REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

City of Toronto - Toronto Parking Authority: Net Income Share Agreement - Status Update

Date: March 12, 2024
To: Board of Directors, Toronto Parking Authority
From: President, Toronto Parking Authority
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report relates to a position, plan, procedure, criteria, or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the City or Toronto Parking Authority.

SUMMARY

The purpose of this report is to provide the Board with an update about Toronto Parking Authority's Net Income Sharing Agreement with the City of Toronto, the actions Management is taking to maintain financial stability in the short-term and what changes will be required to Toronto Parking Authority's 2025 Operating and Capital Programs given the continued absence of a sustainable Agreement with the City.

Toronto Parking Authority (TPA) is a self-sustaining agency of the City of Toronto that fully funds its operations from the revenues it generates. In addition, TPA also makes significant contributions to the City's general revenues through a 2017 Net Income Sharing Agreement with the City that requires TPA to remit 85 percent of its net annual income to the City. Since 2002, TPA has contributed more than $1.4 billion to the City of Toronto to fund other municipal services and programs, including public transit, housing and parks.

TPA is at a crossroads, caught between it's past and present. TPA's legacy Net Income Share Agreement expired in 2019 and does not recognize nor support TPA's current mandate, which has been expanded to include both the operating and capital requirements for a rapidly growing Bike Share program, as well as the operation, maintenance, and continued expansion of Canada's largest municipally-owned electric

vehicle (EV) charging program. The current Net Income Share Agreement also failed to anticipate the extensive backlog in state-of-good-repair (SOGR) in TPA's parking garages, currently estimated to exceed $300 million over a ten (10) year period. Further capital pressures include the need to replace TPA's 3,000+ Pay & Display machines, which are approaching their end-of-life.

Lastly, the continued operation of TPA's surface parking facilities remains at risk due to the City's housing program and other competing City-building objectives. At its meeting of February 29, 2024, Executive Committee received and debated 2024EX12.4. This report included recommendations for City staff to undertake a review of all off-street, transit oriented, City-owned parking facilities that may support Council's housing, community or fiscal goals and better align municipal parking services to City and Provincial planning policies, and to report back to City Council with a list of priority sites, timelines and resource requirements for due diligence to determine 'parking-to-homes' and/or community infrastructure opportunities. This report will be considered by City Council at its meeting of March 20, 2024. The foregoing underscores the urgent need to secure a new Net Income Sharing Agreement with the City.

Management has been engaged in discussions with Finance & Treasury Services for over 24 months with an expectation that a new Agreement would be reached as part of the 2024 Budget Cycle. At present, no resolution has been achieved. Given the absence of a new Agreement and to ensure that sufficient working capital is maintained for continued operations over the next two (2) years, Management has identified $14.1 million of planned capital investments in 2024 that will be deferred to future years.

In 2023, Management prepared a comprehensive Enterprise Risk Management Strategy that details the TPA's risk profile across a number of strategic measures including but not limited to governance, financial, cyber security, customer, talent, etc. Through this rigorous ranking process, the absence of a sustainable Net Income Sharing Agreement has been identified as the single biggest risk to the sustainability of the organization. Without a new Agreement being reached in the near-term, Management will be forced to make material cuts over and above the reductions described herein from TPA's 2025 Operating and Capital programs.

RECOMMENDATIONS

The President, Toronto Parking Authority recommends that:

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

2. The Board of Directors, Toronto Parking Authority direct that Confidential Attachment 1 remain confidential in its entirety, as it relates to a position, plan, procedure, criteria, or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the City or Toronto Parking Authority.

FINANCIAL IMPACT

There are no immediate financial impacts associated with this report.

DECISION HISTORY

At its meeting of February 29, 2024, Executive Committee considered and debated 2024EX.12.4 which included recommendations to undertake a review of all off-street, transit oriented, City-owned parking facilities that may support Council's housing, community or fiscal goals and better align municipal parking services to City and Provincial planning policies, and to report back to City Council by fourth quarter of 2024 with a list of priority sites, timelines and resource requirements for due diligence to determine 'parking-to-homes' and/or community infrastructure opportunities. 2024EX12.4 will be considered further by City Council at its meeting of March 20, 2024.
https://secure.toronto.ca/council/agenda-item.do?item=2024.EX12.4

At its meeting of February 14, 2024, City Council considered and debated 2024.MPB15.1 – 2024 Operating and Capital Budgets without recommendations to update TPA's Net Income Sharing Agreement with the City of Toronto. The Mayor's Proposed Budget is deemed adopted, as amended by Council, as the Mayor did not exercise the power to veto under subsection 226.14(4) of the City of Toronto Act, 2006. In the absence of a new Net Income Share Agreement, Toronto Parking Authority will continue to be subject to the expired terms and conditions of its 2017 Net Income Share Agreement with the City.
https://secure.toronto.ca/council/agenda-item.do?item=2024.MPB15.1

At its meeting of March 29, 30 and 31, 2023, City Council adopted the Relationship Framework of the City of Toronto with the Toronto Parking Authority as set out in Attachment 1 to the report (March 7, 2023) from the City Manager, as amended, which recognizes TPA's strategic role in providing sustainable parking, bike sharing and last mile mobility trips, supporting the City's Economic Development and Climate Action objectives and supporting the City's land use and transportation policies.
https://secure.toronto.ca/council/agenda-item.do?item=2023.EX3.4

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 November 9, 10 and 12, 2021, City Council directed that all City Divisions, and the City Agencies and Corporations identified in Attachment 1 to the report (October 13, 2021) from the Deputy City Manager, Corporate Services operate in accordance with the City's centralized Real Estate Service Delivery Model as approved by City Council on May 24, 25, and 26, 2017 in Item 2017.EX25.9 and the report (October 13, 2021) from the Deputy City Manager, Corporate Services. In adopting EX27.4, City Council also amended the "Policy Governing Land Transactions Among City Agencies, Boards, Commissions and Departments and Proceeds from Sale of Surplus City-Owned Real Property" 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.
https://secure.toronto.ca/council/agenda-item.do?item=2021.EX27.4

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 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

At its meeting of November 13, 2013, City Council authorized the termination of the current Agreement between BIXI Toronto Inc. and the City and City Council authorize the transfer/assignment of the BIXI Toronto assets to the Toronto Parking Authority as designated by the City of Toronto, for the purpose of continuing the bike share program, substantially in accordance with the terms as set out in the report (November 11, 2013) from the General Manager, Transportation Services, and such other terms consistent with the report and satisfactory to the General Manager, Transportation Services, in consultation with the President of the Toronto Parking Authority and the Deputy City Manager and Chief Financial Officer, in such form as may be satisfactory to the City Solicitor.
https://secure.toronto.ca/council/agenda-item.do?item=2013.EX35.8

COMMENTS

As part of the 2017 budget process, City Council approved a new Net Income Sharing Agreement between the City and the TPA for a three (3) year period, effective January 1, 2017. The Agreement requires that TPA pay to the City (annually) the greater of $38 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.

TPA’s Legacy Net Income Share Agreement does not recognize nor support TPA’s current mandate, which has been extended to include both the operating and capital requirements for an expanded Bike Share Toronto program, as well as the operation, maintenance and continued expansion of Canada’s largest municipally owned EV charging program.

Since 2017, TPA has invested $45.6 million in the capital expansion of Bike Share Toronto and absorbed operating losses totaling $20.0 million. The system now includes more than 800 stations, 8,000 bikes, including 2,000 e-bikes and will be operated across all 25 wards of the City of Toronto by the end of 2024. Annual ridership exceeding 5.5 million (2023) places Bike Share Toronto as an integral part of the City’s transportation network that is helping the City to deliver against its TransformTO objectives.

Furthermore, TPA has invested $21.2 million in its leadership role as the City’s executional lead responsible for the operation, maintenance and continued expansion of EV charging infrastructure. In 2023, this included TPA’s purchase from Toronto Hydro Electrical Systems Ltd. (THESL) 47 on-street EV chargers at a cost of $0.8 million and 32 off-street chargers at a cost of $1.3 million.

The current Agreement also failed to anticipate the extensive backlog in state-of-good-repair (SOGR) in TPA’s parking garages. Through the completion of recent building condition assessments, it is estimated that the backlog in SOGR is greater than $300 million over a ten (10) year period, excluding the extensive rehabilitation of Car Park 36 (Toronto City Hall) that is also required over the next ten (10) years.

Further capital pressures include the need to replace TPA’s 3,000+ Pay & Display machines. Replacement of these machines, which have reached their end-of-life, are expected to cost greater than $20 million even with provisions made to reduce the inventory by 25 percent or more.

Prior to 2017, TPA’s dividend distribution was 75 percent / 25 percent. City Council increased the current 85 percent / 15 percent distribution on the assumption that TPA would be in a position to generate sufficient revenues over a 10-year period to implement its 10-Year Capital Plan at 53 percent spending rate, with a positive retained earnings balance of $26.5 million at the end of the period, while remitting payments to the City at the increased net income share ratio of 85 percent.

In 2023, TPA's capital spend rate was 82.9 percent ($59.1 million) against an approved budget of $71.2 million. TPA's spend rate on TPA-led capital was 112 percent ($50.9 million) against a plan of $45.5 million. Unspent dollars were largely the result of a $14 million carry forward due to continued delays to the completion of the City-led St. Lawrence Market North.

The TPA business generates substantial net income each year - averaging $60 million annually pre-pandemic excluding one-time gains and fund recoveries. As the City exits the pandemic, the TPA is evolving its go to market proposition that positions TPA as an integrator of mobility services across an expanded array of channels in both the Business-to-Consumer (B2C) and Business-to-Business (B2B) sectors, which Management expects will accelerate TPA's growth agenda. TPA's strategy is working; despite the negative impact of the pandemic on commuter traffic, the TPA has earned a total net income of $79.9 million since 2021 and exceeded plan performance by $42.3 million - 85 percent of which flows directly to the city to support Council directed initiatives. In 2024, Management is forecasting that revenues will exceed 2019 pre-covid performance (refer to Appendix A for a summary of 2023 performance by car park relative to pre-pandemic conditions).

Looking forward, the TPA is forecasted to deliver more than $733 million in net income over a ten (10) year period, which excluding the next four (4) year period (2024 – 2027), is more than sufficient to fund TPA's operating and capital programs (refer to Table 1). Adjustments to the Net Income Share Agreement that address the short-term deficiencies are, however, urgently required to ensure TPA's continued sustainability.

Table 1: 10-Year Forecast

Continuity Schedule $000's	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2024-2033**
Net Income	31,921	33,609	36,812	40,181	43,723	47,447	51,363	55,480	59,808	64,358	464,704
City Share at 85%	27,133	28,568	31,290	34,154	37,164	40,330	43,659	47,158	50,837	54,704	394,998
TPA Retained Earnings at 15%	**4,788**	**5,041**	**5,522**	**6,027**	**6,558**	**7,117**	**7,704**	**8,322**	**8,971**	**9,654**	**69,706**
Available Cash	**64,486**	**(6,641)**	**(53,609)**	**(92,038)**	**(108,069)**	**(130,326)**	**(132,301)**	**(135,232)**	**(121,088)**	**(106,243)**	**64,486**
TPA Retained Earnings	4,788	5,041	5,522	6,027	6,558	7,117	7,704	8,322	8,971	9,654	69,706
Add: Depreciation	18,541	18,541	18,541	18,541	18,541	18,541	18,541	18,541	18,541	18,541	185,409
Minus: 2023 City Dividend Remaining	(11,390)										(11,390)
Minus Capital Spending	(83,067)	(70,550)	(62,492)	(40,599)	(47,357)	(27,633)	(29,177)	(12,718)	(12,667)	(12,650)	(398,909)
Closing Cash	**(6,641)**	**(53,609)**	**(92,038)**	**(108,069)**	**(130,326)**	**(132,301)**	**(135,232)**	**(121,088)**	**(106,243)**	**(90,698)**	**(90,698)**
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Capital Program Cuts	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2024-2033**
Acquisition	2,500	-	-	-	-	-	-	-	-	-	2,500
Bike Share	2,500	5,900	2,000	1,500	3,000	3,000	3,000	3,000	3,000	3,000	29,900
Service Improvements	2,278	-	-	-	-	-	-	-	-	-	2,278
EV Off-Street	6,000	12,000	10,000	7,000	7,000	7,000	7,000	-	-	-	56,000
SOGR	800	-	-	-	-	-	-	-	-	-	800
Subtotal - capital cuts	**14,078**	**17,900**	**12,000**	**8,500**	**10,000**	**10,000**	**10,000**	**3,000**	**3,000**	**3,000**	**91,478**
Incremental cash from cuts	-	14,078	31,978	43,978	52,478	62,478	72,478	82,478	85,478	88,478	533,898
Closing Cash with Cuts	**7,436**	**(21,631)**	**(48,061)**	**(55,591)**	**(67,849)**	**(59,823)**	**(52,755)**	**(35,610)**	**(17,765)**	**780**	**780**

TPA's approved 2024 Capital Budget of $76.8 million includes $19.5 million in carry forward for St. Lawrence Market North and 81 St. Patrick Street, as well as, $57.3 million in new investments on priority projects that support TPA's strategic priorities, including the electrification of Bike Share Toronto, EV Charging deployment, and acceleration of our modernization efforts against our cash accretive parking channels including equipment modernization, SOGR and safety initiatives.

Table 2: Revised 2024 Toronto Parking Authority Capital Budget

$000's	2024 Board Approved budget	2023 Carrforward	Proposed Budget Cuts	2024 Revised Capital Spend
Acquisition	19,506	596	-	20,102
EV On-Street	1,275	833	-	2,108
Health and Safety	978	224	-	1,201
City Lead	**21,759**	**1,653**	**-**	**23,411**
Acquisition	5,950	50	(2,500)	3,500
Bike Share	6,120	27	(2,500)	3,647
EV Off-Street	8,500	2,307	(6,000)	4,807
Service Improvements and Growth	17,445	132	(2,278)	15,299
SOGR	17,044	4,412	(800)	20,656
Health and Safety	-	10	-	10
TPA Lead	**55,059**	**6,938**	**(14,078)**	**47,919**
Grand Total	**76,818**	**8,590**	**(14,078)**	**71,330**

Should a new income sharing agreement not be secured in the first half of 2024, management will have no choice but to suspend planned investments in Bike Share, EV expansion and our Parking management systems for 2025.

Parking to Homes

At its meeting of March 20, 2024, City Council will consider a report from Executive Committee that recommends that a review of all off-street, transit oriented, City-owned parking facilities that may support Council's housing, community or fiscal goals and better align municipal parking services to City and Provincial planning policies be undertaken. This review is anticipated to include approximately 130 TPA facilities, 74 of which are in Major Transit Station Area zones, generally implying a 10-minute walk from higher order transit and, according to the report, an opportunity to convert parking lots into transit-oriented, mixed use housing solutions in support of the City's new housing plan and targets.

Included in the preliminary list of 130 parking facilities are 100 car parks that are under the jurisdictional management of TPA, 29 parking facilities that TPA manages for other property owners, including City Divisions and Agencies and one (1) that has been identified by TPA as surplus to its operational requirements. TPA will work with CreateTO and Corporate Real Estate Management (CREM) to assess the list of 100 TPA properties identified and ensure that potential community-based and financial impacts associated with any repurposing of these sites are both identified and considered.

It should also be noted that the preliminary list of Parking to Homes sites does not include the fifteen (15) TPA sites previously identified for a variety of City-Building activities (refer to 2023.PA6.9) or twenty-five (25) of the sites that TPA has identified, subject to Board approval, as surplus to its operational requirements.

A review of the potential financial impacts of this initiative is included in Confidential Attachment 1.

City Council's adoption of 2023EX.7.1 - Updated Long-Term Financial Plan in September of 2023 identified the City's real estate assets as a source for greater value potential. Specifically, evaluating underutilized real estate and deploying strategies to maximize the long-term value of assets for City benefits and fiscal sustainability. This includes fully leveraging the value from surplus lands no longer required for municipal services and from underutilized City properties with higher and better use and public benefit potential (i.e., for housing or mixed-uses). TPA is fully supportive of this work and to this end, TPA has identified twenty-six (26) properties as surplus to its operational requirements that can be used to support other municipal services and will continue to take a strategic approach when working with City stakeholders in support of the City's overall city-building goals.

Outside of the financial impacts of repurposing TPA facilities, there are also impacts to the customers that rely on these car parks that must be considered with each facility serving the communities that they serve. For example, Car Park 26 (33 Queen Street East), which has been identified for repurposing through the ModernTO initiative, provides parking for more than 600,000 customers a year who are destined to St. Michael's Health Centre; health care workers, patients and visitors who are disproportionately dependent on travel by vehicle.

In the west end of the city, Car Park 91 (265 Armadale Avenue) has supported the staging of the Ukrainian Festival for the last 28 years, attracting more that 500,000 visitors to the Bloor West Village BIA in a single weekend. Other facilities across the City provide similar support for events that include: Pride, Caribana, Santa Clause Parade, Taste of the Danforth, Salsa on St. Clair, etc. Additionally, farmer's markets, local artisans and commercial activities are all hosted at a variety of TPA facilities. TPA will be working with CreateTO and CREM to ensure that these uses are considered and that impacted stakeholders are engaged in the process.

It is anticipated that staff will report back to City Council by fourth quarter of 2024 with a list of priority sites, timelines, and resource requirements for due diligence to determine the feasibility of Parking to Homes and/or community infrastructure opportunities. TPA will work with CreateTO and CREM through the assessment of these sites to ensure that the trade offs associated with the repurposing of these locations are clearly articulated to the impacted stakeholders.

RISK ASSESSMENT

New Policy Direction from the City of Toronto: new and/or unexpected changes in policy direction established through City Council may place additional financial burdens on TPA. For example, City Council direction for TPA to expand its mandate (e.g. assume Bike Share Toronto and the on-street EV charging program); contribute funds for the development of community facilities by other City Divisions (e.g. St. Lawrence Market North, Ethennonnhawahstihnen' Community Recreation Centre); or the designation of parking facilities for other purposes, may create additional financial and/or operational pressures for the organization or require the TPA to adjust its priorities.

Financial Sustainability: insufficient financial resources and/or a misaligned Net Income Sharing Agreement may impact the ability to fund long-term plans, meet customer expectations and undermine the TPA's financial sustainability.

NEXT STEPS

Should TPA deliver its full capital program in 2024, as expected, Management will be required to make significant cuts to capital spending in 2025 to preserve TPA's cash position. These actions would include a suspension of capital investments in TPA's Bike Share Toronto and EV charging programs as well as postponement of the modernization of our near obsolete parking payment systems. Concurrently, Management may need to consider the potential closure of parking garages or portions of garages that TPA cannot continue to safely operate.

It bears repeating that the TPA generates more than sufficient net income to support both the operating and capital demands on the business including parking, Bike Share Toronto, the development of a world class EV network, as well as the provision of an annual dividend to the City. However, the current 85 percent dividend rate, which far exceeds the rate of any other City agency, including THESL, compounded by the elimination of the fair value market policy and pending repurposing of TPA properties, will undermine the financial viability of the TPA as currently constructed. Management will provide a status update on our negotiations with City Leadership at each of the Audit committee and Board meetings balance of year until the matter is resolved.

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SIGNATURE

W. Scott Collier, President
Toronto Parking Authority

ATTACHMENTS

Confidential Attachment 1

Appendix A - Off-Street Parking Facilities Owned/Managed by Toronto Parking Authority