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METROLINX DRAFT INVESTMENT STRATEGY UPDATE

The Rapid Transit Public/Private Partnership Steering Committee recommends the adoption of the recommendation contained in the following report, October 8, 2008, from the Vice-President, York Region Rapid Transit Corporation:

1. RECOMMENDATION

It is recommended that:

1. Staff report back to Council on the financial implications to the Region, if any, for the implementation of vivaNext and the Yonge Street Subway Extension as addressed in the final investment strategy, expected in November 2008.

2. PURPOSE

This report provides information on the recently drafted Metrolinx Investment Strategy that was tabled at the Metrolinx Board Meeting on September 26, 2008. Reports on the Regional Transportation Plan and the CEO Report on Project Delivery are provided under separate reports.

3. BACKGROUND

Metrolinx, established under the *Greater Toronto Transportation Authority Act, 2006,* to address the transportation challenges in the Greater Toronto and Hamilton Area (GTHA), is mandated to provide leadership in the coordinating, planning, financing and developing of an integrated, multi-modal transportation network in the region. Building on the goals and policy frameworks of the Greenbelt and Places to Grow, Metrolinx is responsible for the development of the Regional Transportation Plan (RTP) and associated Transportation Investment Strategy and rolling five-year capital plan.

MoveOntario 2020 provides the funding impetus for capital costs associated with the Regional Transportation Plan. The MoveOntario 2020 initiative was the June 2007 Government of Ontario announcement of a list of 52 rapid transit improvements and expansion projects for the GTHA. The province has committed $11.5 billion ($17.5 billion with federal participation) to finance the plan's implementation.

The projects address four distinct areas of our transit system:

1. GO Transit upgrades and extensions.
2. Major municipal transit expansions.

3. Cross-boundary subway expansions.
4. Rapid-rail link between Toronto Union Station and Toronto Pearson International Airport.

VivaNext, the Spadina Subway Extension, and the Yonge Street Subway Extension are on the list of 52 rapid transit projects.

Metrolinx is responsible for evaluating, prioritizing and recommending an implementation action plan and alterations to the MoveOntario 2020 project list. This work will form the core of the Regional Transportation Plan.

The Investment Strategy evaluates the potential revenue sources and financial tools to deliver the Regional Transportation Plan recommendations, as well as to maintain the GTHA region's existing transportation infrastructure, and support the operating costs of current and future transit services. The draft Investment Strategy was tabled with an accompanying report at the September Metrolinx Board meeting. Both the report to the Board and the Draft Investment Strategy are discussed in this document.

4. ANALYSIS AND OPTIONS

In the Draft Investment Strategy, Metrolinx proposes to position itself as the single point of coordinated investment planning and public accountability for delivering the next wave of major transit projects. A copy of the Draft Investment Strategy is provided in *Attachment 1*.

Viva Highway 7 and Yonge Street through York Region, Spadina Subway and Yonge Street subway extension to Richmond Hill are in the top 15 Metrolinx priority investments

The Investment Strategy has broken into three phases. The first phase, Quick-Wins projects, are already underway and are set for completion within five years. It covered 16 Metrolinx "Quick-Wins" transit improvement projects valued at approximately $750 million. Under Quick-Wins Tranche 1, the Region was successful in having one project funded in the amount of $5.6 million for Cornell Terminal, as indicated in Table 1. Also identified in Table 1, are the Quick-Wins Tranche 2 funding in the amount of $100 million for preliminary engineering, buses and intelligent transportation systems for vivaNext. These projects have been funded through the 2008 provincial budget announcement and are not part of the annual funding requirements needed to implement the larger scale projects listed in the MoveOntario 2020 announcement.

Table 1
MoveOntario 2020 Quick-Wins 1 and 2

	(millions $)					
	PE	ITS	Vehicles	Land	Interim Stops	**Total**
Quick-Wins Tranche 1						
‣ Cornell Terminal	$0.6			$3.0	$2.0	**$5.6**
Quick -Wins Tranche 2						
‣ York-Viva Highway 7, Pine Valley Drive to Kennedy	$14.0	$17.0	$21.0	$0.0	$0.0	**$52.0**
‣ York-Viva Yonge Street, Richmond Hill Centre to 19th Avenue	$8.0	$6.0	$5.0	$0.0	$0.0	**$19.0**
‣ York-Viva Yonge Street, 19th Avenue to Newmarket (Inclusive of Davis Drive)	$15.0	$9.0	$5.0	$0.0	$0.0	**$29.0**
Total Quick-Wins Tranche 2	$37.0	$32.0	$31.0	$0.0	$0.0	**$100.0**
Total 2008 Budget Announcement	$37.6	$32.0	$31.0	$3.0	$2.0	**$105.6**

Preliminary engineering for Cornell Terminal, Highway 7 from Pine Valley Drive to Kennedy Road, Yonge Street from Richmond Hill Centre to 19th Avenue, and on Davis Drive has already commenced. As well, 11 buses are on order for delivery in 2009, which will be funded from this program.

The second phase involves priority investment in major new “transformational” projects in the next 15 years based on the Province’s MoveOntario 2020 foundation investment and any newly identified projects in the Regional Transportation Plan. It is with this phase where vivaNext - 67 kms of bus rapid transit on Highway 7 and Yonge Street north of Highway 7, Davis Drive and Green Lane, and the Yonge Street Subway Extension will be funded. The Spadina Subway has already been funded and is not part of the MoveOntario 2020 funds. The approximate value of these projects within York Region is in excess of $4 billion dollars.

The third phase covers a 25-year period when the full vision of the Metrolinx Regional Transportation Plan will be achieved.

The Draft Investment Strategy will remain silent on long-term, sustainable revenue sources to fund operating, rehabilitation and capital expansion until 2013

The projects under phase two of the investment strategy assumes that the MoveOntario 2020 projects will be financed through debt arranged through the Ontario Financing Authority, repayable against an amortization period covering the standard useful life-cycle of the asset. Arrangements for early construction financing are to be considered at the individual project decision-making level, based on the selected procurement and delivery model.

The strategy does recognize that post-2015, new long-term revenue and funding instruments will be required

The investment strategy overview, as presented to the Metrolinx Board on April 24, 2008, identifies a number of dedicated revenues and financing tools as depicted in Table 2, to fund $50 billion of transit and transportation expansion over 25 years.

Table 2
Metrolinx Investment Strategy Tools under Consideration Post-2015

Option Categories	*Specific Tools*
Traditional government sources	• Capital fund, grant, trust, etc. • Operating subsidies
Beneficiary fees	• Property tax • Development charges • Participation/contribution agreement by developers • Land value capture • Sales tax • Payroll tax
User fees	• Gas tax • Driver license fees • Vehicle registration fees and sales tax • Parking tax • Tolls on specific transportation facilities • System-wide real-time capacity pricing • Transit fares
Debt financing	• Borrowing/mortgaging • Equity investments • Infrastructure bonds • Tax increment financing

Metrolinx proposes to report back to the Ontario government on the potential suite of long-term financial tools to fund and sustain the complete 25-year Draft Regional Transportation Plan vision, in 2013.

Options for long-term sustainable funding of transit operating and rehabilitation costs will also be addressed in 2013 in the Metrolinx Investment Strategy report to the Ontario government.

Investment Strategy guiding principles have been developed to shape all future investment decisions:
- Regional or metropolitan focus.
- Invest where it matters most.
- Prudent financial management.
- A system that works and is accountable.
- Risk management and project implementation discipline.

The Draft Investment Strategy recommends that Metrolinx immediately begin to strategize on capturing a portion of the value of land value uplifts created by new rapid transit corridors and hubs

The Draft Investment Strategy recommends that Metrolinx immediately begin collaborating with the province, municipalities and other partners on strategies to "capture" and dedicate the land value uplift that is created by new rapid transit corridors and hubs. A range of potential tools are being considered near term:
- Development charges that reflect the real value of land development.
- Land Value taxation to capture the value enhancements due to transportation improvements.
- Tax Increment Financing that uses the increase in future property tax revenues to support present investment.
- Business Improvement Area levies.
- Mechanisms whereby property owners would pay a share of proceeds from property sales where value increases are tied to Metrolinx transportation investments.
- Opportunities for joint development between Metrolinx, municipalities, and private investors to offset the cost of transportation assets and/or provide a long-term revenue stream to support transportation operations.

Key Assumptions in the proposed Financial Plan include rapid transit asset ownership by the Province

The key assumptions of the proposed Financial Plan are:
- All large projects should be submitted for alternative financing and procurement.
- All new rapid transit capital assets should be under the title of the Province of Ontario or Metrolinx to allow the Ontario government to amortize its investment over the life of the assets.
- Day-to-day responsibility for transit operations remain the responsibility of the existing transit service providers.
- Capital assets be maintained over their life cycle using sound asset management principles.

The Benefits Case, Five-Year Capital Plan and Procurement and Value-for-Money evaluations, available in the October to November timeframe, will help refine the final Investment Strategy

Project-level analysis is expected to come forward to the Board for review as early as their October and November 2008 meetings. At that point in time, a five-year Capital Plan will refine the Investment Strategy project cost and phasing-in estimates. The Benefits Case results will provide a detailed range of economic, environmental and social cost and benefit scenarios to support the Board's decision on project scope, alignment and technology choice. It is also expected at that time that the first procurement and value-for-money evaluation results will support the Board's decisions on how best to deliver and finance the projects.

5. FINANCIAL IMPLICATIONS

We have received $67.6 million in cash to commence project works

We have received $67.6 million of the $105.6 million Quick-Wins funding; $5.6 million of which is for the Cornell Terminal; $52 million for Highway 7 preliminary engineering, vehicles and ITS; and $10 million for Yonge Street/Davis Drive preliminary engineering from Richmond Hill Centre to Green Lane. We are in the process of requesting a reallocation of some of the money provided for intelligent transportation systems to fund early capital projects.

The estimated project costs for the vivaNext projects and the Yonge Street Subway extension are $3 billion and $2.1 billion, respectively.

Clarification is required before we understand cost exposures to the Region for land and up-front financing

Until clarification is received on the a) procurement and delivery models for vivaNext projects; the b) funding and process for property acquisition and the eligibility of expenses defined through contribution and performance agreements, we will not know the extent to which the Region is held responsible for certain expenses nor its exposure to up-front financing of recoverable land and construction costs.

6. LOCAL MUNICIPAL IMPACT

The inclusion of the Cornell Terminal, three vivaNext projects, and the Spadina and Yonge Street subway extensions in the draft Investment Strategy top 15 priority projects is very positive. The plan provides for immediate advancement of the rapid transit projects in the municipalities of Vaughan, Richmond Hill, Markham, and Newmarket where the Region's major new growth centres and corridors are emerging.

7. CONCLUSION

On September 26, 2008, a Draft Investment Strategy report was tabled at the Metrolinx Board meeting.

The Draft Investment Strategy report provides for immediate advancement of the rapid transit projects in the municipalities of Vaughan, Richmond Hill, Markham, and Newmarket for vivaNext, Cornell Terminal and the Spadina and Yonge Street subway extensions. Alternative financing options during construction will consider private sector construction financing.

The province expects to issue long-term debt to finance the capital and will look for a long-term guaranteed funding scheme to pay annual debt charges. The scheme will be an outcome of the Investment Strategy; sources of revenue are expected to be staged over time. The province or Metrolinx are proposing to hold title to all rapid transit assets funded through MoveOntario 2020 to allow amortizing of the investment on provincial books.

Long-term, sustainable funding sources for capital expansion, rehabilitation and operating costs will not be addressed until 2013. Tools that will be considered include:

- Traditional direct government grants and subsidies.
- Beneficiary fees: including land value capture.
- User fees and taxes: including road and parking pricing, actual vehicle-km travel charge and carbon-based taxes.
- Debt instruments: borrowing against assets and dedicated revenues.

In the interim, Metrolinx is pursuing innovative ways of funding the growth and expansion of regional transportation infrastructure through potential land value capture tools.

For more information on this report, please contact Mary-Frances Turner, Vice-President, York Region Rapid Transit Corporation at (905) 886-6767 ext. 2226.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the agenda for the October 16, 2008 Committee meeting.)