to increase $6.6 million or 16 percent over the 2023 forecast, primarily due to:

- An increase of $9.2 million in revenue resulting from +$6.5 million in assumed rate increases and +$2.7 million tracing to a forecasted 6% growth in transactions;
- Increases in revenue are offset by $2.6 million in increased expenses as follows:

  - $1.0 million increase in cost to implement on-street rate change on legacy parking payment equipment and other investments in technology, including digital space counters and enforcement;
  - $0.7 million increase from the operation of EV chargers and other costs associated with upkeeping equipment; and
  - $0.6 million from growth in customer transaction costs and equipment CPI adjustments.

TPA is conducting a comprehensive review of both its on-street and off-street rates and is budgeting $8.1 million in incremental revenue generated through increased parking rates ($6.5 million from On-Street and $1.6 million from Off-Street). Recommended rate changes are currently being reviewed with local ward Councillors, Business Improvement Areas (BIAs), Transportation Services and Economic Development and Culture. Additional information about the recommended rate changes, including the results of the consultation, will be included in Management's report that is presented at the November 2, 2023, meeting of Audit & Risk Management Committee.

Bike Share Toronto Performance

$000's	2024 Budget	2023 Forecast	2023 Budget	2024 Budget vs 2023 Forecast		2024 Budget vs 2023 Budget		2023 Forecast vs 2023 Budget	
Bike Share revenue	**13,288**	**10,415**	**10,663**	**2,873**	**28%**	**2,625**	**25%**	**(248)**	**-2%**
Direct expenses - operating	(16,104)	(13,109)	(12,321)	(2,995)	-23%	(3,783)	-31%	(788)	-6%
Total Operating expenses	**(16,104)**	**(13,109)**	**(12,321)**	**(2,995)**	**-23%**	**(3,783)**	**-31%**	**(788)**	**-6%**
Operating Loss from Operations	**(2,816)**	**(2,694)**	**(1,658)**	**(122)**	**-5%**	**(1,158)**	**-70%**	**(1,036)**	**-62%**
Indirect expenses	(4,994)	(4,291)	(4,244)	(702)	-16%	(749)	-18%	(47)	-1%
EBITDA	**(7,810)**	**(6,985)**	**(5,903)**	**(824)**	**-12%**	**(1,907)**	**-32%**	**(1,083)**	**-18%**

As North America's 3rd largest bike share system (in size), Bike Share Toronto is projected to reach a record 5.5 million rides by the end of 2023, +0.9 million or +19.5 percent versus 2022. In 2023, Bike Share Toronto will have added 1,815 incremental bikes to the system including 1,300 e-bikes and an additional 350 e-charging docks. Bike Share's annual membership will grow to a record level of 37,000 members, representing an increase of +5,200 or +16 percent versus 2022.

Management is forecasting a 2023 operating loss of $2.7 million, ($1.0) million versus plan. $0.7 million of this variance is due to an unfavorable 6 percent shift of profitable casual rides to negative margin annual membership rides. In addition, sponsorship revenue was $0.5 million lower than plan. Despite the forecasted operating loss, the overall subsidy per ride is expected to be $0.67, which represents a +$0.01 improvement versus 2022.

In 2024, our Bike Share program will continue to enjoy robust top line growth of +700k trips driven by full year operations of our higher velocity e -bike fleet and more cost-efficient charging stations. In short, total subsidy per ride in 2024 will continue to improve at $0.50 per trip, a full $0.17/ trip improvement versus 2023 whilst improving customer experience with both members and casual riders.

2024 – 2033 Capital Expenditures

**2024 Capital Budget;
2025 - 2033 Capital Plan Including Carry Forward Funding**

Project Code	(In $000s)	2024 Budget	2025 Plan	2026 Plan	2027 Plan	2028 Plan	2029 Plan	2030 Plan	2031 Plan	2032 Plan	2033 Plan	2024 - 2033 Total	Health & Safety & Legislated	SOGR	Growth & Improved Service
	Health & safety	6,089	7,610	7,251	6,219	5,870	4,473	4,700	2,680	2,680	2,680	**50,252**	**50,252**		
	Service Improvement & Growth	53,689	43,196	35,029	15,600	26,259	10,250	10,250	3,250	3,250	3,250	**204,023**			**204,023**
	SOGR	17,044	17,760	20,083	17,875	15,360	11,138	13,440	6,720	6,720	6,720	**132,861**		**132,861**	
	Total Expenditures (including carry forward from 2023)	76,822	68,566	62,363	39,694	47,489	25,861	28,390	12,650	12,650	12,650	387,135	50,252	132,860	204,023

Note: 10-year capital plan excludes Rehabilitation of City Hall Parking Garage (Car Park 36). Estimated rehabilitation cost is $96 million as funding source is required.

The proposed 2024 Capital Budget of $76.8 million includes $19.5 million in carry forward for St. Lawrence Market North and 81 St. Patrick Street which were delayed for more than 3 consecutive years. A total of $57.3 million has been identified in new investments on priority projects that support TPA’s strategic priorities, including Bike Share expansion, EV Charging deployment, and acceleration of our modernization efforts against our cash accretive parking channels including equipment modernization, SOGR and Safety. Management will present the 2024 Annual Operating Plan at the November 23, 2023 Board meeting, which will outline our specific action plans by channel.

Based on the financial outlook for 2023 and 2024, TPA is forecasting that delivery of its operating and capital commitments will result in its cash reserves being fully exhausted by the end of 2024. To reiterate, and consistent with Council direction, Management and City leadership are bound to present recommendations to Council for consideration during the fiscal 2024 budget cycle.

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SIGNATURE

W. Scott Collier, President
Toronto Parking Authority

ATTACHMENTS

Attachment 1: Budget TO 2024 Budget Submission - Toronto Parking Authority