

City of Toronto Annual Report 2014
Narrative
Administrative Agreement on the Federal Gas Tax Fund (March 2014)

Executive Summary

The federal Gas Tax Fund (GTF) program provides a stable source of flexible and long-term funding that enables the City of Toronto to make strategic, long-term investments in critical infrastructure that directly impacts the daily life of the residents and businesses of Toronto.

Since its inception in 2005, the GTF program in the City of Toronto has leveraged more than \$2.8 billion of investments in public transit, due to the \$1.177 billion contribution made by the federal government. This investment has been timely given the significant increases in transit ridership experienced over the same period and the continued pressure faced by the City in funding state of good repair and capital expansion needs for public transit, brought on by population and ridership growth.

Background

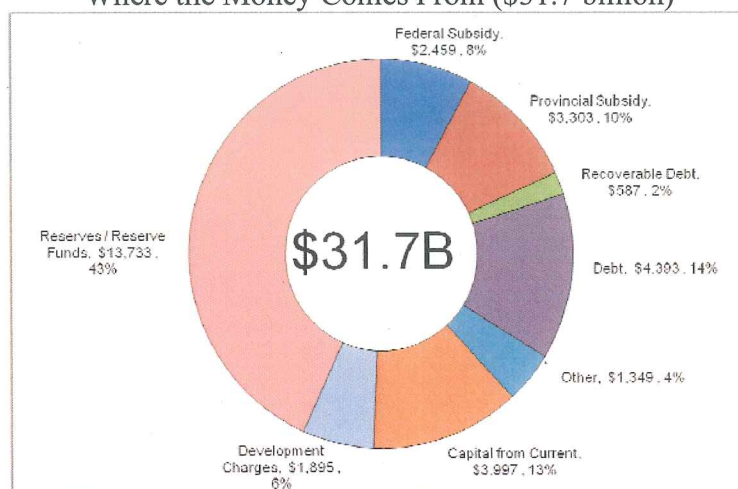
As North America's fourth largest city and the heart of Canada's largest urban region, Toronto is a key driver of Canada's economic prosperity. Toronto businesses and communities generate approximately \$175 billion (2014) in GDP which accounts for more than half of the GDP of the Toronto Census Metropolitan Area (CMA). Further, the Toronto CMA generates nearly one-fifth the GDP of Canada.

A key driver of this success is the availability of infrastructure that is needed to accommodate employment growth and create a supportive business environment. Investments in Toronto result in a broad range of benefits ranging from short-term job creation, long-term gains in productivity and benefits for the environment, as well as a steady stream of ongoing revenues for provincial and federal governments.

The City's 2015-2024 Capital Budget and Plan identifies \$31.715 billion in needed investments (Figure 1). The budget and plan are mainly supported by the City's property tax, rates and debt, but also include critical investments from other governments which are needed for projects such as state of good repair of the Toronto Transit Commission (TTC) and major city building investments such as the Scarborough Subway Extension. The GTF plays a key role within this plan by providing more than \$1.6 billion in long-term, predictable and stable investments over the next 10 years.

The 10-year capital planning process occurs in the context of City Council's Long Term Fiscal Plan. The Plan outlines expenditure and funding strategies, and asset and liability funding strategies to achieve a long term vision of a well-managed, affordable and sustainable order of government.

Figure 1 – 2015-2024 Capital Budget and Plan,
Where the Money Comes From (\$31.7 billion)



A key component is developing asset management capacity and planning, and creating a sustainable 10-year capital plan based on the following principles:

- Maintain assets in a state of good repair with a capital plan based on asset condition and potential risks;
- Hold debt to a manageable level, in part by using debt for long-lasting assets only (10+ years), and increasing budget allocations for current contributions;
- Set aside appropriate funds for future capital and liability obligations;
- Sell assets no longer sufficiently productive and apply proceeds to re-investments or debt reduction; and
- Acquire new assets only when necessary and affordable.

While significant investments are currently being made, historical under-investment in transit and transportation infrastructure has resulted in growing levels of congestion which has negatively impacted the region's productivity. The Toronto Region Board of Trade quantified the cost of regional gridlock at \$6 billion annually in lost productivity which, without action, will rise to \$15 billion by the year 2031.

More than \$10.6 billion of the City's 10-year Capital Budget and Plan will go towards the infrastructure required for the maintenance and expansion of the base TTC capital program, including the Toronto-York Spadina Subway Extension and the Scarborough Subway Extension projects. Over \$1 billion will be invested in 2015 alone. The City is responsible for funding 100% of the TTC capital program and any funding for the TTC's capital program from other governments flows through the City.

The TTC has an estimated \$14.5 billion in assets (replacement value) and its base capital program is focused on meeting three key objectives:

- the replacement of existing vehicles and the addition of growth vehicles to meet ridership demand,
- the associated facility construction and improvements to accommodate those vehicles, and

- maintaining track, tunnels, bridges and buildings in a state of good repair

In the 2015-2024 TTC capital plan, \$6.6 billion (62%) is dedicated to the base program which prioritizes keeping the system in a state of good repair, replacing fleet and building capacity to increase ridership. Examples include:

- Acquiring of 810 new 40-foot diesel buses for replacement and growth, and 50 new 40-foot diesel buses to improve service by 2017
- Continued purchase of 420 new subway cars (70 train sets) to replace aging subway cars and increase capacity by 9%
- Continued purchase of 204 low-floor, accessible light rail vehicles to replace the existing streetcar fleet
- Continued installation of state-of-the-art signaling systems on the Yonge-University-Spadina line to increase train capacity by allowing trains to run more frequently and closer together

The \$6.6 billion base program is financed by \$877 million from Reserve/Reserve funds, \$512 million from Development Charges, \$2.6 billion from Federal/Provincial grants (including the federal Gas Tax Fund), \$277 million from other revenues including TTC depreciation funding, and \$2.4 billion of debt/cash from current.

Investments in transit are critical to sustain the City's economic prosperity. For example, the city's downtown accommodates one-third of Toronto's employment (446,800 of the city's 1.3 million jobs) and produces half of the Toronto's export-based GDP. Its continued growth, which is anticipated to be 5 times that of the rest of the City, is premised on increased transit ridership. Fast, efficient and reliable transit service is needed to relieve congestion and ensure efficient movement of people and goods in this centre of productivity. Continued and dedicated federal infrastructure investments will help maintain the global competitiveness of Toronto and the region.

All orders of government recognize the importance of infrastructure and the City looks forward to working with Infrastructure Canada on these shared priorities. This includes sustained investment in the TTC's capital needs which currently include \$2.4 billion in unfunded but necessary projects. This includes additions to and renewal of existing rolling stock, accessibility improvements (as required through provincial legislation) and safety upgrades such as for fire ventilation.

The federal Gas Tax Fund in Toronto

The GTF which is stable, predictable, long-term and flexible, helps the City plan over the long term. GTF investments are determined by City Council through the City's 10-year capital planning process which prioritizes health and safety, legislated obligations and maintaining assets in a state of good repair. City Council does this as part of an accountable, open, and transparent process that encourages and enables public participation. Through this process, the City continues to prioritize GTF investments in public transit which services residents of Toronto and also plays a key role in moving people around the region.

Since 2005, the City has received more than \$1.17 billion from the GTF, which has leveraged over \$2.8 billion of investments in the City's transit system for projects such as fleet replacement (new

conventional and accessible buses, subway cars, and light rail vehicles), accessibility improvements, and the new Leslie Barns Streetcar Maintenance and Storage Facility. The City views the GTF as a vital base fund that allows for planned investments that keep the system moving.

Figure 2 – Toronto Capital Budget and Federal Gas Tax Fund Investments (2005-2014)
\$million

Year	Approved Capital Budget ⁽¹⁾		Federal Gas Tax Fund ⁽²⁾		GTF as a % of City Capital Budget	Amount Leveraged (Total GTF Project Costs)
	Total City (Tax & Rate)	TTC ⁽³⁾	Annual	Cumulative Total		
2005	1,058.9	385.6	48.9	48.9	4.6%	137.2
2006	1,601.6	552.4	48.9	97.80	3.1%	254.3
2007	1,796.4	717.3	65.2	163.0	3.6%	177.5
2008	1,930.9	697.2	81.4	244.4	4.2%	317.2
2009	2,151.4	692.5	162.9	407.3	7.6%	311.1
2010	3,191.4	1,127.6	154.4	561.7	4.8%	422.0
2011	2,709.0	615.5	154.4	716.1	5.7%	299.1
2012	3,037.2	989.9	154.4	870.5	5.1%	366.0
2013	2,903.9	813.4	154.4	1,024.9	5.3%	334.0
2014	2,825.2	916.1	152.2	1,177.1	5.4%	238.1

Notes

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(1) Excludes carry forwards

(2) Agreement for the Transfer of Federal Gas Tax Fund Revenues (2009-2014) & Administrative Agreement on the Federal Gas Tax Fund (2014-2024)

(3) Excludes Toronto-York Spadina Subway Extension and the Scarborough Subway Extension

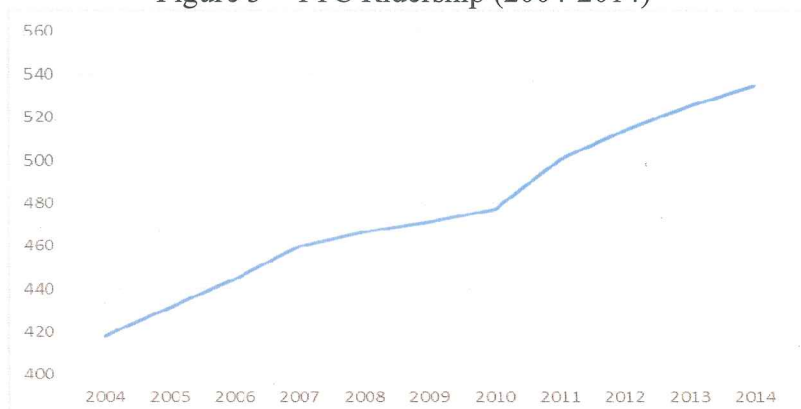
2014 Milestones

Investments in 2014 include \$87.7 million for bus procurements, \$50.8 million for the purchase of subway cars and \$13.7 million for streetcars/LRVs. In total, these investments contribute towards 543 new fleet vehicles running on Toronto's streets and in Toronto's tunnels. New vehicles improve reliability, customer service, and result in more service.

The benefit of these investments is reflected in Figure 3 which shows that transit ridership has increased by almost 28% from the 418 million trips in 2004 to a record of 535 million trips in 2014.

In 2014, the City entered into a new Administrative Agreement with the Government of Canada, the Province of Ontario and the Association of Municipalities of Ontario, which will govern the flow of funds from 2014-2024. This significant milestone was celebrated with a funding announcement held at the TTC's Hillcrest Yard on July 11, 2014.

Figure 3 – TTC Ridership (2004-2014)



The new Agreement is expected to result in over \$1.6 billion in federal funding for the City's infrastructure over the next 10-years and the expansion of project categories will provide the City with flexibility in deciding where they will be invested. The City appreciates this long-term, predictable investment which will grow over time, thanks to indexing, and looks forward to the continued partnership that it will bring.

2014 also marked the start of rollout of the City's 204 new streetcars. The announcement was first made on July 30, 2014 while the actual start of service was celebrated with a public event at Spadina Station on August 31, 2014. These new low-floor vehicles are fully accessible, larger, and air conditioned, providing passengers with a quieter, more comfortable ride.

City of Toronto's Commitments

The new Agreement provides for enhanced communications requirements, and requires outcomes reporting in 2018 and 2023. As required in 2014, the City developed a joint communications approach with Canada, shared upfront project information, and supported joint communications activities. The City will continue to collaborate with Canada and other signatories to ensure the Agreement's commitments are met.



ANNUAL REPORT -GTF PROJECT LIST

Project ID	Ultimate Recipient	Project Title	Project Description	Investment Category	Total Project Cost (\$000)	2014 Funds (GTF) Spent (\$000)	Completed
CTT111	City of Toronto	Purchase of Buses	Purchase of 153 60 foot low floor buses for replacement	Public Transit	129,181	87,669	Yes
CTT122	City of Toronto	Purchase of Streetcars	Purchase of 204 light rail vehicles for replacement and growth	Public Transit	1,186,503	13,699	No
CTT046	City of Toronto	Purchase of Subway Cars	Purchase of 126 and 60 subway cars for replacement and growth	Public Transit	517,123	50,833	No
						<u>152,201</u>	



September 24, 2015

Independent Auditor's Report

To City Council of the City of Toronto

We have audited the claimed expenditures of \$152,201,295 (the claimed expenditures) reported in the Annual Expenditure Report (the Report) of the City of Toronto (the City) for the year ended December 31, 2014 prepared in accordance with the Agreement for the Transfer of Federal Gas Tax Revenues under the New Deal for Cities and Communities dated June 17, 2005, the Federal Gas Tax Agreement Extension dated September 3, 2008 (collectively, the first agreement) and the Administrative Agreement on the Federal Gas Tax Fund effective April 1, 2014 (the second agreement).

Management's responsibility for the Report

Management of the City is responsible for the preparation of the Report in accordance with the basis of accounting described in note 1, this includes determining that the basis of accounting is an acceptable basis for the preparation of the Report in the circumstances, and for such internal controls as management of the City determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial information based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, claimed expenditures included in the Report for year ended December 31, 2014 are prepared, in all material respects, in accordance with the criteria detailed in Schedule B of the first agreement and Schedule C of the second agreement.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to note 1 of the Report which describes the basis of accounting. The Report is prepared to assist the City in complying with the financial reporting provisions of the first and second agreements. As a result, the Report may not be suitable for another purpose. Our report is intended solely to assist the City in complying with the financial reporting provisions of the first and second agreements and except for distribution to the Minister of Infrastructure, Communities and Intergovernmental Affairs, it should not be distributed to or used by any other parties.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants



City of Toronto Annual Expenditure Report 2014
Federal Gas Tax Revenues Received to December 31, 2014
 "Administrative Agreement on the Federal Gas Tax Fund" (March 2014)

City of Toronto		Current Fiscal Year to Dec 31, 2014	Cumulative from 2014
Opening Balance	-	-	-
Received from Canada	152,201,295	152,201,295	152,201,295
Interest Earned	-	-	-
Administrative Cost	-	-	-
Transferred to Toronto Transit Commission	(152,201,295)	(152,201,295)	(152,201,295)
Closing Balance of unspent funds	-	-	-
Toronto Transit Commission			
Opening Balance	-	-	-
Received from Toronto	152,201,295	152,201,295	152,201,295
Interest Earned	-	-	-
Spent on Eligible Projects	(152,201,295)	(152,201,295)	(152,201,295)
Closing Balance of unspent funds	-	-	-

City of Toronto
Annual Expenditure Report – Notes for the year ended December 31, 2014

Note 1 – Significant Accounting Policies

- (a) The following outlines the eligible and ineligible costs as outlined by Schedule B of the Agreement for the Transfer of Federal Gas Tax Revenues under the New Deal for Cities and Communities dated June 17, 2005, the Federal Gas Tax Agreement Extension dated September 3, 2008 (collectively, the first agreement) for expenses incurred for the period January 1, 2014 to March 31, 2014.

Eligible Costs

Project Costs

Eligible costs, as specified in the first agreement, includes all direct costs which are in Canada's opinion properly and reasonably incurred and paid by an Eligible Recipient under a contract for goods and services necessary for the implementation of an Eligible Project. Eligible costs may include only the following:

- a) the capital costs of acquiring, constructing, renovating or rehabilitating a tangible capital asset and any debt financing charges related thereto;
- b) the fees paid to professionals, technical personnel, consultants and contractors specifically engaged to undertake the surveying, design, engineering, manufacturing or construction of a project infrastructure asset and related facilities and structures;
- c) the costs of environmental assessments, monitoring, and follow-up programs as required by the *Canadian Environmental Assessment Act*; or a provincial equivalent; and
- d) the costs related to strengthening and ability of municipalities to enhance or develop Integrated Community Sustainability Plans.

Employee and Equipment Costs

In the case of Eligible Recipients that are remote municipalities the out of pocket costs (not overhead) related to employees or equipment may be included in its eligible costs under the following conditions:

- a) the Eligible Recipient has determined that it is economically feasible to tender a contract;
- b) employees or equipment are employed directly in respect of the work that would have been the subject of the contract; and
- c) the arrangement is approved in advance and in writing by the Oversight Committee.

Administration Costs

That portion of funds representing interest earned may be used to pay for administration costs.

Ineligible Costs

Costs related to the following items are ineligible costs:

- a) Eligible Project costs incurred before April 1st, 2005;
- b) services or works that are normally provided by the Eligible Recipient or a related party;
- c) salaries and other employment benefits of any employees of the Eligible Recipient or related party except as indicated in sections 1.1;

City of Toronto
Annual Expenditure Report – Notes for the year ended December 31, 2014

- d) an Eligible Recipient's overhead costs, its direct or indirect operating or administrative costs, and more specifically its costs related to planning, engineering, architecture, supervision, management and other activities normally carried out by its applicant's staff;
 - e) costs of feasibility and planning studies for individual Eligible Projects;
 - f) taxes for which the municipality is eligible for a tax rebate and all other costs eligible for rebates;
 - g) costs of land or any interest therein, and related costs;
 - h) cost of leasing of equipment by the municipality except for as indicated in section 1.1 above;
 - i) routine repair and maintenance costs;
 - j) legal fees;
 - k) administrative costs incurred by the municipality as a result of implementing a funding Agreement, subject to 1.2 above; and
 - l) audit and evaluation costs.
- (b) The Administrative Agreement on the Federal Gas Tax Fund (the second agreement) effective April 1, 2014 outlines the eligible and ineligible cost criteria for the period April 1, 2014 to December 31, 2014 as following:

Eligible Costs

Eligible Expenditures of Ultimate Recipients will be limited to the following:

- a) the expenditures associated with acquiring, planning, constructing or renovating a tangible capital asset, as defined by General Accepted Accounting Principles (GAAP), and any related debt financing charges especially identified with that asset;
- b) for the capacity building category only, the expenditures related to strengthening the ability of Municipalities to improve local and regional planning including capital investment plans, integrated community sustainability plans, life-cycle cost assessments, and Asset Management Plans. The expenditures could include developing and implementing:
 - i. studies, strategies, or systems related to asset management, which may include software acquisition and implementation;
 - ii. training directly related to asset management planning; and
 - iii. long-term infrastructure plans.
- c) the expenditures directly associated with joint federal communication activities and with federal project signage.

Employee and Equipment Costs

The incremental costs of the Ultimate Recipient's employees or leasing of equipment may be included as Eligible Expenditures under the following conditions:

- a) the Ultimate Recipient is able to demonstrate that it is not economically feasible to tender a contract;

City of Toronto
Annual Expenditure Report – Notes for the year ended December 31, 2014

- b) the employee or equipment is engaged directly in respect of the work that should have been the subject of the contract; and
- c) the arrangement is approved in advance and in writing by the Government of Canada and the Association of Municipalities of Ontario's Executive Leads or Canada and Toronto's Executive Leads, as appropriate.

Administration Costs

Administration expenses of the Association of Municipalities of Ontario and the City of Toronto related to program delivery and implementation of this Agreement, in accordance with Section 5 (Administration Expenses) of Annex B (Terms and Conditions) are Eligible Expenditures.

Ineligible Costs

The following expenditures are deemed Ineligible expenditures:

- a) project expenditures incurred before April 1, 2015;
- b) project expenditures incurred before April 1, 2014 for the following investment categories:
 - i. highways;
 - ii. regional and local airports;
 - iii. short-line rail;
 - iv. short-sea shipping;
 - v. disaster mitigation;
 - vi. broadband connectivity;
 - vii. brownfield redevelopment;
 - viii. cultural infrastructure;
 - ix. tourism infrastructure;
 - x. sport infrastructure; and
 - xi. recreational infrastructure.
- c) the cost of leasing of equipment by the Ultimate Recipient, any overhead costs, including salaries and other employment benefits of any employees of the Ultimate Recipient, direct or indirect operating or administrative costs of Ultimate Recipients, and more specifically its costs relating to planning, engineering, architecture, supervision, management and other activities normally carried out by its staff, except in accordance with Eligible Expenditures above;
- d) taxes for which the Ultimate Recipient is eligible for a tax rebate and all other costs eligible for rebates;
- e) purchase of land or any interest therein, and related costs;
- f) legal fees; and
- g) routine repair and maintenance costs.