



REPORT FOR ACTION

2024 - 2026 City of Toronto - Toronto Parking Authority Net Income Share Agreement

Date: May 15, 2024

To: Board of Directors, Toronto Parking Authority

From: President, Toronto Parking Authority, and Chief Financial Officer & Treasurer,
City of Toronto

Wards: All

SUMMARY

The purpose of this report is to present the Toronto Parking Authority (TPA) Board of Directors with the proposed terms of a new Net Income Share Agreement with the City of Toronto (the "City"). TPA and the City's Financial Planning Division have collaborated to develop the principles of a new net income sharing agreement that will ensure that TPA has access to sufficient resources to both fund its Capital Program, and continue to make annual contributions to the City of Toronto that build upon the \$1.4 billion, including dividends, property taxes, and rents, that TPA has contributed to the City since 2002, as outlined in Attachment 1 - Annual Contributions Made by the Toronto Parking Authority to the City of Toronto.

The review of TPA's financial framework with the City is being carried out in two (2) phases with the first phase intended to arrive at an agreement with the City that will provide TPA with the needed financial stability in the short-term to execute its 2024 Operating Budget and the 2024 - 2026 segment of the 10-Year Capital Budget and Plan, including the continued capital expansion of TPA's Bike Share Toronto and Electric Vehicle (EV) Charging programs. The second phase of work, intended to address the long-term sustainability of TPA will continue, with recommendations expected to be presented to TPA's Board in Q4 2024.

Under the new framework, the net income sharing formula will be changed to increase the percentage of net income that TPA retains from its operations from 15 percent to 25 percent which results in the City dividend dropping from 85 percent to 75 percent from the current Agreement. This enhanced income share ratio will provide TPA with incremental net income over the next three (3) years to address the extensive backlog in state of good repair (SOGR) in TPA's parking garages. In addition, the City will

directly fund the continued capital expansion of TPA's Bike Share Toronto and EV Charging programs over the term of the Agreement. Table 1 summarizes the proposed terms that are recommended for the new Net Income Share Agreement.

Table 1: Proposed Changes to the City of Toronto - TPA Net Income Share Agreement

	Current Agreement	Proposed Agreement
Term	2017 - 2019	January 1, 2024 - December 31, 2026
Income Sharing Formula	85 percent City / 15 percent TPA	75 percent City / 25 percent TPA
Minimum Annual Dividend Payment to the City	\$38.0 million	75 percent of prior year net income
Progress Payment Frequency	Monthly	Quarterly (at fiscal quarter-end or year-end)
Direct CAPEX Funding	N/A	\$48.0 million

The change to the income sharing formula reflects the conditions that were in place prior to the 2017 agreement where a 75/25 income sharing formula was used to support TPA's capital requirements at a time that pre-dated the extension of TPA's mandate to include Bike Share Toronto and EV Charging. A reversion to this model is required given the TPA's relative cash reserve position after the pandemic and current capital program requirements of approximately \$186.7 million over three (3) years (2024 - 2026) of TPA's 10-Year Capital Budget and Plan.

The new Agreement will continue to support annual net income contributions by TPA to the City, estimated to be at least \$91.0 million over the three (3) year term. Contributions will be paid on a quarterly basis, subject to unforeseen circumstances which may result from the interruption of service, any other unplanned occurrence or Council decision, which may have an adverse and material effect on the net income and/or the TPA's cash reserves.

Subject to the Board's endorsement and approval by City Council, the Net Income Share Agreement will retroactively take effect January 1, 2024, for a three (3) year period ending December 31, 2026.

RECOMMENDATIONS

The President, Toronto Parking Authority and the Chief Financial Officer & Treasurer, City of Toronto recommend that:

1. The Board of Directors, Toronto Parking Authority, request City Council to approve the terms of the Net Income Share Agreement between the City and the TPA for a three (3) year period, effective January 1, 2024, as outlined in Attachment 2 of this report.
2. The Board of Directors request City Council to authorize appropriate City staff to prepare a Net Income Sharing Agreement between the TPA and the City of Toronto, in accordance with the terms set out in Attachment 2, in a form satisfactory to the City Solicitor, and subject to the approval of the TPA's Board of Directors.

FINANCIAL IMPACT

This report proposes a Net Income Share Agreement between the City and TPA that includes two key adjustments from the previous agreement related to the income share formula and the inclusion of direct capital funding from the City towards TPA's EV Charging and Bike Share Toronto investments.

Income Share Formula

It is proposed that the income share formula be adjusted from the current split (85 percent City and 15 percent TPA) to a revised share of 75 percent City and 25 percent TPA.

As reflected in Table 2 below, this change is expected to result in an additional \$12.1 million in retained TPA earnings over the three (3) year Agreement term (annual average of \$4.0 million) compared to the previous share of 85 percent City and 15 percent TPA.

Table 2: Three (3) Year Financial Forecast

Description (\$M)	2024	2025	2026	3 Year
Revenue	168.4	173.3	178.8	520.5
Expenses	130.4	133.0	135.6	399.0
Net Income	37.9	40.2	43.2	121.3
Income Share				
City (75%)	28.4	30.1	32.4	91.0
TPA (25%)	9.5	10.0	10.8	30.3
Revision Impact	3.8	4.0	4.3	12.1

Based on the revised income sharing formula, both the City and TPA are forecasting to receive/ retain the following:

- The City is forecasted to receive \$91.0 million over the term of the new Agreement, including \$28.4 million in 2024, \$30.1 million in 2025 and \$32.4 million in 2026.
- The TPA is forecasted to retain \$30.3 million over the term of the new Agreement, including \$9.5 million in 2024, \$10.0 million in 2025 and \$10.8 million in 2026.

This represents an increase in the incremental net income retained by TPA of approximately \$12.1 million compared to what it would have retained under the previous income sharing formula (85/15) over the same period of time.

- While the new agreement is proposed effective January 1, 2024, the current year budget impact to the City's Corporate Accounts will be fully offset based on current TPA revenue forecast that exceeds the 2024 budget of \$31.9.
- The retained net income will be used to fund the TPA's multi-year Capital Program allowing TPA to continue to invest in its capital priorities, with a positive retained earnings balance at the end of 2026.

Direct Capital Funding from the City

It is proposed that the City provide capital funding directly to the TPA to support the planned capital expansion of TPA's Bike Share Toronto and EV Charging programs. This includes \$48.0 million in direct funding through 2026 as detailed in Table 3 below.

Table 3: Bike Share Toronto and EV Charging Program Capital Forecast

Capital Project (\$M)	2024	2025	2026	3-Year	2027-2033	10-Year
Bike Share Toronto	3.7	7.4	3.0	14.1	19.5	33.6
EV Off-Street	5.0	18.4	10.5	33.9	28.5	62.4
Total	8.7	25.8	13.5	48.0	48.0	96.0

This funding arrangement will prevent delays in implementing City Council priorities, and also help TPA to maintain sufficient cash to continue to invest in its capital priorities. Funding of these programs beyond 2026 is estimated to be \$48.0 million and will be subject to assessment at future income share agreement renewal periods.

The City and TPA have been discussing this aspect of the Net Income Share Agreement prior to the finalization of the 2024 Budget process and sufficient City capital funding capacity was retained to accommodate this change once the Agreement was completed. An associated capital funding adjustment will be brought forward for Council's consideration as part of the City's quarterly capital variance report at the first opportunity.

DECISION HISTORY

At its meeting of March 26, 2024, TPA Board of Directors received and adopted PA8.5, as amended, which provided an update about Toronto Parking Authority's Net Income Sharing Agreement with the City of Toronto. In adopting this item, the Board requested the City Manager to request the Chief Financial Officer & Treasurer to provide an update on on-going discussions at the May 28, 2024 meeting of Board of Directors of the Toronto Parking Authority on the status of the Toronto Parking Authority's Net Income Sharing Agreement.

<https://secure.toronto.ca/council/agenda-item.do?item=2024.PA8.5>

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>

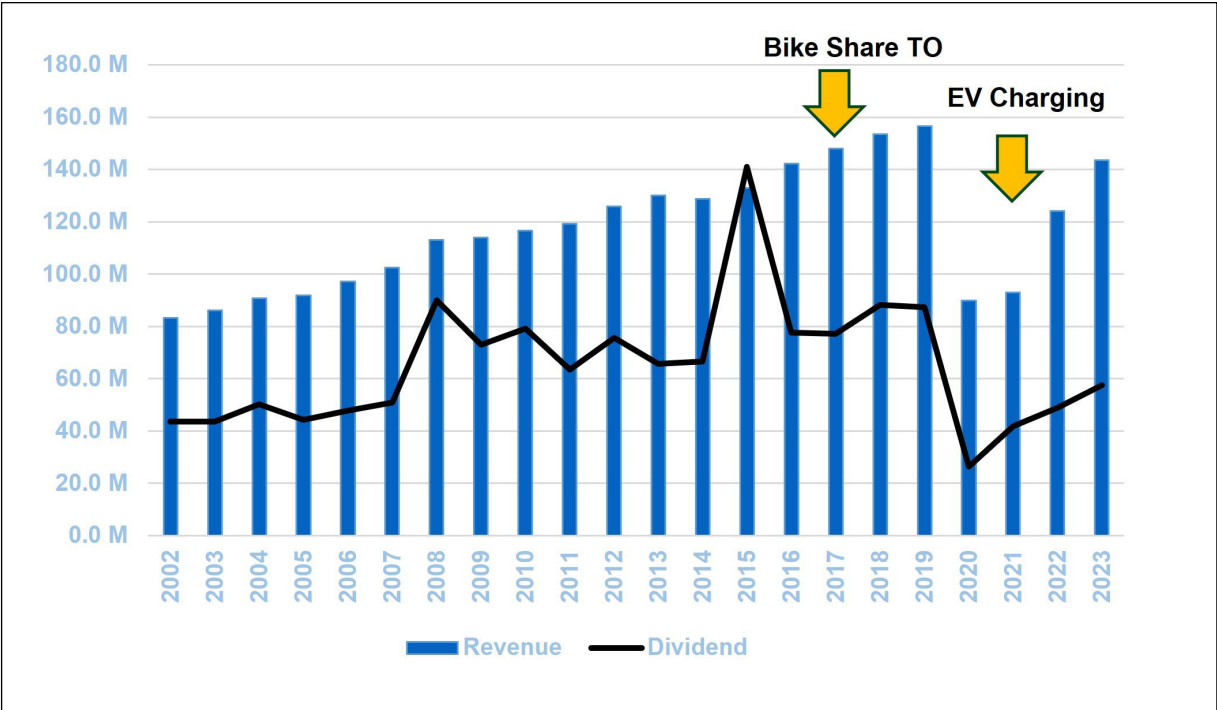
At its meeting of February 15 and 16, 2017, City Council approved the Net Income Sharing Agreement between the City and the Toronto Parking Authority for a three year period, effective January 1, 2017, based on terms and conditions that generally include: the net income available for distribution be 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>

COMMENTS

The TPA business generates substantial net income each year - averaging \$60 million annually pre-pandemic (over \$50 million in returned earnings to the City) excluding one-time gains and fund recoveries. Since 2002, TPA has contributed \$1.4 billion to the City (refer to the graph below) through its net income share agreements, property taxes, and rents, which have been used to fund other municipal programs, projects and initiatives.

Graph 1: Revenue and Dividend Summary (2002 - 2023)



As the City exits the COVID-19 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 TPA Management expects will accelerate TPA’s growth. TPA’s strategy is working; despite the negative impact of the pandemic on commuter traffic, the TPA has earned a total net income of \$79.1 million since 2021 and exceeded plan performance by \$42.3 million. In addition, TPA is forecasting that a further \$556.9 million in net income will be generated over the next ten (10) years (2024 - 2033).

TPA’s legacy 2017 Net Income Share Agreement did not anticipate TPA’s current mandate, which has since 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. The current Net Income Share Agreement also did not 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 (including the City Hall parking garage which is estimated to be ~\$100 million). Further capital pressures include the need to replace TPA’s 3,000+ Pay & Display machines, which are approaching their end-of-life.

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 by the end of 2024. Annual ridership exceeds 5.7 million rides (2023), placing 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 arm responsible for the operation, maintenance, and continued expansion of EV charging infrastructure. In 2023, this included TPA's purchase from Toronto-Hydro-Electrical Systems Limited. (THESL) of 47 on-street EV chargers at a cost of \$0.8 million and 32 off-street EV chargers at a cost of \$1.3 million.

TPA's extended mandate and accelerated capital spending to support investments in SOGR, modernization of equipment, and the continued expansion of Bike Share Toronto and TPA's EV Charging programs have eroded its cash reserves and resulted in a pressing need to develop a new financial framework with the City. The proposed terms of the three (3) year Net Income Share Agreement will provide TPA with the needed stability to execute its 2024 Operating Budget and 2024 - 2026 Capital Budget and Plan, including the continued capital expansion of TPA's Bike Share Toronto and Electric Vehicle (EV) Charging programs. Long-term sustainability will be addressed through the second phase of work to be carried out over the balance of the year.

As a result of the expanded mandate, TPA and the City are recommending that TPA's income share ratio revert back to income sharing formula in place (i.e. 75 / 25 percent) prior to the 2017 arrangement.

Payment Schedule

Should the recommendations of this report be adopted, the TPA will make quarterly progress payments to the City, which add up to 75 percent of the net income budgeted in the current year. In addition, the change of minimum payment from \$38 million under the existing Agreement to 75 percent of prior year net income will enhance TPA's liquidity and preserve TPA's cash position.

The final reconciliation payment for each year will occur once the audited net income amount for the fiscal year is confirmed by the external auditors and the financial statements are approved by the TPA's Board of Directors.

Capital Funding for Bike Share Toronto and EV Charging

As part of the proposed terms, the City will directly fund \$48.0 million for the capital expansion of TPA's Bike Share Toronto and EV Charging programs through the end of 2026. These are two key initiatives that directly align with TransformTO and support the implementation of the City's Net Zero Strategy. By funding the expansion of Bike Share Toronto in all wards, the City will be advancing its TransformTO goal to ensure 75 per cent of school/work trips under 5 kilometres are made by walking, cycling, or by transit, by 2030.

Additionally, funding for the EV Charging program provides the infrastructure needed for the City to make progress on its TransformTO goal for 30 percent of all registered vehicles in Toronto to be electric by 2030. Overall, this funding arrangement will prevent delays on implementing City Council priorities, and also help TPA to maintain sufficient cash reserves through the term of the agreement. TPA will continue to fund the operation of both programs, including a \$7.7 million operating subsidy forecasted for the Bike Share Toronto through the term of the Agreement.

Future funding of \$48.0 million from 2027-2033 for a total estimated program value of \$96.0 million over the ten-year capital planning period is subject to further assessment at future income share agreement renewal periods.

Phase 2 - Long-term Sustainable Framework

The second phase of work being carried out by TPA and the City, intended to address the long-term sustainability of TPA. Issues that will be considered as part of this second phase of work, include:

- City-Wide Parking Strategy (including centralization of commercial parking)
- Capital funding for new acquisitions and SOGR
- Enforcement through automatic licence plate recognition (ALPR) technology
- Management of real estate transactions and commercial tenant portfolio

Items under consideration for Phase 2 require alignment with other City initiatives such as the City-Wide Parking and EV Strategies. TPA will work with other City Divisions and Agencies, including the City Manager's Office, Transportation Services, Corporate Real Estate Management (CREM), CreateTO, Parks, Forestry & Recreation Division, among others, to review these issues in detail and report back to the TPA's Board, expected in the fourth quarter of 2024.

NEXT STEPS

The terms presented in this report reflect a collaboration of TPA and City staff working together to identify actions from both parties that advance the delivery of key initiatives while ensuring the objectives of short-term financial sustainability for both, TPA and the City, are met. Should the TPA Board of Directors adopt the recommendations of this report, the proposed Net Income Share Agreement terms will be referred for approval to City Council.

TPA and City staff remain committed to maximizing performance and promoting dividend growth and will continue to collaborate on a Long-term Sustainable Framework for later consideration by the TPA Board and City Council.

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SIGNATURE

 <p>W. Scott Collier President, Toronto Parking Authority</p>	 <p>Stephen Conforti Chief Financial Officer & Treasurer, City of Toronto</p>
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ATTACHMENTS

Attachment 1: Annual Contributions Made by the Toronto Parking Authority to the City of Toronto

Attachment 2: Terms of Net Income Share Agreement between the Toronto Parking Authority and the City of Toronto

ATTACHMENT 1: ANNUAL CONTRIBUTIONS MADE BY THE TORONTO PARKING AUTHORITY TO THE CITY OF TORONTO

	TPA Records - Return of Earnings to the City (in \$ 000's)						
Year	Share of Net Income	One Time Dividend	Sale of Air Rights	Total Return of Earnings	Property taxes	Rents to Other City Divisions	Annual Total
2002	28,736	-	-	28,736	13,917	850	43,503
2003	29,256	-	-	29,256	13,396	940	43,591
2004	34,266	2,000	-	36,266	13,250	800	50,316
2005	30,608	-	-	30,608	13,018	700	44,326
2006	32,719	-	-	32,719	14,123	900	47,742
2007	34,710	-	-	34,710	14,845	1,300	50,855
2008	41,583	20,000	11,592	73,176	15,034	1,700	89,910
2009	45,888	10,000	-	55,888	15,420	1,700	73,008
2010	39,827	-	19,466	59,293	18,097	1,700	79,090
2011	42,749	-	-	42,749	19,019	1,700	63,468
2012	43,613	12,000	-	55,613	18,358	1,700	75,671
2013	44,907	-	-	44,907	18,771	2,098	65,776
2014	43,706	639	-	44,345	19,849	2,297	66,491
2015	42,701	7,643	67,112	117,457	21,534	1,992	140,983
2016	42,129	10,628	-	52,757	22,532	2,405	77,694
2017	52,297	-	-	52,297	22,465	2,320	77,082
2018	56,904	5,420	-	62,324	22,763	3,071	88,158
2019	62,583	-	-	62,583	21,543	3,116	87,242
2020	4,775	-	-	4,775	20,154	1,509	26,438
2021	7,816	12,000	-	19,816	20,517	1,443	41,775
2022	26,539	-	-	26,539	21,073	1,301	48,913
2023	31,957	-	-	31,957	24,332	1,213	57,503
Total 2002 to 2023	820,269	80,330	98,171	998,771	404,010	36,755	1,439,536

ATTACHMENT 2: TERMS OF THE NET INCOME SHARE AGREEMENT BETWEEN THE TORONTO PARKING AUTHORITY AND THE CITY OF TORONTO

The terms of the Net Income Share Agreement between the City and the TPA for a three (3) year period, effective January 1, 2024, are outlined as follows:

- (a) The net income available for distribution shall be defined in the TPA's annual audited financial statements;
- (b) The TPA shall pay to the City the greater of (i) 75 percent of net income earned in the current year or (ii) 75 percent of net income earned by the TPA in the prior year, subject to unforeseen and uncontrollable circumstances which result in significant service disruption, or is the result of new legislated obligations, which may have an adverse and material effect on the TPA's financial position;
- (c) The TPA shall make four (4) equal quarterly progress payments at the fiscal quarter-end, which add up to 75 percent of net income budgeted in the current year;
- (d) Final settlement between the TPA and the City of the amount payable for each year of the term (the difference between the City's 75 percent share of net income and progress payments made by TPA) shall occur once the TPA's actual net income for that year is confirmed by the external auditors and the audited financial statements are approved by the TPA's Board of Directors;
- (e) The City shall provide the TPA with annual cash flow funding to support the Bike Share Toronto and EV Charging capital programs up to a total of \$48 million payable at the beginning of each fiscal year and outlined as follows: \$8.7 million in 2024, \$25.8 million in 2025, and \$13.5 in 2026; and
- (f) The City shall work with TPA to review opportunities for incremental capital investments subject to the capital program review as part of the annual budget process, proportional to the value of additional net income achieved above the budgeted City share.