

City of Toronto Annual Report 2015

Narrative

Administrative Agreement on the Federal Gas Tax Fund (March 2014)

Executive Summary

The federal Gas Tax Fund (GTF) is a critical source of funding that contributes to safe and reliable transit service for over 535 million riders each and every year. As an allocation based program, the GTF provides stable long-term funding which allows the City of Toronto to make investments in local priority projects that ensure the state of good repair of Toronto's transit network.

Since its inception in 2005, the GTF program in the City of Toronto has leveraged more than \$3.1 billion of investments in public transit, due to the \$1.33 billion contribution made by the federal government.

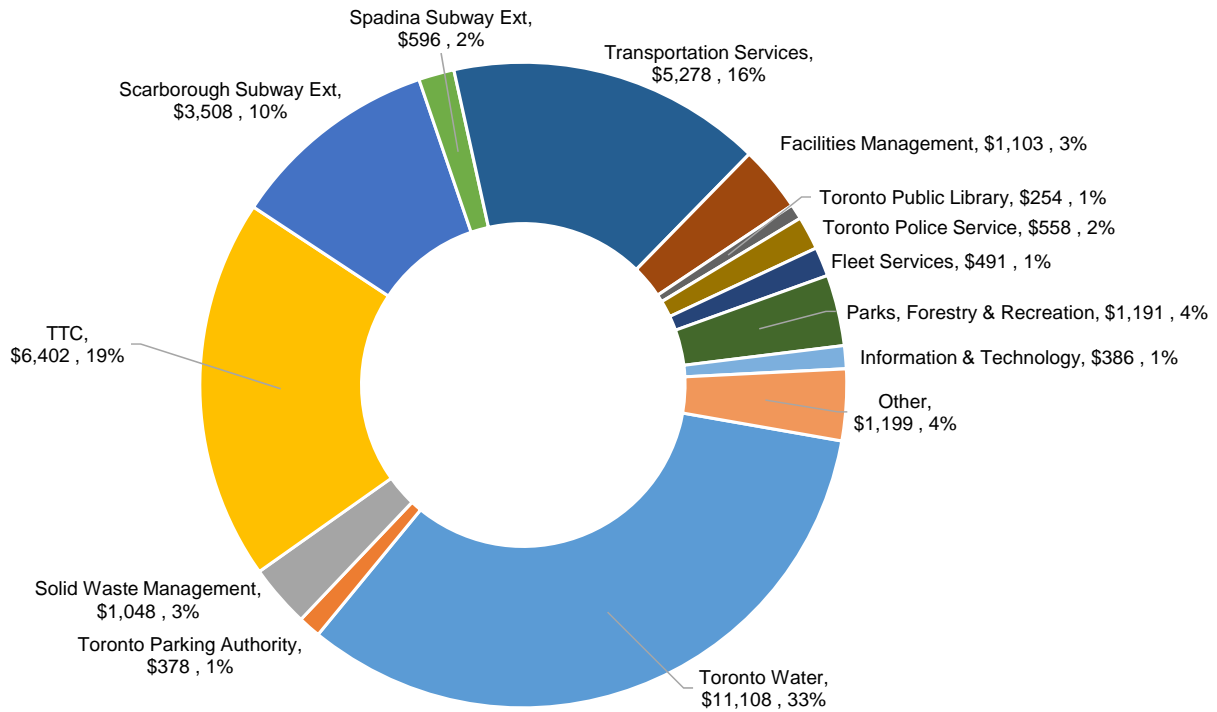
Background

As North America's fourth largest city and the core of Canada's largest urban region, Toronto is a key driver of national and provincial economic prosperity. An estimated \$180.5 billion (2015) of output (GDP) is generated in the City of Toronto which accounts for slightly more than half of the GDP generated in the Toronto Census Metropolitan Area (CMA). Further, the Toronto CMA accounts for half of the GDP of Ontario and one-fifth of 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 2016-2025 Capital Budget and Plan includes over \$33.5 billion of capital investments that will stimulate economic growth and improve long-term productivity (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. The GTF plays a key role within this plan by providing more than \$1.66 billion in long-term, predictable and stable investments over the next 10 years.

Figure 1 – 2016-2025 Capital Budget and Plan
Where the Money Goes (\$33.5 billion)



More than \$10.5 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 Toronto Transit Commission (TTC) capital program, the Toronto-York Spadina Subway Extension and the Scarborough Subway Extension projects. Over \$1 billion will be invested in 2016 alone. The City is responsible for the TTC capital program and funding for the TTC's capital program from other governments flows through the City.

The TTC has an estimated \$15.7 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 2016-2025 TTC Capital Budget & Plan, \$6.6 billion is dedicated to the base program which prioritizes keeping the system in a state of good repair, complying with legislative requirements, replacing fleet and building capacity to increase ridership.

Examples include:

- Significant fleet additions including new 40-foot diesel buses for replacement and growth, and continued purchase of 204 low-floor, accessible light rail vehicles to replace the existing streetcar fleet.

- Completion of the Leslie Barns Streetcar and Maintenance Facility.
- 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 10-year base program is financed by \$649 million from Reserve/Reserve funds, \$548 million from Development Charges, \$2.69 billion from Federal/Provincial grants (including the GTF), \$232 million from other revenues including TTC depreciation funding, and \$2.52 billion of debt/cash from current (including carry-overs).

While the City's Capital Budget and Plan includes investments for key infrastructure, the Plan does not include all of the necessary and critical investments that need to be made. The City has \$33 billion in unfunded capital needs including major projects in public transit such as state of good repair of the existing TTC network and network expansion such as projects identified in the [Transit Network Plan to 2031](#) which is currently under development. Contributions from all orders of government are needed to meet these priorities which are essential for Toronto and Canada's economy.

All orders of government recognize the importance of infrastructure and the City looks forward to working with Infrastructure Canada on these shared priorities. The City has federal commitments for SmartTrack, the Scarborough Subway Extension and the Sheppard East LRT. In addition, the Federal Government's commitment to spend \$120 billion over the next 10 years in transit, green and social infrastructure including \$60 billion in new funding is a welcome development that will help meet some of these needs.

The City's ridership based allocation under Phase 1 of the Public Transit Infrastructure Fund (PTIF) is \$856 million which will significantly contribute to improving the City's transportation network. A ridership based allocation is positive as it recognizes the pressures faced in maintaining and expanding existing transit systems. While Toronto's transit system is the largest in Canada, the City continues to experience population growth with expansion of rapid transit necessary to catch up with latent demand and to meet new pressures of growth. Such investments are also best placed to meet federal objectives of improving the economy, reducing poverty and lowering greenhouse gas emissions. As such the City looks forward to details of Phase 2 transit funding and future federal investments for Toronto's transit network.

The federal Gas Tax Fund in Toronto

The allocation based GTF helps the City plan over the long term due to its stable allocation and flexible terms and conditions that allows the City to invest in its priority projects. 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. 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.

Figure 2 – Toronto Capital Budget and Federal Gas Tax Fund Investments (2005-2015)
\$millions

Year	Approved Annual 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	2,814.0	916.1	152.2	1,177.1	5.4%	238.1
2015	2,825.2	819.8	152.2	1,329.3	5.4%	236.7

Notes

(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

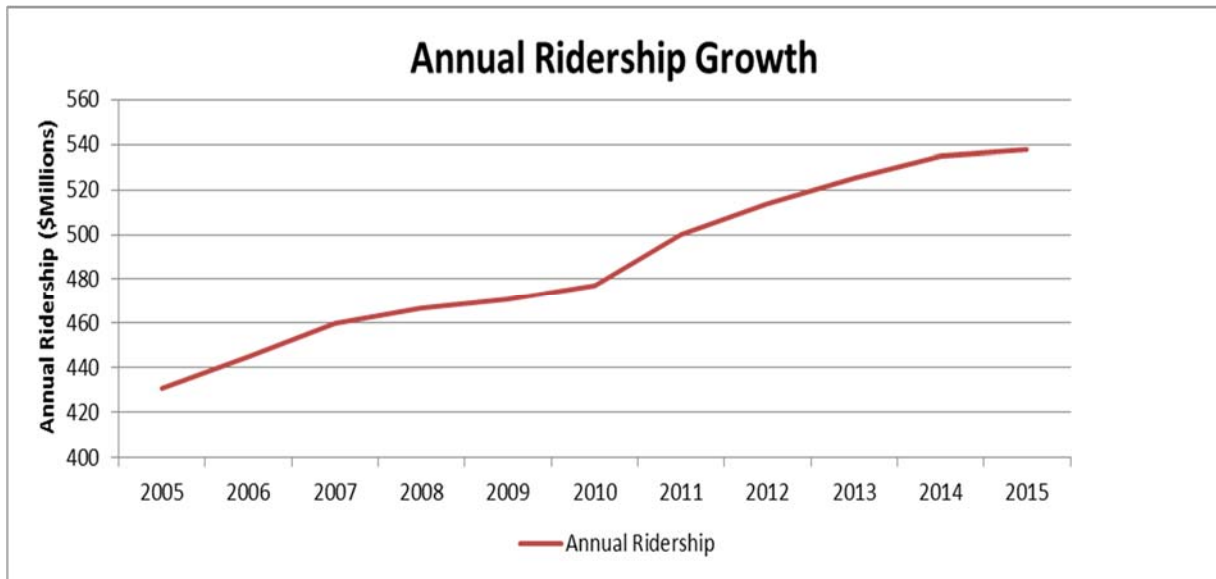
Since 2005, the City has received more than \$1.33 billion from the GTF, which has leveraged over \$3.1 billion of investments in the City's transit system for projects such as fleet replacement (new conventional and accessible buses, subway cars, and light rail vehicles), accessibility improvements, 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 keeps Toronto moving.

2015 Milestones

Investments in 2015 include \$35 million for bus procurements, \$23.6 million for streetcars/LRVs, and \$93.5 million for the purchase of subway cars. In total, these investments contribute towards 522 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 GTF investments is partially reflected in Figure 3. Funding has sustained a network that has seen transit ridership increase by 25% from 2005 to a record of 538 million trips in 2015.

Figure 3 – TTC Ridership (2005-2015)



2015 marked the start of operations at the federal Gas Tax funded Leslie Barns Streetcar Maintenance and Storage Facility. Operations began on November 22, 2015 and the facility will ultimately hold all of the City and TTC's new low-floor light rail vehicles (LRV). The new LRVs are also supported by the GTF, with the City receiving its 14th vehicle in December 2015. The City's new LRVs are fully accessible, larger, and air conditioned, providing passengers with a quieter, more comfortable ride.

City of Toronto's Commitments

The Administrative Agreement provides for enhanced communications requirements, facilitates program evaluations and audits, and requires annual reporting and outcomes reporting in 2018 and 2023.

Communications

As required in 2015, the City developed a joint communications approach with Canada, shared upfront project information, supported joint communications activities and monitored communications performance. During the year, the City updated its federal Gas Tax [website](#) and the TTC issued 9 news releases related to the opening of Leslie Barns and the rollout of new GTF funded LRVs. In addition the TTC completed a [video](#) for Leslie Barns and published information about Leslie Barns in two articles in a local free commuter newspaper.

Evaluations and Audits

In August 2015, the City welcomed the [Final Report - Evaluation of the Gas Tax Fund](#) which was carried out between September 2014 and February 2015. The evaluation focused on the outcomes achieved from 2009-2014. Among the key findings were that the GTF is resulting in incremental infrastructure investments and that projects and investments were meeting intended objectives. The evaluation also noted the efficiency of the Gas Tax Fund, calling it "one of the most efficient infrastructure programs of the federal government."

As per the GTF agreements, the City was pleased to provide input into this evaluation. In late-2015 the City was also engaged by the federal Commissioner of Environment and Sustainable Development within the Office of the Auditor General of Canada as part of their audit on federal support for sustainable communities (including the GTF).

Outcomes Reporting

In 2015 the City continued collaboration with Canada and other signatories to develop frameworks for outcomes reporting which will ultimately demonstrate how GTF projects are meeting federal objectives and how the GTF is leading to improved asset management.

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)	2015 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	5,488	Yes
CTT111	City of Toronto	Purchase of Buses	Purchase of 55 40 foot low floor buses for replacement	Public Transit	33,491	23,454	Yes
CTT111	City of Toronto	Purchase of Buses	Purchase of 50 40 foot low floor buses for Customer Service Initiatives	Public Transit	30,522	6,120	Yes
CTT122	City of Toronto	Purchase of Streetcars	Purchase of 204 light rail vehicles for replacement and growth	Public Transit	1,186,503	23,649	No
CTT046	City of Toronto	Purchase of Subway Cars	Purchase of 60 subway cars for growth	Public Transit	222,170	93,491	No
						<u>152,201</u>	

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October 6, 2016

Mr. Marc Fortin
Assistant Deputy Minister, Program Operations
Infrastructure Canada
1100 - 180 Kent Street
Ottawa, ON K1P 0B6

RE: 2015 Annual Report on the federal Gas Tax Fund

Dear Mr. Fortin,

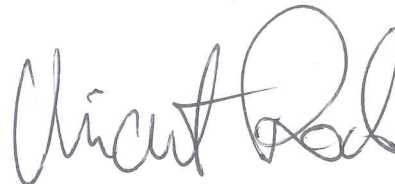
As per Schedule D, under the Administrative Agreement on the Federal Gas Tax Fund (GTF) (executed in March 2014), we the undersigned attest that based on the appended Audited Financial Report:

- a) the information submitted in the Financial Report Table is accurate; and
- b) GTF funding and Unspent Funds, and any interest earned thereon, were expended for the purposes intended.

Sincerely,



Roberto Rossini
Deputy City Manager &
Chief Financial Officer
City of Toronto



Vincent Rodo
Chief Financial and Administration Officer
Toronto Transit Commission



July 22, 2016

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, 2015 prepared in accordance with the Administrative Agreement on the Federal Gas Tax Fund effective April 1, 2014 (the 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.

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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, 2015 are prepared, in all material respects, in accordance with the criteria detailed in Schedule C of the 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 2015
Federal Gas Tax Revenues Received to December 31, 2015
 "Administrative Agreement on the Federal Gas Tax Fund"

	Current Fiscal Year to Dec 31, 2015	Cumulative from 2015
City of Toronto		
Opening Balance	-	-
Received from Canada	152,201,295	152,201,295
Interest Earned	-	-
Administrative Cost	-	-
Transferred to Toronto Transit Commission	(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
Interest Earned	-	-
Spent on Eligible Projects	(152,201,295)	(152,201,295)
Closing Balance of Unspent Funds	-	-

**City of Toronto
Annual Expenditure Report – Notes for the year ended December 31, 2015**

Note 1 – Significant Accounting Policies

The following outlines the eligible and ineligible costs as outlined by Schedule C of the Administrative Agreement on the Federal Gas Tax Fund effective April 1, 2014 for expenses incurred for the period January 1, 2015 to December 31, 2015.

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;
- 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, 2005;

City of Toronto
Annual Expenditure Report – Notes for the year ended December 31, 2015

- b) project expenditures incurred before April 1, 2014 for the following investment categories:
 - i. regional and local airports;
 - ii. short-line rail;
 - iii. short-sea shipping;
 - iv. disaster mitigation;
 - v. broadband connectivity;
 - vi. brownfield redevelopment;
 - vii. cultural infrastructure;
 - viii. tourism infrastructure;
 - ix. sport infrastructure; and
 - x. 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.