TORONTO

REPORT FOR ACTION

Update on the Reallocation of Funding from the Provincial Upload of the F.G. Gardiner Expressway and Don Valley Parkway

Date: July 2, 2024
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

On December 13, 2023, City Council approved in principle the terms of the Ontario-Toronto New Deal Agreement (the New Deal), which enables significant infrastructure investment in the City. The New Deal committed the City to funding and delivering growth infrastructure to advance transit and housing priorities, and also created the opportunity to invest in aging infrastructure through the upload of the F.G. Gardiner Expressway (Gardiner) and Don Valley Parkway (DVP) to the Province. Subject to a third-party due diligence assessment, the upload of the Gardiner and DVP allows for approximately $1.9 billion to be re-invested in existing and unfunded City infrastructure priorities over the next 10-year planning period.

This report identifies areas in the City that require a significant state of good repair (SOGR) investment, consistent with the funding gaps identified in the City's 2024 Corporate Asset Management Plan (EX14.6), and prior SOGR reporting to Council. The report also highlights funding obligations from the New Deal that require investment, which will be supported from the reallocated expressway funding such as the Broadview Eastern Flood Protection (BEFP) project for advancing Transit-Oriented Communities, and the City's commitment to advancing housing development to support provincial economic development and growth.

The report seeks endorsement of the plan to reallocate funding from the Gardiner and DVP to the following priority areas: Toronto Transit Commission (TTC) base system, Housing SOGR and infrastructure development, Parks, Forestry and Recreation (PFR) SOGR, Transportation Services SOGR, Corporate Real Estate Management (CREM) SOGR, and to the Broadview Eastern Flood Protection (BEFP) project. The Executive Director, Financial Planning, and the Chief Financial Officer and Treasurer will work with relevant City Divisions and Agencies, supported by the Capital Prioritization Framework for capital planning to invest in priority infrastructure renewal projects over the entire 10 year planning period through the 2025 Budget process.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council endorse the reallocation plan outlined in the report and direct the Executive Director, Financial Planning, in consultation with the Chief Financial Officer and Treasurer, to work with relevant City Divisions and Agencies to prioritize investment in capital projects in these areas through the 2025 Budget process.

FINANCIAL IMPACT

The financial benefit from uploading the Gardiner and DVP was estimated at $1.9 billion based on the capital budget for these projects in the City's 10-Year Capital Plan. During the 2024 Budget process, the City recognized an immediate financial benefit in the amount of $50.0 million for urgent state of good repair work including road rehabilitation undertaken by Transportation Services, and various outdoor recreation and amenity improvements, such as cricket pitches, pickleball, drinking fountains, and pools for Parks, Forestry and Recreation.

This report seeks endorsement of the plan to reallocate the remaining $1.850 billion in funding from the provincial upload of the Gardiner and DVP as outlined in Table 1 below:

Table 1: Recommended Allocation of Funding from Gardiner and DVP Upload

Priority Area/ Project	**10-Year Total ($M)**
TTC Base System	500.0
Parks, Forestry and Recreation SOGR	400.0
Transportation Services SOGR	350.0
Housing SOGR & Infrastructure Development	300.0
Corporate Real Estate Management SOGR	200.0
Broadview Eastern Flood Protection	100.0
Total	**1,850.0**

The funding reallocation is guided by findings from the [2024 Corporate Asset Management Plan], and also in support of commitments made through the New Deal. Through the upcoming 2025 Budget process, the Executive Director, Financial Planning in consultation with the Chief Financial Officer and Treasurer will work with relevant City Divisions and Agencies to leverage the financial benefits of the upload to invest in transit, advance more infrastructure development and maintenance related to affordable housing, build transit-oriented communities, and address deterioration of City assets.

The funding allocation reflects an estimated level of investment and may vary from the final allocation depending on the timing of cash flows and project delivery which is expect to span over the entire 10 year capital planning period form 2025-2034.

DECISION HISTORY

On December 13, 14 and 15, 2023, City Council adopted CC13.2 - Ontario-Toronto New Deal Agreement, including approval in principle the terms of the Ontario-Toronto New Deal Working Group Term Sheet to upload the Gardiner and DVP to the Province.
https://secure.toronto.ca/council/agenda-item.do?item=2023.CC13.2

On January 26, 2024, Budget Committee recommended that a report on a proposed plan for reallocation of the Gardiner Expressway and Don Valley Parkway capital allocation be presented to Executive Committee in July 2024, including consideration of state of good repair for Transportation Services, TTC and Parks, Forestry and Recreation, and acceleration of delayed projects in the capital plan such as ice rinks, cricket pitches, pickleball and winterized washrooms.
https://secure.toronto.ca/council/agenda-item.do?item=2024.BU6.1

On February 14, 2024, the Mayor's Proposed Budget was deemed adopted, as amended by City Council, and included $50 million for urgent state of good repair work for Transportation Services, and Parks, Forestry and Recreation such as fixing potholes, beautifying parks and public spaces, as well as expedited delivery of various outdoor recreation and amenity improvements.
https://secure.toronto.ca/council/agenda-item.do?item=2024.MPB15.1

On May 22, 2024, City Council adopted EX14.6 - City of Toronto’s 2024 Corporate Asset Management Plan, which established a baseline assessment of infrastructure renewal needs and identified infrastructure funding gaps.
https://secure.toronto.ca/council/agenda-item.do?item=2024.EX14.6

COMMENTS

On December 13, 2023, City Council approved in principle the terms of the Ontario-Toronto New Deal Agreement (the New Deal), which enables significant infrastructure investment in the City. The New Deal committed the City to funding and delivering growth infrastructure to advance transit and housing priorities, and also created the opportunity to invest in aging infrastructure through the upload of the F.G. Gardiner Expressway (Gardiner) and Don Valley Parkway (DVP) to the Province.

Investments Required in Growth Infrastructure

The New Deal between the City and the Province includes terms to advance Transit-Oriented Communities through the delivery of two major City infrastructure projects: the extension of Broadview Avenue, and the Broadview Eastern Flood Protection (BEFP) project. The estimated cost of Broadview Avenue extension is reflected in the current 10-Year Capital Plan of Transportation Services.

The City's share of the design and delivery of the Broadview Eastern Flood Protection project is the lesser of 50% of the total project cost and $200 million. The City has allocated $57 million towards the BEFP project in the current 10-Year Capital Plan of the Transit Expansion Division. The remainder of the approximately $143 million City commitment will require a re-allocation from the Gardiner and DVP upload funding of $100 million, and added Development Charge funding of $43 million to be prioritized through the 2025 Budget process, subject to the refinement of project cash flows.

Additionally, the New Deal included terms to advance the delivery of housing to support economic development and growth. The City is committed to allocating financial benefits from the upload of the Gardiner and DVP to support the updated HousingTO Plan to achieve or exceed the provincial housing target of 285,000 new homes by 2030. The updated HousingTO Plan aims to create 65,000 affordable rent-controlled homes, comprising of 6,500 rent-geared-to-income (RGI), 41,000 affordable rental, and 17,500 rent-controlled market units. The reallocation of funding towards capital housing initiatives and enabling infrastructure for housing development will be subject to the annual capital review and will be reported through the 2025 Budget process.

Investments Required in State of Good Repair (SOGR) Infrastructure

The City's 2024 Corporate Asset Management Plan (AMP) adopted by Council on May 22, 2024, identified that roughly 40% of the City portfolio of assets are currently categorized as having ‘Poor’ and ‘Very Poor’ performance. These are the assets that are past their useful lives and require rehabilitation or replacement. They may still be able to provide service but at increased operating expenses or at a suboptimal level of service (LOS). There is also an increased likelihood of disruptions or closures to the service they provide. Staff may need to take the necessary actions to ensure the health and safety of the community and mitigate risks that may arise.

For illustrative purposes only, an example of a recreation centre experiencing a decreasing LOS, may result in disruptions to recreation programing, or operating costs increasing to run the centre in accordance with current safety standards. Similarly, an example of a road experiencing a decreasing LOS, may result in additional road closures for maintenance work preventing use of the asset, and increased operating costs for additional pothole repair work to maintain road in a safe condition.

Moreover, the AMP highlighted that there is a large funding gap between the level of investment the City makes in SOGR and the level of funding required for these assets to provide their current level of service, which in many cases is already a suboptimal LOS. Notably, there are 5 areas of concerns that are forecasted to see their level of service decrease the most due to the lack of investment in SOGR as noted in Table 2.

Table 2: Asset Management Plan Subservices with the Largest Infrastructure Gap

AMP Subservice	Annual Planned Budget*	Annual Budget Required to Maintain LOS*	LOS Trend Under Current Funding Level	Infrastructure Gap*
Transit	$720.18	$3,084.02	Decreasing	$2,363.85

AMP Subservice	Annual Planned Budget*	Annual Budget Required to Maintain LOS*	LOS Trend Under Current Funding Level	Infrastructure Gap*
Housing	$160.00	$334.11	Decreasing	$174.11
Corporate Real Estate	$55.63	$133.76	Decreasing	$78.13
Parks and Recreation	$85.70	$112.70	Decreasing	$27.00
Road Network**	$12.25	$23.20	Decreasing	$10.96

** Values reflect an average of annual SOGR investment in $ millions*
*** Road Network in the Corporate AMP reflects non-core Transportation assets. Core assets (roads and bridges) have an annual SOGR infrastructure funding gap of well over $100 million.*

The information presented in the Corporate Asset Management Plan is also consistent with the SOGR information highlighted annually through the Budget process. In the 2024 Budget, staff reported that the SOGR backlog for the five areas noted in Table 2 are expected to have the largest increase over the next 10 years, despite the City dedicating over $26.0 billion or 52% of the 10-Year Capital Plan towards SOGR. The TTC, Transportation Services, Toronto Community Housing Corporation (TCHC), CREM, and PFR collectively represented 54% of the accumulated SOGR backlog at the end of 2023, however at the current level of investment in the 10-Year Capital Plan this is expected to grow to 93% of the total City SOGR backlog or $21.1 billion by 2033.

- The SOGR backlog for TTC over the next decade is expected to increase to over $8.2 billion with unfunded vehicle overhaul and procurement accounting for 59% of the backlog.

- TCHC's SOGR backlog is expected to increase to over $2.6 billion by 2033. Aging assets and rising costs contribute to the backlog, exacerbated by high demand for capital spending in tenant unit interiors (e.g. kitchens and bathrooms) and building mechanical systems.

- CREM's SOGR backlog is expected to increase to over $1.4 billion by the end of 2033. CREM's portfolio is comprised of a variety of building types; an overall average annual investment of 1% of the replacement value of the portfolio compared to the industry standard of 2% to 4% is a driving factor for the increase in its backlog.

- PFR's SOGR backlog is expected to increase to $1.1 billion by 2033 comprised of 47% recreation facilities (community centres, arenas, and pools), and 53% park infrastructure. This includes parks investments required for parking lots, tennis courts and sports pads, splash pads and wading pools, trails and pathways, bridges, seawalls, and marine services (e.g. ferry replacements).

- The SOGR backlog for Transportation, primarily for roads and bridges built from 1950 to 1980, is expected to increase to $7.8 billion. Local Road rehabilitation and Major Road rehabilitation backlog will increase by $3.7 and $3.0 billion, respectively over the next 10 years, driven mainly by road reconstruction needed as these assets near the end of their life. Moreover, declining investment in Bridge rehabilitation will result in the backlog for bridges increasing to over $800 million by 2033.

The increases in SOGR backlog were worsened by the COVID-19 pandemic. The City faced significant financial pressures from the cost of implementing public safety measures and from the loss of revenues during the pandemic. With limited financial support from other orders of government to deal with the financial pressure and to manage the operating financial pressures arising from the pandemic, the City established a COVID backstop created in large part through a reduction of capital funding ($263 million in 2020, and $300 million in 2022). Nearly 75% of the $563 million reduction in capital funding was from SOGR projects as follows:

- $147 million from Transportation Services
- $137 million from Toronto Transit Commission
- $76 million from Corporate Real-Estate Management
- $59 million from Parks, Forestry and Recreation.

The strategy of employing a COVID backstop by way of capital budget reductions was a necessary measure to balance operating financial pressures, but this had significant implications to the City's 10-Year Capital Plan as these funds were ultimately intended for current and future year capital priorities.

Allocation of Gardiner and DVP Capital Funding

The approximately $1.9 billion capital funding made available through the upload of the Gardiner and DVP will be allocated over the next 10 year planning period as follows:

- In the 2024 Budget Process, the Mayor dedicated $50 million from the reallocation of Gardiner and DVP upload funding to PFR and Transportation Services ($20 and $30 million, respectively) for critical SOGR projects.

- Given the reductions in capital funding for the COVID backstop, the continued increase in the SOGR backlog, and the need to maintain assets at their current level of service, this report plans for the following investments in infrastructure renewal needs:
  - $500 million in the TTC Base System,
  - $400 million in Parks, Forestry and Recreation SOGR,
  - $350 million in Transportation Services SOGR, and
  - $200 million in Corporate Real-Estate Management SOGR.

- To address the SOGR backlog in TCHC and to support housing development as part of the City's commitment through the New Deal, this report also proposes a $300 million allocation towards housing SOGR and infrastructure required for housing development.

- A $100 million commitment to the Broadview Eastern Flood Protection project.

Subject to Council endorsement, the Executive Director, Financial Planning, in consultation with the Chief Financial Officer and Treasurer will work with relevant City Divisions and Agencies through the 2025 Budget Process to prioritize investment in the areas noted above over the entire 10 year capital planning period form 2025-2034. The funding allocation reflects an estimated level of investment and may vary from the final allocation depending on the timing of cash flows and project delivery. The final allocation to each City Division / Agency will be reported through the 2025 Budget process. Staff will review capital project timelines, cash flow requirements, and readiness to proceed as they consider investments in SOGR projects.

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SIGNATURE

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