



METROLINX

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Memorandum

To: Metrolinx Board of Directors
From: Robert Siddall
Chief Financial Officer
Date: September 5, 2014
Re: **Economic Analysis & Investment Strategy (EAIS) Quarterly Report**

Key Activities

The EAIS group has continued to focus its efforts over the last quarter on Investment Strategy recommendations which deal with enhancing Metrolinx's evidence-based planning processes, improving Metrolinx's ability to generate and capture the value uplift in land adjacent to transit development in collaboration with the development community, and securing sustainable federal funding for transit investment.

- The July 2014 Ontario Budget responded positively to several key recommendations of the Metrolinx Investment Strategy (IS), and subsequent Transit Panel recommendations. It includes substantial dedicated funds for transit and transportation infrastructure, a focus on working to secure federal funding, and dedicating high-occupancy toll lane revenues (when available). It also includes dedicating a portion of the HST attributable to the gas tax, and a focus on partnering with the business community which can include working with developers to realize land value uplift and capture. The dedicated funding amounts to \$15B for the GTHA, and \$14B for Ontario outside the GTHA, net new funding over existing commitments. In parallel, the Ministry of Municipal Affairs and Housing is completing a review of Development Charges legislation, which the IS recommended reforming to better allow for municipal and regional transit funding. Improvements to DC legislation continue to be advanced by Metrolinx in partnership with regional stakeholders. Further details on the Ontario Budget are available in the attached appendix.
- Many of the Investment Strategy initiatives go beyond direct revenue generation. They are focused on improving Metrolinx business practices and partnering with business and the private sector to generate trust and value which will, in turn, realize funding and revenues. These recommendations are being advanced through an IS Steering Committee made up of Metrolinx management, and includes the roll-out of an upgraded corporate Business Case framework for Metrolinx Investments and application of Business Cases to guide and accelerate Land Value Capture activities within the cross-divisional Land Asset Maximization Committee. The IS Project Management Office will be updating the Senior Management Team in October on next steps with respect to Investment Strategy recommendations

implementation, including an evolved strategy that builds on the directions and significant successes for Metrolinx contained in the 2014 Provincial budget.

- EAIS is leading the development of an enhanced Business Case methodology and framework, which ensures integrated planning, financial, economic deliverability and operational considerations. EAIS is continuing to develop a Business Case manual, and is working with clients within Metrolinx to apply enhanced business case methodology to a variety of decisions, both capital and operational.
- Project-specific business case analysis work of note is the business case work for the Regional Express Rail program. Embedding business case analytics in the design, financing, and delivery planning of the program will drive an optimized project that maximizes the ridership, revenue, and many other benefits for the cost that will be expended. The focus of the Business Case work is, at this time, to draw information from across and outside the organization, while applying latest business case practices, realizing a heightened understanding of major cost, benefit and risk drivers. Consistent with latest business case practices, the business case will document stress-testing and options analysis for refinements to regional rail concepts. A first high-level regional express rail business case is tracking for completion in early Fall, while early outputs are presented in the Regional Express Rail report. As more information and analysis is available, the business case will be expanded to incorporate better risk identification, scenarios, and sensitivity tests.
- EAIS is preparing to present the findings of research on the economic and productivity impacts of rapid transit investment in Canada's three largest global city regions (Vancouver, Toronto and Montreal) at the Regional Transit Association Forum September 10-12, 2014 in Montreal. A subsequent research program is being defined and will be presented for feedback. The research program will leverage and further encourage work at Metrolinx and elsewhere related to business cases and investment appraisal of transportation projects and programs.
- A Business Case Review of the Smart Commute Workplace Program is now on the Metrolinx website, demonstrating the value of this program which offers support to firms interested in increasing the efficiency and sustainability of their employee's travel. The Business Case Review (BCR) of the existing program found economic benefits to exceed costs by a ratio of between 6-10:1, demonstrating high value for money. The Business Case was released in July for feedback from select stakeholders to be reviewed and updated with additional information and re-released in Fall, 2014. There are expected to be additional benefits that were not monetized in the first business case, showing the business case for Smart Commute to be stronger than demonstrated in the currently released version. The BCR can be found at:
http://www.metrolinx.com/en/regionalplanning/projectevaluation/benefitscases/benefits_case_analyses.aspx#smartcommute

- Development and practice of a Land Value Capture (LVC) Strategy to generate revenue through appropriate private-sector contributions towards infrastructure and support intensification at stations to drive ridership and enhance long-term value and financial sustainability are well underway. To advance the implementation of LVC, PricewaterhouseCoopers (PwC) has been engaged to advise on both the size of the land value capture opportunity (estimated to be significant), and help Metrolinx ensure it has the appropriate resources and processes in place to deliver. PwC's work is building on design excellence and mobility hub guidelines as supporting policy to real estate transactions that allow transit-oriented development to happen. Metrolinx continues to collaborate with third parties on research into development location decisions which will further build an understanding of market potential.
- Regular reporting on the status of the Land Asset Maximization (LAM) Committee has commenced. LAM is a cross-functional Committee sponsored jointly by Finance and Policy, Planning and Innovation and has GO Capital Infrastructure membership. It provides advice on land value capture and joint development opportunities that involve Metrolinx and its divisions. The committee ensures accountability for specific projects within the organization and also ensures real estate, finance, and planning issues are considered at the right time for projects when warranted move forward efficiently and appropriately. The Committee is currently managing fifteen active initiatives all the way from the screening of opportunities to reaching an executed deal with a partner. The number of active projects and opportunities for partnering with the development sector has grown substantially in the last three years. EAIS will be reporting quarterly on an on-going basis on behalf of the LAM Committee.

Status of Active Initiatives for LAM Committee:

Status	Number
Strategic Assessment	6
Implementation Planning	4
Procurement	2
Deal Negotiation	2
Deal Execution	1

Total active files: 15

Additional inactive files that could become active: 4

Attachments: Appendix - Impact of the July, 2014 Provincial Budget

Sincerely,

Robert Siddall
Chief Financial Officer

Appendix - Impact of the July, 2014 Provincial Budget

Title: "Ontario Budget 2014: Building Opportunity, Securing Our Future"

Funding for GTHA Transit and Transportation Infrastructure

- \$15 B of investment over 10 years for GTHA transportation to focus on addressing congestion and long-term economic growth and job creation; \$14 B of investment for transportation outside the GTHA (see Table 1.1, copied from the Provincial Budget, below).
- \$1.7B in 2014-15, \$1.7B in 2015-16 and \$1.6B in 2016-17. A note in the Budget Table 1.1 (see below from 2014 Budget) suggests that these amounts may include 'other priority projects' in addition to public transit and transportation infrastructure.
- Funding formula uses 'census data' to allocate \$29B in funds over 10 years between GTHA and 'the rest of the province'.

TABLE 1.1 Dedicated Funding for Public Transit and Transportation Infrastructure (2014–15 to 2023–24)

(\$ Billions)

	2014–15	2015–16	2016–17	10 Years
Available for Investment in the GTHA	1.7	1.7	1.6	15.0
Available for Investment Outside the GTHA	1.6	1.6	1.4	13.9
Total	3.3	3.3	3.0	28.9

Note: Totals include available net new borrowing for public transit, transportation infrastructure and other priority projects.

Dedicated funds supported by revenue and accountability measures:

- Two new funds (GTHA & Rest of Province) dedicated to transit and transportation infrastructure with the Province tracking spending and reporting publicly via an online portal on project funding and implementation progress.
- Funds would be supported by borrowing, supported by existing and new revenue and would last for 10 years.
- No further details were provided related to the dedication of funding or reporting requirements.

Main revenue sources supporting funds:

- 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This is over and above existing gas tax funding, with no increase to the current tax rate.
- Phasing-in an increase of four cents per litre to the aviation fuel tax rate over four years
- Restricting the fuel tax exemption for road building machines.

- Restricting large corporations from claiming the small business deduction.
- Repurposing revenues from existing HST charged on provincial gasoline and road diesel taxes.

Supplementary revenue sources supporting dedicated funds:

- Dedicating net revenue gain from high-occupancy toll lanes when they become available.
- Leveraging provincial borrowing, when needed, and including proceeds from Green Bonds.
- Allocating net revenue gains from certain asset sales (real estate and selling GM shares).
- Working with federal government to secure Building Canada Plan (BCP) funding.

Priority Projects

“The Province will work with Metrolinx and municipalities on how best to prioritize transit investments through the use of rigorous business-case analyses. These analyses will help prioritize Next Wave projects that could be accommodated within the Province’s dedicated fund for the GTHA and provide the best value for Ontarians.” (p.48, 2014-15 Budget).

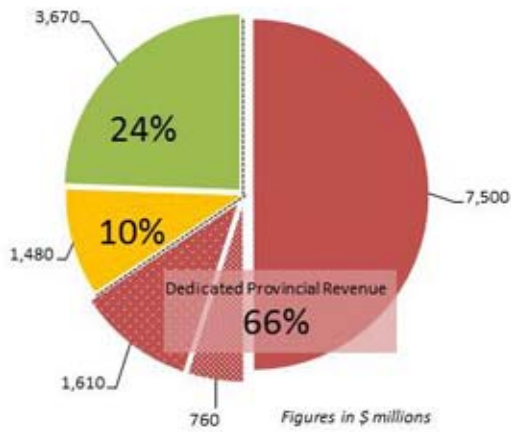
Priority Projects within the GTHA (beyond the existing GO network) include:

- GO Rail Service Expansion (more two-way all-day service)
 - “Analysis is underway on a proposal to electrify the GO Rail system to deliver service at intervals as frequent as 15 minutes.” (p.47, 2014-15 Budget)
- GO Lakeshore Express Rail Service
- Electrification of the GO Kitchener line and Union Pearson Express
- Brampton Queen Street Rapid Transit
- Dundas Street BRT
- Durham- Scarborough BRT
- Hamilton Rapid Transit
- Hurontario Main LRT
- Relief Line
- Yonge North Subway Expansion
- East Bayfront LRT

Sources of Dedicated Funding

The Ministry of Finance provided a backgrounder report as part of 2014 Budget documentation to indicate from where the dedicated \$29B will be sourced.

\$15B Dedicated for Investment in the GTHA



\$13.9B Dedicated for Investment Outside the GTHA



- Dedicated provincial revenue supported by:**
- Dedicated repurposed gas tax and HST revenue
 - Proposed targeted revenue measures include better targeting the small business deduction, increasing the tax on aviation fuel, and restricting the fuel tax exemption for road-building machines
 - Asset optimization

- And other dedicated sources:**
- Federal Building Canada Plan
 - Provincial borrowing