

Clause 20 in Report No. 3 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on February 18, 2016.

20

Toronto-York Spadina Subway Extension –
Project Reset and Estimated Cost to Completion

Committee of the Whole recommends:

1. Receipt of the deputation by John Blommesteyn, York Region Taxpayers Coalition.
2. Adoption of recommendation 1 in the report dated February 3, 2016 from the Chief Administrative Officer as follows:
 1. Council receive the report of the TTC Chief Executive Officer (Attachment 1).
3. Adoption of recommendation 2 in the report as amended to read as follows:
 2. Council approve additional funding of up to \$160 million as York Region's potential share of the TYSSE Project cost increase, while reserving the Region's rights to seek cost recovery.

Report dated February 3, 2016 from the Chief Administrative Officer now follows:

1. Recommendations

It is recommended that:

1. Council receive the report of the TTC Chief Executive Officer (Attachment 1).
2. Council consider approving additional funding of up to \$160 million as York Region's potential share of the TYSSE project increase of \$400 million.

Toronto-York Spadina Subway Extension –
Project Reset and Estimated Cost to Completion

2. Purpose

The purpose of this report is to advise of the TTC's projected costs to complete the Toronto-York Spadina Subway Extension (TYSSE) project, recognizing the additional one year delay in the overall schedule.

A report outlining the implications of the project reset was presented to the TTC Board at its meeting on January 21, 2016. A copy of the TTC report is attached (Attachment 1). The project reset implications were also presented to Toronto Council at its meeting on February 3, 2016 (Attachment 2).

3. Background

Report No. 1 of the CAO was adopted by Regional Council on March 26, 2015 and provided a schedule and cost update

Report No. 1 of the CAO provided the background on the governance, funding and management of the TYSSE project. The report outlined the rationale, provided by the TTC, for a delay of one year and confirmed a new completion date target of December 2017.

In the March 2015 report, Council approved the support of the TTC CEO to take steps to minimize the impact of the delay and the additional budget requirements. The report approved a total budget increase of \$150 million with York Region's share being \$60 million. This funding was to retain the construction management firm, Bechtel, as overall project managers for TYSSE and to cover the project management, design, and administration costs of the additional delay. The \$150 million did not cover the cost of claims from the various TYSSE contractors.

Bechtel was retained to take over the project as overall project managers

Bechtel was retained in April 2015 by the TTC. A number of Bechtel staff are now embedded within a number of the key positions of the TYSSE project management team, including the Project Director.

Bechtel was directed to complete the overall project reset within 120 days of their contract award

During the 120-day project reset period, Bechtel has worked to:

Toronto-York Spadina Subway Extension –
Project Reset and Estimated Cost to Completion

- Reset the strained relationships with the various TYSSE contractors,
- Re-baseline the project schedule to provide a reliable projection to complete the project and get contractor acceptance of the revised schedule,
- Re-baseline the project costs to provide an accurate estimate of all costs required to complete the project,
- Assess the numerous claims submitted by contractors and develop a commercial strategy to deal with these claims.

Further details on Bechtel's activities to achieve the project reset are provided in the TTC CEO's report (Attachment 1).

4. Analysis and Options

Bechtel has completed a comprehensive integrated project schedule for completion of the TYSSE

The comprehensive schedule developed by Bechtel integrates all of the separate contract schedules to better understand the overall critical path. The schedule has been distributed to all of the TYSSE contractors and Bechtel has been working on achieving full buy-in from each of them. The schedule is updated on a monthly basis and used to monitor performance and provides a critical tool for the management and decision-making of the project.

Bechtel reports that the project is on track to achieve completion by December 2017.

Bechtel has completed a project cost reset to identify the total additional funding required to complete the TYSSE

During the project reset period, Bechtel completed a comprehensive analysis of all outstanding costs to complete the TYSSE project. The total cost estimate included the current contract values, known changes to the contracts, anticipated future changes, and any claims from the contractors. The TTC has now confirmed an additional project cost of \$400 million corresponding with the December 31, 2017 completion target. York Region's share of this additional cost would, pursuant to an existing MOU, be 40% or \$160 million.

Toronto-York Spadina Subway Extension –
Project Reset and Estimated Cost to Completion

TTC staff and the Independent Engineer did a peer review of the Bechtel estimates to ensure that the additional budget impact was minimized

The peer review provided an independent assessment of the Bechtel project completion estimate. The peer review concluded that the Bechtel estimate was reasonable.

According to the TTC CEO, a number of reasons contributed to the projected increased cost for the TYSSE

A project as large and complex as the TYSSE can have a number of factors contributing to additional costs. These factors are expanded upon in the TTC report (Attachment 1) and can be categorized as follows:

1. Delay in release of project funding
2. Project delivery strategy
3. Scope changes and design evolution prior to contract tender
4. Design maturity at tender
5. Contractor performance
6. Project management execution

The original TYSSE budget did include a contingency allocation to deal with any unanticipated project costs. This contingency has now been fully allocated to additional project costs and will be exceeded.

In a December 2008 Memorandum of Understanding, the Region and the City agreed to share the cost of the TYSSE project

The Region's contractual obligation to fund the TYSSE project is set out in a Memorandum of Understanding between the Region and the City of Toronto dated December 15, 2008 (the "MOU"). Under the terms of the MOU, Toronto and York Region:

- Share one third of the TYSSE capital costs with York being responsible for 40.04% of those costs and Toronto being responsible for 59.96%
- The Federal and Provincial governments split the remaining two-thirds balance of the TYSSE capital costs as described in the Financial Implications section below

Toronto-York Spadina Subway Extension – Project Reset and Estimated Cost to Completion

The MOU includes an acknowledgement by both parties that the capital cost figures are estimates only and that the City and the Region will be responsible for the actual costs of the TYSSE project including expenses, fees (including legal fees), contract administration costs and applicable net taxes, in their respective shares – this amount is not capped.

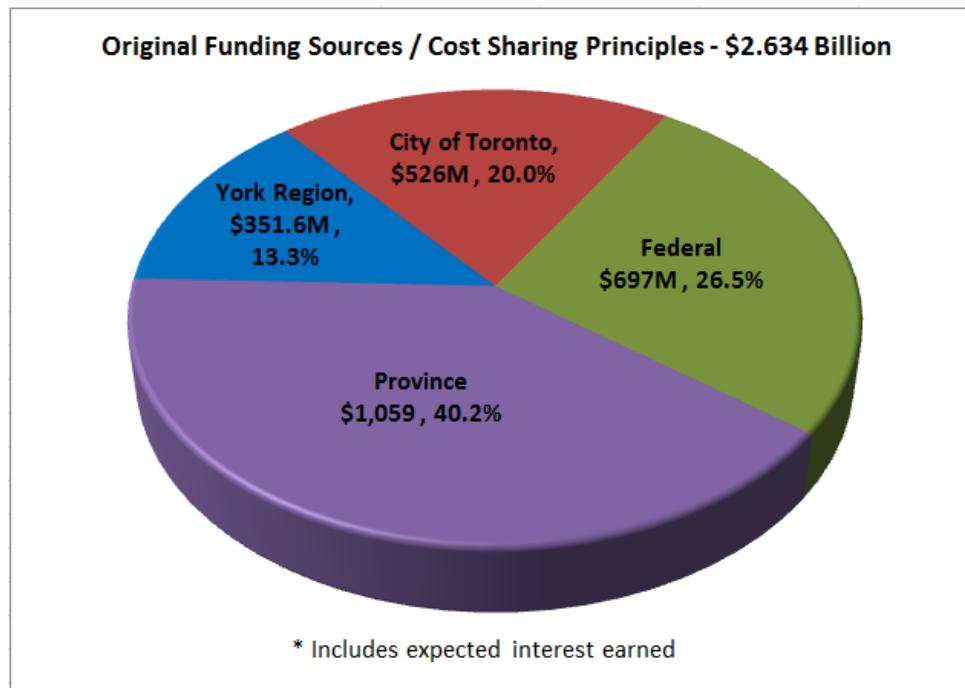
5. Financial Implications

The estimated additional costs for the TYSSE project are \$400 million

The estimated increased cost of \$400 million is in addition to the \$150 million that was approved by Regional Council in March 2015 and will cover all project costs through to completion of the project. These increases will raise the cost of the TYSSE from the original \$2.634 billion to \$3.184 billion.

York Region's share of the original TYSSE project budget of \$2.634 billion was \$351.6 million representing 13% of the project. The specific funding shares are set out in Figure 1.

Figure 1



Toronto-York Spadina Subway Extension –
Project Reset and Estimated Cost to Completion

The funding agreements with the Provincial and Federal governments indicated that their funding contributions are capped. If no further funding allocation is received from senior governments, the total increased cost of the TYSSE will become the responsibility of the City of Toronto and York Region.

This report seeks approval for the York Region share of the \$400 million increased cost, which is \$160 million. This is in addition to the \$60 million that was approved by Regional Council in March, 2015. Therefore, in the absence of any cost recoveries, the contribution from York Region will increase from the original \$351.6 to \$571.6 million, representing an increase to 18% of the total cost (not including the revenue shortfall in the Move Ontario Trust).

As was reported in March 2015, the Move Ontario Trust could have a revenue shortfall of between \$80 and \$85 million. The March 2015 report included a recommendation to seek additional funding contributions from the Provincial government to make up this revenue shortfall. In May 2015 letters, the City of Toronto and York Region requested the Province to address this revenue shortfall. To date, no further funding commitments have been made by the Province.

This revenue shortfall together with the estimated TYSSE cost increases are shown in the Table 1.

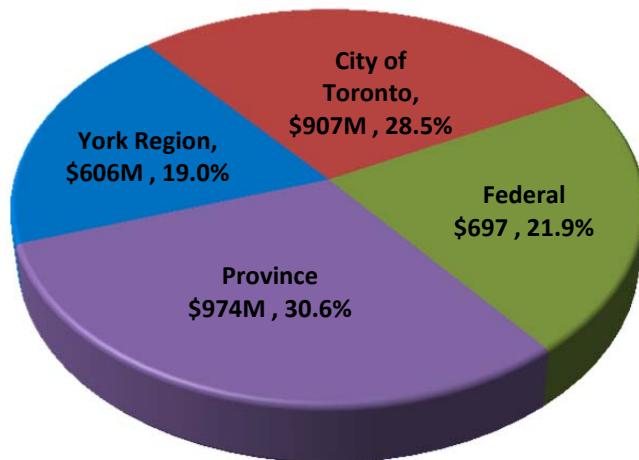
Table 1

Funding Partners	March 26, 2015		Anticipated Move Ontario Trust Shortfall	January 21, 2016	
	Original TYSSE Project Budget	Revised Project Budget		Incremental Project Reset Cost	Project Reset Budget
	\$M	\$M		\$M	\$M
Federal	\$ 697	\$ 697	\$ -	\$ -	\$ 697
Provincial/Move Ontario Trust	\$ 1,059	\$ 1,059	\$ (85)	\$ -	\$ 974
City of Toronto	\$ 526	\$ 616	\$ 51	\$ 240	\$ 907
York Region	\$ 352	\$ 412	\$ 34	\$ 160	\$ 606
Total	\$ 2,634	\$ 2,784	\$ -	\$ 400	\$ 3,184

Figure 2 identifies the impact on funding sources resulting from the estimated increased project cost and the Move Ontario Trust revenue shortfall.

Toronto-York Spadina Subway Extension –
Project Reset and Estimated Cost to Completion

Figure 2
Estimated Cost / Funding Sources - \$3.184 Billion



Federal Government funding falls short of the original one-third cost of the total TYSSE project

The Federal government funding of the TYSSE project was capped at \$697 million, which represented only 26.5% of the original \$2.634 billion cost. The March 2015 report included a recommendation to request the Federal government to increase their level of funding to the TYSSE.

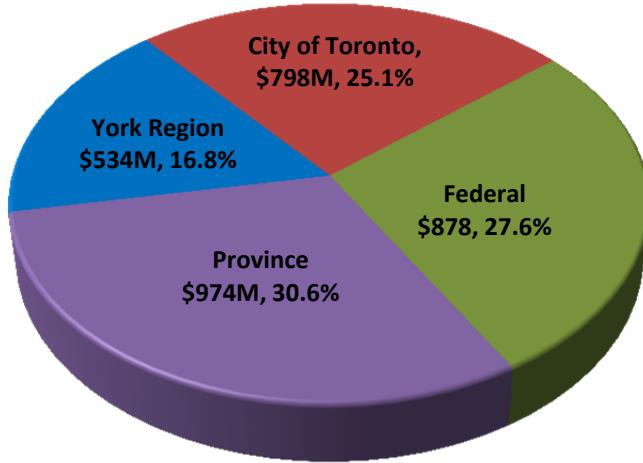
In April and May 2015 letters, the City of Toronto and York Region requested the previous Federal government to increase the federal portion of the TYSSE budget to one-third of the original project budget. This would have required an additional Federal contribution of \$181 million.

A response was received in July 2015 declining additional Federal funding participation citing a preference not to contribute towards cost overruns.

On January 7, 2016, a joint letter signed by the Regional Chair and the Mayor of Toronto was sent to the new Federal Minister of Infrastructure and Communities to again request a \$181 million top-up to the Federal funding to raise it to the one-third level of the original project budget. A favourable response from the Federal government would reduce York Region's share of additional costs by \$72 million. Figure 3 identifies the potential funding impact.

Toronto-York Spadina Subway Extension –
Project Reset and Estimated Cost to Completion

Figure 3
Estimated Cost / Potential Funding Sources - \$3.184 Billion
(If Federal Government Agrees to Fund One-Third of Original Project Budget)



Provisional funding for York Region's share of the increased costs was accommodated as part of the 2016 budget

The 2016 budget included adjustments to YRRTC's Capital Spending Authority and a corporate capital contingency sufficient to accommodate almost all of York Region's share of the total additional costs for the TYSSE project. Final funding obligations will be addressed in the 2017 budget process.

6. Local Municipal Impact

The TYSSE is an important project for York Region and the City of Vaughan as it serves the Vaughan Metropolitan Centre – an Urban Growth centre in the Provincial Growth Plan and Regional Official Plan. The delay in the project schedule to December 2017 has been communicated to stakeholders.

7. Conclusion

The construction management firm, Bechtel, has been retained to manage the TYSSE project on behalf of the TTC. As part of the project reset, Bechtel has

Toronto-York Spadina Subway Extension –
Project Reset and Estimated Cost to Completion

completed a review of the schedule and confirmed that the TYSSE project can be completed by December 2017.

Bechtel has also provided an estimate of the cost to complete the TYSSE project. The increase in cost is \$400 million. This is in addition to the \$150 million that was approved in March 2015, bringing the cost for TYSSE to \$3.184 billion.

The Provincial and Federal governments have been approached to contribute additional funding to the project, although their contributions remain capped at their original levels. Should the new Federal government agree to top up its original contribution to a full 1/3 share, the additional \$400 million needed for the project would be reduced by approximately \$181 million.

In the absence of any further commitments from senior levels of government, York Region's share of the requested cost increase is, according to an MOU with the City of Toronto, up to \$160 million.

For more information on this report, please contact Paul May, Chief Engineer, YRRTC at 905-830-4444 ext. 71030.

February 3, 2016

Attachments (2)

6550483

Accessible formats or communication supports are available upon request.



TORONTO TRANSIT COMMISSION

JOSH COLLE
CHAIR
ALAN HEISEY, Q.C.
Vice Chair
ANDY BYFORD
CHIEF EXECUTIVE OFFICER

MAUREEN ADAMSON
RICK BYERS
JOHN CAMPBELL
SHELLY CARROLL
VINCENT CRISANTI

GLENN DE BAEREMAEKER
RON LALONDE
JOE MIHEVC
DENZIL MINNAN WONG



January 22, 2016

Mr. Peter Wallace
City Manager
City of Toronto
Toronto City Hall
11th Floor, East Tower
100 Queen Street West
Toronto, ON M5H 2N2

CAO OFFICE
27-01-2016
RECEIVED

Mr. Bruce Macgregor
Chief Administrative Officer
Regional Municipality of York
17250 Yonge Street
Newmarket, ON
L3Y 6Z1

Dear Messrs. Wallace and Macgregor:

At its meeting on Thursday, January 21, 2016 the TTC Board considered the attached report entitled "Toronto-York Spadina Subway Extension – Schedule and Budget Reset".

The Board adopted the recommendations in the staff report, as follows:

"It is recommended that the Board approve the following recommendations and forward to the City of Toronto and The Regional Municipality of York together with a copy of this report:

1. Approve the recommendations as set out in the Confidential Attachment;
2. In accordance with the current funding commitments, City of Toronto and The Regional Municipality of York be requested to confirm funding of the increase in project costs of \$400 million (exclusive of HST). The additional \$400 million of funding equates to \$240 million to the City of Toronto and \$160 million to The Regional Municipality of York.
3. That the TYSSE budget as required to complete the project by December 31, 2017 be increased to \$3.184 billion.
4. Authorize that the information provided in the Confidential Attachment is to remain confidential until such time as all claims and litigation are settled related to this project".



1900 Yonge Street, Toronto, Canada M4S 1Z2 Telephone: 416-393-4000 Web Site: www.ttc.ca



The Board also adopted the following motions:

- i) That a copy of the Confidential Attachment be provided to the Councils of the City of Toronto and the Regional Municipality of York as "common-interest" privilege as they are responsible for the funding commitments and funding liabilities as contained within the Confidential Attachment.
- ii) That staff be requested to provide monthly in-camera update reports on claims settlement.

The foregoing is submitted for your consideration with particular emphasis on the confidentiality requirements of this material, and the detrimental impacts of improper disclosure without the knowledge and approval of the TTC Board.

Sincerely,



Vincent Rodo
Chief Financial &
Administration Officer

1-11
Attachments





**STAFF REPORT
ACTION REQUIRED
With Confidential Attachment**

Toronto-York Spadina Subway Extension – Schedule and Budget Reset

Date:	January 21, 2016
To:	TTC Board
From:	Chief Executive Officer
Reason for Confidential Information:	This report contains advice that is subject to solicitor-client and litigation privilege, including communications necessary for that purpose.

Summary

The Toronto-York Spadina Subway Extension (TYSSE) is a six-station, 8.6 km extension of the TTC's Line 1 that will, for the first time, link another municipality to the TTC subway system, dramatically improving rapid transit in the Greater Toronto Area. The TYSSE is funded by the Government of Canada, Province of Ontario, City of Toronto and The Regional Municipality of York.

In March 2015, TTC staff brought a report to the TTC Board and Toronto City Council that outlined the need for a project reset to ensure completion of the subway line by December 2017. The report also explained the need for additional funding of \$150 million for project management costs that included the services of Bechtel Canada Co. as project manager to meet that timeline, review claims and put rigour around a claims management process. The additional costs are borne by the City of Toronto and The Regional Municipality of York at 60 per cent and 40 per cent respectively.

Staff indicated in March that they would report back at the end of 2015 on additional project costs, including claims, that were unknown at the time. This report, and the Confidential Attachment, does that.

This report outlines costs to date, plus additional forecasted cost exposures (see Confidential Attachment). The Confidential Attachment discusses legal strategies and other legal exposures due to outstanding claims and litigation that remain in dispute. Until an agreement on those claims and associated costs is reached, the Confidential Attachment is "privileged" and must remain confidential to ensure the project's negotiating and legal position is not compromised.

The Cost Reset has identified an amount of \$400 million (excluding HST) as the additional required funding to cover the following costs:

- Known claims settlements;
- Identified changes in scope that have not been finalized with the contractors;
- Underestimated budget for remaining project scope;
- Co-ordination of the work;
- Risk mitigation strategies;
- Litigation management costs;
- Contingency; and
- Forecasted cost exposure for unresolved claims and litigation matters.

The TYSSE saw start-up delays, poor performance by some contractors, and scope and design changes, which were not factored into either the schedule or the project budget at the time. This report addresses those matters, as they are germane to the history of this complex project, which is now approximately 80 per cent complete. This report also details, however, the work done by the project team and various contractors in just a few short months to reset the project, negotiate and settle some claims, and strengthen and improve relationships.

Recommendations

It is recommended that the Board approve the following recommendations and forward to the City of Toronto and The Regional Municipality of York together with a copy of this report:

1. Approve the recommendations as set out in the Confidential Attachment;
2. In accordance with the current funding commitments, City of Toronto and The Regional Municipality of York be requested to confirm funding of the increase in project costs of \$400 million (exclusive of HST). The additional \$400 million of funding equates to \$240 million to the City of Toronto and \$160 million to The Regional Municipality of York;
3. That the TYSSE budget as required to complete the project by December 31, 2017 be increased to \$3.184 billion.
4. Authorize that the information provided in the Confidential Attachment is to remain confidential until such time as all claims and litigation are settled related to this project.

Financial Impact

The current approved TYSSE budget is \$2.784 billion. The total cost is split between the Federal Government, the Province of Ontario, the City of Toronto and York Region. In 2006, the Province provided funding of \$670 million for TYSSE project costs, creating the “Move Ontario Trust” to hold and invest project funds. In 2007, the Province added additional funding of \$200 million to the Trust, for a total principal amount of \$870 million. Including interest income, total Provincial and Trust funding was estimated at \$1.059 billion. In 2007, the Federal Government pledged up to \$697 million towards eligible project costs, subsequently providing \$75 million up-front, and \$622 million by way of the Building Canada Fund Contribution Agreement.

The one-third municipal share is split between Toronto (59.96 per cent) and York Region (40.04 per cent). Under the current funding agreements, the municipalities are responsible for making up any cost overruns. In March 2015, the City of Toronto and The Regional Municipality of York Councils approved an increase to the project budget of \$150 million to fund additional project costs for a project reset, including the retention of a third party project manager.

Table 1 outlines the proposed revised budget for the project resulting from the recommendations included in this report.

Table 1 – Total Project Funding

	\$ Millions
Original Budget	\$2,634
Budget increase approved March 2015	\$150
Total additional budget requested	\$400
Revised Budget	\$3,184

Accessibility Matters

All stations on the TYSSE have extensive facilities (such as elevators, escalators, tactile markings, etc.) that comply with the Accessibility for Ontarians with Disabilities Act (AODA). Furthermore, the service the TYSSE provides will improve access to jobs and opportunities for a large number of residents of Toronto and York Region and students at York University, and any delay to the start of service delays access to these opportunities.

Decision History

The Decision History for this matter is listed in Attachment 1

Issue Background – TYSSE Project Reset

At its meeting of March 26, 2015, the TTC Board approved, in part, proceeding with the sole source contract to a third party in accordance with the recommended Option No. 1 based on a total known cost of \$150 million with the goal of achieving the opening of the TYSSE by the end of 2017.

On April 10, 2015, the Board approved terms of a contract with the third party, Bechtel, and the contract was signed shortly afterward. Bechtel staff were on site and began working on the Project Reset in April 2015.

The TYSSE project team led by Bechtel has completed, since April 2015, its assessment of the Project Reset focused on achieving the following project goals:

- Improving the collaboration among the parties, both internally in the project team and externally with designers, contractors, and stakeholders for a more effective and efficient completion of the project.
- Developing a re-baselined schedule for completion of the project by December 31, 2017.
- Establishing a re-baselined cost forecast for completion of the project.
- Identifying a claims settlement strategy.

These goals were derived from the Project Reset, as originally conceived by an American Public Transit Association (APTA) Review in November 2014, described in more detail in the Bechtel Project Executive Summary of January 2015 (attached to March 2015 TTC Board report).

The TTC continues to function as the project manager with the addition of Bechtel staff to the project team. The role of the TYSSE Executive Task Force (ETF) has continued through this reset process, providing project oversight, budget recommendations and progress reporting. The TTC Board provides overall governance for the project under its policies and procedures.

Comments

Schedule Reset

The Project Reset effort resulted in a comprehensive integrated reset schedule for the delivery of the TYSSE Project. The schedule is based on the planning of all of the participants in the construction of the facilities and systems, in the testing and commissioning, and in the initial operations. All activities are logically linked so that the updates of progress across the project will reflect actual performance against time and provide a tool for management and decision making across the project team.

Once the reset schedule was established in August 2015, a risk assessment was produced using Primavera scheduling software. The analysis used a conservative approach to the schedule logic.

The reset schedule to deliver the project to revenue service by December 2017 was rolled out to the project contractors based on the schedule status as of the end of August 2015. The reset schedule has since been used as the tool to monitor project performance by the TYSSE project team and with the contractors. While substantial performance of each station contract is important, the critical path to open the subway is tied to completion of specific areas and equipment rooms to provide access for follow-on systems contractors, ultimately leading to component and system-wide testing and commissioning. Since the rollout of the integrated schedule in August 2015, the TYSSE critical path has been maintained.

Cost Reset

The Project Reset effort resulted in a comprehensive new cost forecast based on a bottom-up analysis of all project costs. The estimated final cost of each cost component: stations, tunnels and systems contracts and other project elements is the sum of the current contract value, the known changes, the identified trends and the received and expected claims.

A bottom-up estimate of final costs was developed starting with the cost and commitments as of April 1, 2015 and estimates of the “to-go” or remaining costs. The reset total was then compared to current budgeted amounts. All of the facilities and systems components were analyzed for base scope, changes, trends, claims, both actual and potential, using a cut off date of end-March 2015. All of the supporting components were analyzed for comprehensiveness, allocation, and value.

The Project Reset cost forecast aligns with the re-baselined integrated schedule described above and will serve as the new baseline against which future changes will be assessed. A Trend Program is now in place to capture all potential cost change items for active management.

A component to the reset of the project is the issue of cost exposure to and mitigation of contractor claims and litigation matters. Due to ongoing legal related matters, additional information is provided in the Confidential Attachment.

The project team used risk and probability analysis software to determine the probability of a cost overrun on the project at this stage. Using that probability, the team then determined the appropriate level of contingency required to complete the project. The remaining or “to-go” costs on the project were assessed such that the to-go contingency value was not overstated. Capped scopes of work costs were excluded from contingency requirements.

It is important to note that the increase in the project budget is related to a variety of matters as noted above. The project team will vigorously defend any and all

unsubstantiated claims and that a rigorous claims management process has been established to vet all project specific claims.

The Cost Reset has identified an amount of \$400 million (excluding HST) as the additional required funding to cover the costs for the following items:

- Known claims settlements;
- Identified changes in scope that have not been finalized with the contractors;
- Underestimated budget for remaining project scope;
- Risk mitigation strategies;
- Litigation management costs;
- Co-ordination of the work;
- Contingency; and
- Forecasted cost exposure for unresolved claims and litigation matters.

Review and Findings of Schedule and Cost Reset

A comprehensive schedule and cost analysis was conducted in the initial 120 days and submitted to the TTC's Legal Counsel and the TTC's CEO review. The TTC undertook a preliminary review of this analysis. The re-baselined schedule was accepted to implement and the re-baselined cost forecast was put forward for further review. Acting on the direction of the TTC's Legal Counsel and the TTC's CEO, TTC staff and City of Toronto and York Region staff then conducted a series of joint reviews of the cost forecast as follows:

- Identified filters to serve as the foundation of TTC, City of Toronto and York Region staff due diligence;
- Held a series of working sessions to conduct comprehensive reviews of the cost forecast through the Fall of 2015;
- Additional peer reviews were undertaken by TTC, City of Toronto and York Region staff during this period. The findings of staff were presented and discussed with ETF members; and
- The final results of these reviews was presented to ETF in December 2015, for discussion. ETF members agreed with the findings of the cost forecast, which now form the basis of this report.

Project Progress to Date

The project, to date, is approximately 80 per cent complete, with detailed tunnel, station and track work completion as set out below in Table 3. Systems installation has begun in a number of key areas as rooms are finished in stations and track installation is completed in tunnels.

Since April 2015, a number of key achievements have been realized:

- New schedule and milestones rolled out to all contractors.
- Marked improvement in processing requests for information from contractors.
- Resolution and payment for outstanding changes.
- Implementation of trends program to identify potential for new changes.
- Resolution of significant number of claims.

Table 2 – Progress by Major Component (end of December 2015)

Stations	% Complete As of Dec 31 2015
Sheppard West & Southern Twin Tunnels	92
Finch West	81
York University *	63
Pioneer Village	85
Hwy 407 & Northern Twin Tunnels	89
Vaughan Metropolitan Centre	83
Track work	87

* Last contract awarded

The rollout of the project integrated schedule has established a common understanding of the critical path to deliver the TYSSE project to revenue service by December 2017. The program-wide schedule emphasis on the critical path relates to completion of critical equipment rooms for systems. Therefore, the project focus at each station is to maintain the critical path work through the room turnovers to support system installation, testing and commissioning. Since the roll out of the integrated schedule in August 2015, the TYSSE critical path has been maintained.

TYSSE Project Historical Cost and Schedule Impacts

To put the additional costs of the project in perspective, it is important to review, at a high level, a number of key factors that influenced the project since its inception at the Environmental Assessment stage in 2005.

Previous reports on the project's progress identified a number of challenges to the project schedule and budget, the most recent being the report to the TTC's Board in March 2015. The March 2015 report, in addition to a previous report in October 2012, provides a description of the challenges facing the project over its history. At the time of that report, the impact to the schedule and budget of the project had not been quantified. This report now addresses these impacts.

The key themes that have driven the cost and schedule impacts to the project from its inception in 2005 to current day can be summarized as follows:

1. Delay in release of funding;
2. Selection of Project delivery strategy;
3. Scope changes and design evolution prior to contract tender;
4. Design maturity at tender;
5. Contractor performance; and
6. Project management execution.

Attachment 3 – TYSSE Schedule – Proposed vs. Actual provides a graphic illustration of the schedule impact that the items noted above had on the TYSSE schedule.

In most cases, choices and impacts that fall under each of these themes resulted in either a cost or schedule impact or both to the project. Each of these elements is discussed briefly below. Some information on costs and impacts are included in the Confidential Attachment as they relate to ongoing legal related matters.

1. Delay to Project Funding

The initial schedule for the project was based on funding being available to establish the project team by January 2007 with design contracts being awarded within about nine months. The initial schedule showed an in-service date of mid-2015 (seven-eight years from start of design). By September 2006, provincial and municipal funding was approved in place (with conditions). However, despite an announcement of a federal contribution in March 2007, the federal funding was not secured until execution of the Building Canada Fund Contribution Agreement. A top up of \$200 million was added by the Province in late 2007 in order to cover a shortfall in funding (and to ensure a fully funded project) as the federal funding was allocated based on the original, unescalated project budget and did not represent one-third of the then current budget. The Building Canada Fund Contribution Agreement was not signed until September 2008. The release of federal funding allowed for major station design contracts to be awarded. However, the delay in receiving the Federal funding resulted in a delay of 14 months from the initial availability of January 2007. This added schedule delay also resulted in additional costs.

2. Selection of Project Delivery Strategy

Early on in the project development, TTC staff undertook an in-depth analysis of project delivery factors, including a review of transit projects world-wide and enlisting the assistance of third party expertise in order to develop a project delivery strategy to meet the project timelines and budget.

In addition, under the terms of Federal Contribution Agreement, an “objective and independent” P3 screen and project delivery analysis was required for the project. For this purpose, the Move Ontario Trust and the ETF retained third party expertise from PriceWaterhouseCoopers (PWC), which undertook a two-phased project delivery

analysis, with the participation of TTC, ETF, City of Toronto and York Region, and in the second phase, the ETF independent engineer and two subject matter experts.

In the fall of 2008 and January 2009, a series of risk workshops were undertaken to analyze and evaluate the project delivery options and identify the preferred strategy. The options were narrowed down to two key options: design-build, and design-bid-build. The results of the evaluation indicated that either option could be used to deliver the project. However, given the lack of experience at that time by either the TTC (or Infrastructure Ontario) in delivering underground rapid transit projects using a Private Public Partnership/Design-Build model, it was recommended and accepted that the preferred option was design-bid-build.

The design-bid-build strategy selected consisted of six major contracts involving four individual station contracts and two station-plus-tunnels contracts together with additional system contracts. The result of this contract strategy was the creation of an increased number of interfaces between the various contractors. The TTC adopted this strategy with these known risks.

3. Scope Changes and Design Evolution

The original project scope and associated budget were based upon the design concepts identified in the two environmental assessments prepared by Toronto/TTC and York Region in 2006. The initial project cost estimates were based on costs for station and tunnel design standards for the Sheppard Subway, specifically using TTC design standards for all facilities. A significant number of changes to the scope of the project resulted in added costs being absorbed by the project contingency, including:

- Design excellence: iconic architecture and design philosophy approved by the TTC Board (examples of the difference between Sheppard Subway designs, initial TYSSE World Class Architectural Concepts and TYSSE Approved designs is shown in Appendix 3). Architects with world-wide transit design expertise were sought and selected and initially delivered unconstrained designs. These designs required significant scaling back to bring them more in line with project budget and TTC standards.
- Significant geotechnical issues: station designs needed to include significant enhancements to counteract effects of high water table and uplift pressures.
- Third Party Changes: required by third parties to address new design standards (e.g. Toronto Green Standard), major stakeholder/property owner development requirements, and integration with other transit projects.
- Changes to Design Concept: numerous design concept revisions in the initial stages of design.
- Changes to Project Delivery: changes such as purchasing an additional tunnel boring machine.
- Changes to Project Design: changes such as increased tunnel diametre and shifting of tunnel alignment in two locations to accommodate significant design challenges.

4. Design Maturity

The design process for the stations and tunnels began in November 2008, after the award of the station design contracts in October 2008. The design schedule was established based on the contract strategy laid out in the project delivery strategy. This design schedule required that the first two contracts to be put out to tender would be the two stations and tunnels contracts. In order to meet the project timelines, with a project opening of mid-2015, the stations and tunnels contracts would need to be awarded by end of 2010.

The initial phase of design had several significant challenges, including changes to scope, as noted above, extensive re-work of early design concepts to reduce complexity and cost of designs, numerous iterations to designs to respond to changing stakeholder requirements. Integration with other transit projects, including a GO Rail station at Downsview Park, provision for Highway 407 Transitway, Finch West LRT, and Highway 7 Viva Transitway required numerous co-ordination efforts to design interfaces. These challenges resulted in delays to design progress varying from three-six months.

5. Contractor Performance

Performance issues amongst the major contractors have been reported to the TTC Board on numerous occasions over the past three years, in most detail in the October 2012 report. In summary, contractor performance issues that have had a significant impact on the overall progress of the project, and have previously been reported, include:

- Significant delays in contractor mobilization;
- Lack of familiarity of Ontario contracting environment and practises;
- Shortage of sub-trades and resources;
- Reluctance to accelerate or use premium time to recover schedule;
- Fatality at York University station site; and
- Harsh winter weather (two years).

6. Project Management Execution

The team was built on a successful model from the Sheppard Subway project. The TTC contracting and procurement practises were adapted from experience and recent practices including resources for:

- Design management.
- Construction management.
- Contract management/procurement.
- Controls – schedule and cost management.
- Risk Analysis.
- Third Party management.
- Systems design/management.

In mid 2014, an internal TYSSE project review concluded that a 2016 project completion date was not achievable and that, based on the progress at that time, a revised completion of late 2018 or first quarter 2019 was a more likely completion date. The TTC CEO instructed that a peer review of the project be undertaken by qualified personnel from the American Public Transit Association with a view to achieving a 2017 opening date. -The American Public Transit Association review concluded that this was possible, but made a recommendation that a “reset” of the project was required, including the management team, in order to achieve the 2017 opening date objective.

In March and April 2015, the Board agreed to supplement the current project management team with Bechtel, which had a direct impact on the costs of the project.

Conclusion

The action taken by the Board pursuant to the TTC CEO’s recommendation to bring in Bechtel to provide increased certainty of the 2017 completion date, and identify and quantify known costs and forecast cost exposures has achieved the desired results.

The project team is continuing to work to the December 2017 integrated schedule and pursue settlement negotiations of commercial matters. Reports to the Board will continue on a regular basis for those aspects of the project that require Board authority. Additional reporting on lessons learned will be provided to the Board within the second quarter of 2016.

Contact

A. Byford, Chief Executive Officer
Telephone: 416-393-3890; Email: andy.byford@ttc.ca

Attachment 1 – Decision History

Attachment 2 – Design Evolution Images

Attachment 3 - TYSSE Schedule – Proposed vs Actual

Attachment 4 – Confidential Attachment

ATTACHMENT 1 – Decision History Chronology

At its meeting of August 29, 2001, the TTC Board received the RTEP report, which planned for an extension of the TTC Spadina Subway.

https://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2001/Aug_29_2001/Other/Rapid_Transit_Expans.pdf

At its meeting of April 16, 17 and 18, 2002, City Council endorsed an extension of the Spadina Subway.

<http://www.toronto.ca/legdocs/2002/agendas/council/cc020416/plt4rpt/cl003.pdf>

At its meeting of June 16, 2004, the TTC Board approved the terms of reference for the Spadina Subway Extension Environmental Assessment.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2004/Jun_16_2004/Other/Spadina_Subway_Exten.jsp

At its meeting of February 1, 2 and 3, 2005, City Council re-affirmed its position that the Spadina Subway Extension was its top priority for subway expansion.

<http://www.toronto.ca/legdocs/2005/minutes/council/cc050201.pdf>

At its meeting of September 25, 26 and 27, 2006, Council adopted the recommendations of Policy and Finance Committee Report No 7, Clause 35.

<http://www.toronto.ca/legdocs/2006/agendas/council/cc060925/pof7rpt/cl035.pdf>

At its meeting of October 25, 2006, the TTC Board approved a resolution with respect to design excellence for TTC facilities.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2006/Dec_13_2006/Minutes/index.jsp

At its meeting of May 23, 24 and 25, 2007 (EX 8.5), Council directed that the capital contribution from the City not exceed its share (59.96 per cent) of the one-third funding that would be attributable to the municipal sector and that a request be made to the Provincial and Federal Governments to provide a full two-thirds funding of actual project capital costs.

<http://www.toronto.ca/legdocs/mmis/2007/ex/reports/2007-04-30-ex08-cr.pdf>

At this meeting, Council also approved a project delivery structure that included the TTC as Project Manager, and the principles of an Operating Memorandum of Understanding (MOU) between Toronto, TTC, and York Region.

In this report, Council approved a municipal cost sharing of 59.96 per cent City of Toronto/ 40.04 per cent The Regional Municipality of York (York Region), based on a recognition of municipal boundaries and responsibilities, and of shared system infrastructure, to the benefit of both parties.

This cost sharing arrangement is set out in a Capital Cost Allocation Memorandum of Understanding between the City and York Region.

At its meeting of September 12, 2007 (Report), the Board received a report outlining the impact of delaying the implementation of the project.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2007/Sept_12_2007/Other/Toronto-York_Spadina.pdf

At its meeting of March 26, 2008 (Report 8(c)), the Board approved the Project Delivery Strategy.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2008/March_26_2008/Other/Toronto_York_Spadina.jsp

At its meeting of June 18, 2008 (Report 8(a)), the Board approved the principles as between the City, York Region and the TTC relating to operations and operational costs of the TYSSE project.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2008/Jun_18_2008/Reports/TYSSE_Memorandum_of_Understanding.pdf

Finally, on June 23, 2008 (EX21.8), Council authorized senior City and TTC staff to negotiate on behalf of the City, a Building Canada Fund Contribution Agreement relating to the Toronto-York Spadina Subway Extension with the Federal Government of Canada and The Regional Municipality of York.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.EX21.8>

This agreement was signed in September 2008, by the then Mayor of the City of Toronto, and Chair of York Region, and included a project completion date of March 31, 2016.,

At its meeting of January 21, 2009 (Supplementary Agenda, Report #13) the Board received a report outlining the use of a design-bid-build as the approved Project Delivery Strategy for TYSSE.

At its meeting of October 24, 2012 (Supplementary Agenda, Report #13), the Board approved the extension of the TYSSE project completion date from December 2015 to the fall of 2016.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2012/October_24/Supplementary_Reports/TYSSE_Schedule_Status.pdf

At its special meeting of December 6, 2013, the Board received a confidential update on the TYSSE Project.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2013/December_6/Reports/TYSSE-Contract_A31-1.pdf

At its meeting of March 26, 2014 (Report 1(a) with Confidential Attachment), the Board received confidential information relating to the TYSSE Project

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2014/March_26/Reports/TYSSE_Pioneer_Village_Steeles_West_Station_Contract_A31_1.pdf

At its meeting of January 21, 2015, the Board received a report outlining large litigation files relating to the TTC.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2015/January_21/Reports/Large_Litigation_Matters.pdf

At the TTC Board Meeting of March 26, 2015, the Board approved a series of recommendations, as amended, relating to a reset of the TYSSE Project and approved entering into a sole source contract with a third party project management firm.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2015/March_26/Reports/Decisions/TYSSE_Schedule_and_Budget_Change.pdf

On March 31, 2015, City Council approved the increase in the 2015 Capital Budget and 2016-2024 Capital Plan for the Toronto-York Spadina Subway Extension project by \$150 million gross, and \$90 million net, representing the City of Toronto's share of costs, with the remaining \$60 million reflecting The Regional Municipality of York's share.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.CC5.1>

At its meeting of March 26, 2015, York Region Council approved, in part, supporting the TTC CEO being authorized to take the steps set out in his report (March 26, 2015 Board Report 4.1) to minimize the impact of the delay to the completion of the Spadina subway extension and to minimize the additional budget impact. York Region Council further agreed to fund up to an additional \$60 million subject to other funding be available from other levels of government.

<http://www.toronto.ca/legdocs/mmis/2015/cc/bgrd/backgroundfile-78649.pdf>

At its meeting of April 10, 2015, the Board received a report from its solicitor with respect to the project management contract.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2015/April_10/Reports/TYSSE_Project_Management.pdf



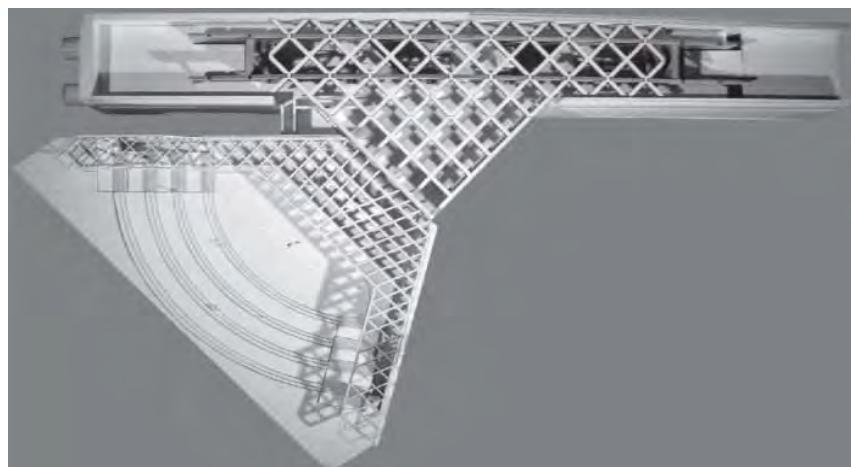
Bessarion Station

Sheppard Subway – Updated TTC Design



York University Station

World Renowned Architectural Design



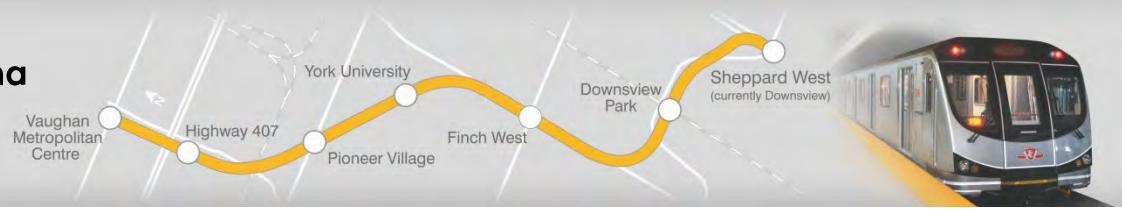
York University Station

Approved Design Enhanced Architecture



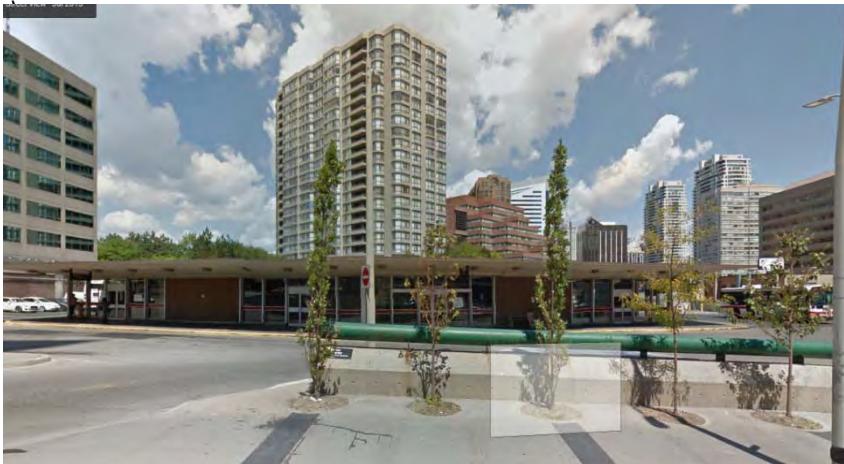


Toronto-York Spadina Subway Extension



Yonge-Sheppard Bus Terminal

Sheppard Subway – Updated TTC Design



Finch West Station Bus Terminal

World Renowned Architectural Design



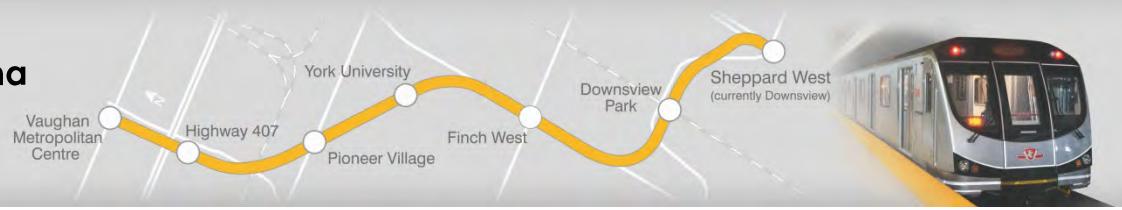
Finch West Station Bus Terminal

Approved Design Enhanced Architecture





Toronto-York Spadina Subway Extension



Leslie Station

Sheppard Subway – Updated TTC Design



Downsview Park Station

World Renowned Architectural Design



Downsview Park Station

Approved Design Enhanced Architecture





Toronto-York Spadina Subway Extension

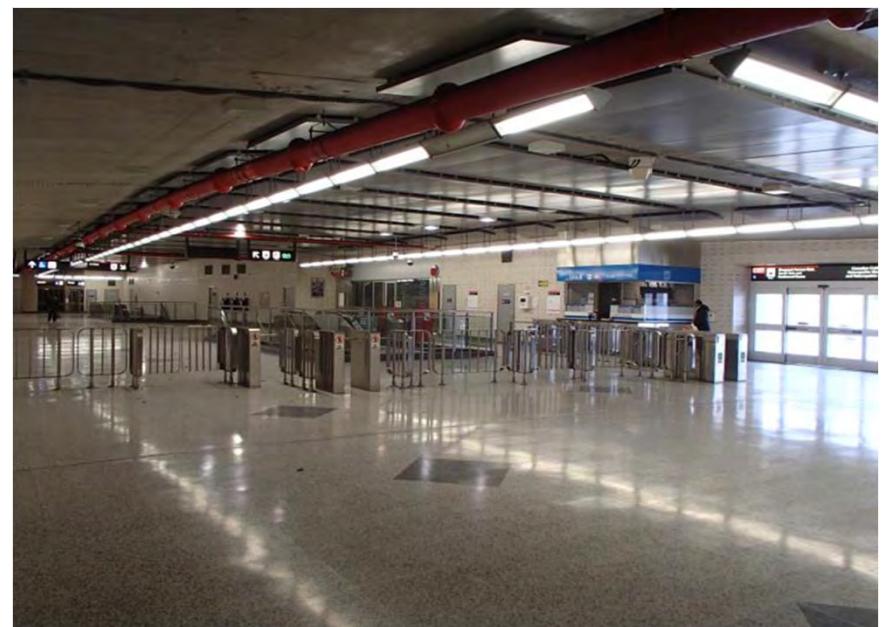


STATION INTERIORS

Downsview Park Station – TYSSE



Leslie Station – Sheppard Subway



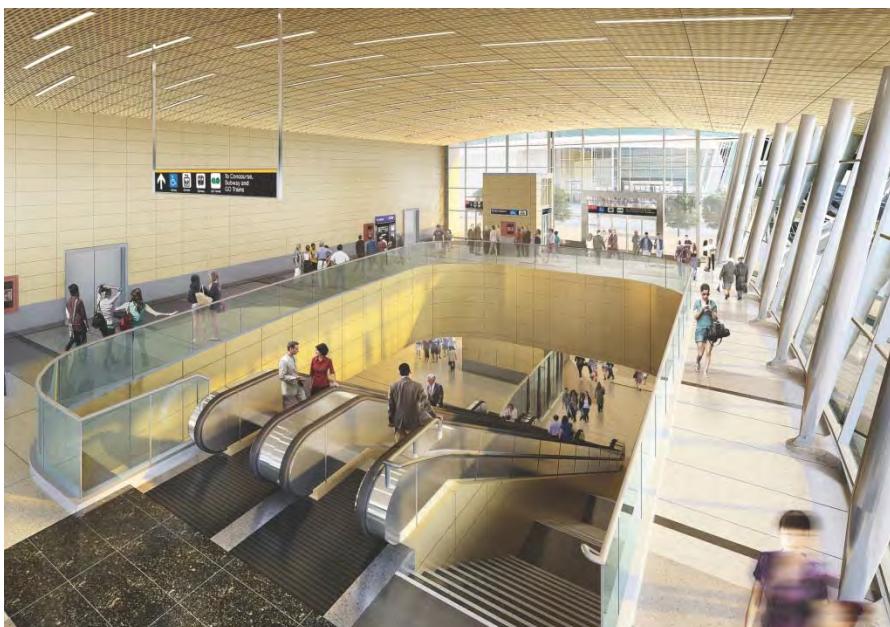


Toronto-York Spadina Subway Extension



STATION INTERIORS

Downsview Park Station – TYSSE



Bessarion Station – Sheppard Subway





Toronto-York Spadina Subway Extension



STATION INTERIORS

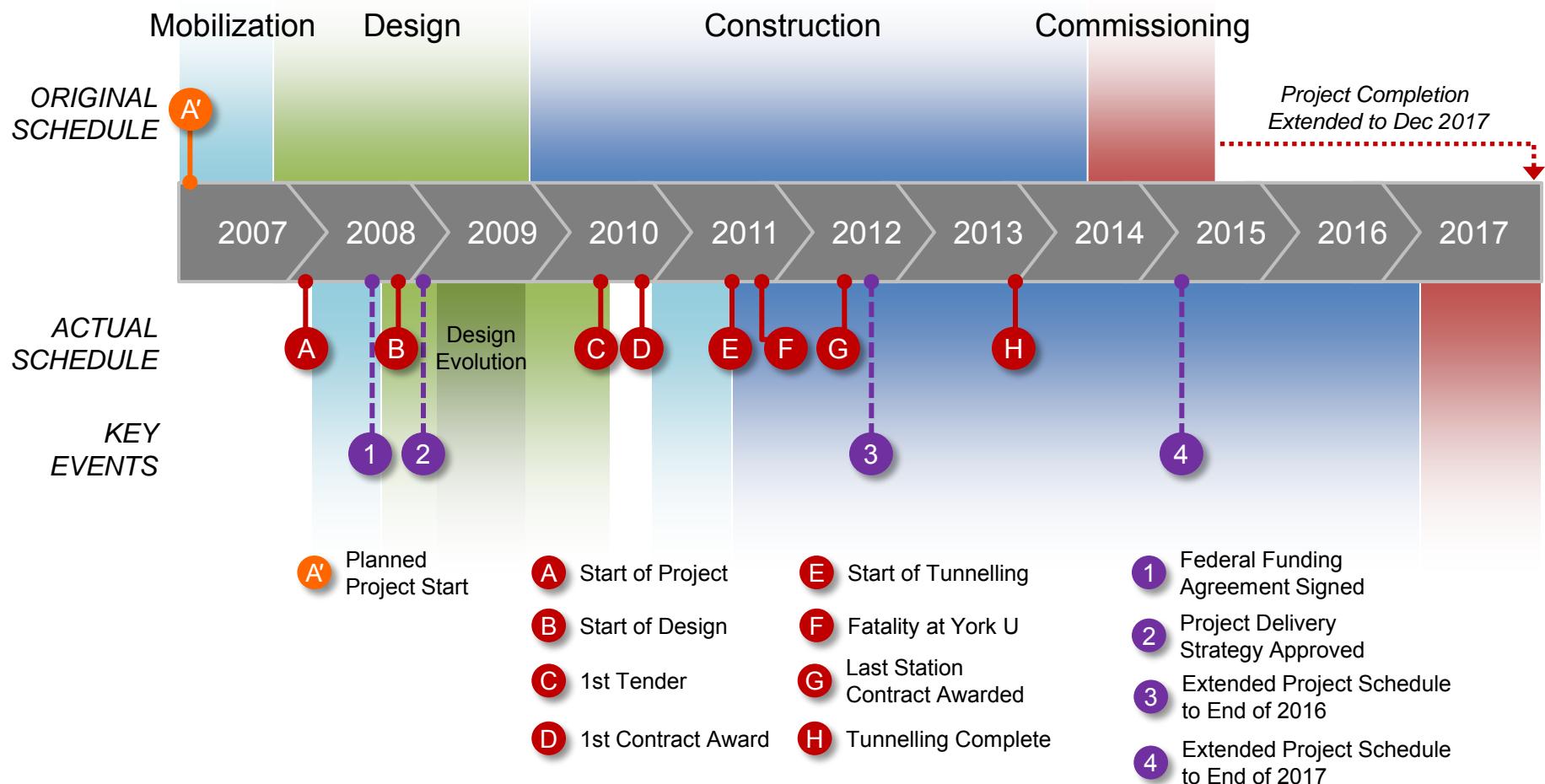
Highway 407 Station – TYSSE



Don Mills Station – Sheppard Subway



TY SSE Schedule – Proposed vs Actual





**STAFF REPORT
ACTION REQUIRED
with Confidential Attachment**

Toronto-York Spadina Subway Extension – Schedule and Budget Reset

Date:	January 26, 2016
To:	City Council
From:	City Manager Deputy City Manager, Cluster B Deputy City Manager & Chief Financial Officer
Wards:	All Wards
Reason for Confidential Information:	This report involves the security of property belonging to the City or one of its agencies, boards, and commissions. This report is about litigation or potential litigation that affects the City or one of its agencies, boards, and commissions.
Reference Number:	P:\2016\Internal Services\Cf\Cc16005Cf (AFS #22155)

SUMMARY

This report transmits the Toronto Transit Commission (TTC) Board Report of January 21, 2016 entitled "Toronto-York Spadina Subway Extension – Schedule and Budget Reset", including its confidential attachment. The TTC report identifies additional estimated project reset costs of \$400 million, bringing the total project budget to \$3.184 billion and seeks confirmation from the Councils of the City of Toronto and York Region of funding their respective shares of the increased costs. The confidential attachment to the TTC Board report discusses legal strategies and other legal exposures due to outstanding claims and litigation matters.

This report addresses the financial impact of the project schedule and budget reset, and seeks the required funding authorities.

RECOMMENDATIONS

The City Manager, Deputy City Manager, Cluster B and Deputy City Manager & Chief Financial Officer recommend that:

1. Council increase the staff preliminary 2016 Capital Budget and 2017-2025 Capital Plan for the Toronto-York Spadina Subway Extension Project by \$400 million, with \$240 million representing the City of Toronto's share of costs, and the remaining \$160 million reflecting the Regional Municipality of York's share.
2. Council reiterate its request to the Province of Ontario to ensure that its contribution to the Toronto-York Spadina Subway Extension Project, through the Move Ontario Trust is no less than \$1.059 billion as projected at the outset of the project;
3. Council reiterate its request to the federal government to increase its funding for the Toronto-York Spadina Subway Extension Project to reflect one-third funding of the original total project cost; and
4. Council authorize that the information provided in the Confidential Attachment to the TTC Board's report, attached as Attachment 1 to this report, remain confidential until such time as the TTC has advised the City that all claims and litigation related to the Toronto-York Spadina Subway Extension Project are settled.

Financial Impact

The original budget for the Toronto-York Spadina Subway Extension Project (TYSSE) was \$2.634 billion. In March 2015, the budget was revised to \$2.784 billion, and at that time, it was reported that after undertaking the necessary due diligence, TTC staff would report back with the full expected cost of the TYSSE project reset.

A report to the January 21, 2016 TTC Board addresses the project reset cost for TYSSE. Additional costs of \$400 million are identified, for a total project reset budget of \$3.184 billion. This report recommends that the preliminary 2016 Capital Budget and 2017-2025 Capital Plan for the Toronto-York Spadina Subway Extension (TYSSE) Project be increased by this amount, and that the City's share of \$240 million be funded through additional borrowing.

TYSSE is funded by the Federal government, the Province of Ontario, the City of Toronto and the Regional Municipality of York ("York Region"). The municipal portion is shared between the municipalities: Toronto is responsible for 59.96%; and York Region, 40.04%. The City's share of TYSSE is being funded through a combination of debt, development charges and reserves.

Table 1 below provides information relating to the TYSSE budget reset, along with the sources of funding for the City's share of the project.

Table 1.

Funding Partner:	Original TYSSE Project Budget	March 26, 2015	Anticipated Move Ontario Trust Shortfall	January 21, 2016		% of funding	
				Revised Project Budget	Incremental Project Reset Cost \$millions	Project Reset Budget	Original
\$millions							
Federal	\$697	\$697				\$697	26.5%
Provincial/Move Ontario Trust	\$1,059*	\$1,059*	(\$85)			\$974	40.2%
City of Toronto	\$526	\$616	\$51	\$240	\$907	20.0%	28.5%
York Region	\$352	\$412	\$34	\$160	\$606	13.3%	19.0%
Total	<u>\$2,634</u>	<u>\$2,784</u>		<u>\$400</u>	<u>\$3,184</u>		<u>100.0%</u>
<i>Sources of City Funding:</i>							
<i>Development Charges (pre-debt issuance)</i>	67	67			67		
<i>Tax increment Financing</i>	99	0			0		
<i>Strategic Infrastructure Reserve Fund</i>	16	115			115		
<i>Capital Financing Reserve Fund</i>		90			90		
<i>Debt (tax and DC supported)</i>	344	344			635		

* including investment income as projected in 2007

Provincial/Move Ontario Trust (MOT) Revenue Shortfall

A funding shortfall that is estimated at \$85 million, relates to the inability of the MOT to achieve forecast interest earnings of 4% since inception, which were included in the original funding plan to provide for a total contribution of \$1.059 billion to the project. In a letter dated May 4, 2015, the City of Toronto requested that the Province address this funding shortfall. York Region made a similar request. However, to date, no such funding commitment has been made. This report recommends that the City reiterate this funding request.

In the absence of provincial funding to address the MOT shortfall, the City and York Region will be required to increase their projected funding by an additional \$85 million, for total municipal funding of 47.5% of total reset project costs. The City's portion of the MOT shortfall would be \$51 million, for total City project funding of \$907 million, or 28.5% of the total reset project budget. As no additional provincial funding commitment has been made to date, it would be prudent for the City to provide for its share of the shortfall, which has been addressed as part of the 2016 preliminary Capital Budget and Plan.

Federal Funding

Federal funding of \$697 million was provided in the form of an up-front payment of \$75 million, and \$622 million by way of contributions over the course of the project through a Building Canada Fund Contribution Agreement. The federal contribution represents 26.5% of the **original** project budget, or approximately 22% of the total reset project budget.

In a letter dated May 4, 2015, the City of Toronto made a request to the previous Federal government to increase the federal portion of TYSSE funding to a full one-third of the **original** project budget, or an additional \$181 million. It is important to note that the City is not seeking federal funding for additional project costs, rather it is seeking a contribution that brings federal funding to one-third of the original project budget. York Region also made a similar request. A response was received by the City in July 2015 declining such additional funding participation. This report recommends that the City reiterate its federal funding request to the new federal leadership.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

Decision History, and Background

TYSSE funding is split between the Federal government, the Province of Ontario, the City and York Region. The municipal share is split between Toronto (59.96%) and York Region (40.04%), and the municipalities are responsible for funding any cost overruns, allocated under the same formula. The decision history relating to the municipal funding arrangements is as follows.

Council, at its meeting of September 25, 26, 27, 2006, Policy and Finance Committee Report No 7, Clause 35.

<http://www.toronto.ca/legdocs/2006/agendas/council/cc060925/pof7rpt/cl035.pdf>

adopted a the municipal cost sharing arrangement of 59.96 % City of Toronto/ 40.04 % Regional Municipality of York.

Council, at its meeting of May 23, 24, 25, 2007 (EX 8.5),

<http://www.toronto.ca/legdocs/mmis/2007/ex/reports/2007-04-30-ex08-cr.pdf>

directed that "the capital contribution from the City not exceed its share (59.96%) of the one-third funding that would be attributable to the municipal sector.

Funding from Other Orders of Government

In 2006, the Province provided funding of \$670 million for TYSSE costs, creating the "Move Ontario Trust" to hold and invest project funds, and in 2007, added additional funding of \$200 million, for total principal of \$870 million. It was envisioned at the time that this amount, together with investment income (\$189 million) would result in contributions to the project of \$1.059 billion.

In 2007, the Federal government pledged \$697-million towards eligible Project costs, subsequently providing \$75 million up-front, and \$622 million by way of a Building Canada Fund Contribution Agreement.

TYSSE Project Budget and Reset

The Council report of May 23, 24, 25, 2007 (EX 8.5) (noted above) alerted the reader that the:

- TYSSE project budget was preliminary, and would be refined once additional data became available. The budget at the time was expressed in 2006 dollars at \$2.1 billion, and subsequently restated at \$2.6 billion to include inflationary impacts (i.e. as spent dollars).
- The City would be pursuing enhanced funding arrangements with both the Federal and Provincial governments whereby each would commit to funding its full one-third share of Project capital funding.

A TTC Board report of March 26, 2015, outlined the need for a project schedule and budget reset, which would be required to ensure completion of the subway line by December 2017. That report sought additional funding of \$150 million (\$90 million from the City, and \$60 million from York Region) to address the incremental cost of project management/staffing to project completion.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2015/March_26/Reports/4_1_TYSSE_Final_Report_and_Presentation.pdf

The Board Report also indicated that after undertaking the necessary due diligence, TTC staff would report back (at the end of 2015) on the total estimated cost of the project reset.

Subsequently, City Council at its meeting of March 30, April 1, 2, 2015 approved recommendations for the City Manager.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.CC5.1>

Those recommendations provided for:

1. an increase to the TYSSE capital budget and ten-year plan of \$150 million, along with \$90 million in additional funding for the City of Toronto share of costs;
2. a request to the Federal government to increase its funding for TYSSE to one-third funding of the original total project cost;
3. a request to the Province of Ontario to ensure that its contribution to TYSSE is no less than \$1.059 billion, as projected at the outset of the project; and
4. directed the City Manager and the Chief Financial Officer, TTC to report back to Executive Committee by December 31, 2015 with the results of requests made to the Federal and Provincial governments, and final estimated project costs.

COMMENTS

The January 21, 2016 TTC Board Report (attached to this report), identifies additional estimated project reset costs of \$400 million. The TYSSE Project Budget, as revised in

March 2015, is \$2.784 billion and therefore, the addition of \$400 million would increase the TYSSE Project budget to \$3.184 billion.

The additional project reset costs, as outlined in the Board report, are comprised of changes in project scope, underestimated budget for remaining project scope, known claims settlements, risk mitigation strategies, litigation management costs, coordination of the work, contingency and forecasted cost exposure for unresolved claims and litigation matters.

This report recommends that Council increase the preliminary 2016 Capital Budget and 2017-2025 Capital Plan for the TYSSE Project by \$400 million, with \$240 million representing the City's share of costs, and the remaining \$160 million reflecting York Region's share. Total TYSSE funding, by funding partner, is set out in table 1 of this report.

Provincial/MOT Revenue Shortfall

In early 2008, the City, York Region, the Toronto Transit Commission, and the Province of Ontario submitted an application for federal funding to the Building Canada Fund. That application committed to a fully funded project of \$2.634 billion, including \$1.059 billion from the Province through the MOT.

At the outset of the TYSSE project, the Province had placed \$870 million in funding into the MOT. Interest earnings projected on the Trust assets were forecast at a rate of 4%, for total implied provincial funding of \$1.059 billion.

However, due to the shift in capital market conditions and the prolonged low interest rate environment since that time, the MOT has been unable to achieve projected earnings, resulting in a revenue shortfall that is estimated at \$85 million. In a letter dated May 4, 2015, the City of Toronto requested that the Province address this funding shortfall, and York Region made a similar request. However, to date, no such funding has been received. This report recommends that the City reiterate this funding request.

In the absence of provincial funding to address the MOT shortfall, the municipalities would be required to increase their project funding, for total municipal funding of 47.5% of the total reset project budget. The City's portion of the Trust shortfall would be \$51 million, for total City project funding of \$907 million, or 28.5% of the total reset project budget. As no additional provincial funding has been received, at this point, it would be prudent for the City to provide for its share of the shortfall, which has been addressed as part of the 2016 preliminary Capital Budget and Plan.

It should also be noted that in 2006, the Province passed the *Tax Increment Financing Act*, which would have provided a funding tool for the municipalities for the purpose of the TYSSE project. However, as the Province has not passed an enabling general regulation, the municipalities have not been able to access this source of funding. The

original TYSSE budget envisioned that Tax Increment Financing would have provided the City of Toronto with funding for TYSSE.

Given provincial inaction for almost a decade now, on enabling Toronto and York Region to access Tax Increment Financing, the City and York Region have now planned for alternate sources of funding. A breakdown of City sources of funding for TYSSE is provided in table 1 of this report.

Federal Funding

Federal staff have communicated in the past that the Federal Government would not provide additional funding in support of any project cost overruns. Accordingly, the request for additional federal funding is based on the original project budget of \$2.634 billion. The current federal funding commitment falls short of one-third of the original TYSSE project cost, having been capped at \$697 million, or 26.5% of the original total, or approximately 22% of the project reset budget.

Typically, large rapid transit infrastructure projects are shared between the Federal, Provincial and municipal governments at one-third each. Furthermore, a Federal cost sharing adjustment is not without precedent and has occurred in the past, as for example, on the Vancouver/TransLink Canada Line.

In a letter dated May 4, 2015, the City of Toronto made a request to the previous Federal government to increase the federal portion of TYSSE funding to a full one-third of the original project budget, or an additional \$181 million. York Region also made a similar request. A response was received by the City in July 2015 declining such additional funding participation. This report recommends that the City reiterate its federal funding request.

CONTACT

Joe Farag, Executive Director, Corporate Finance, Tel: 416-392-8108
E-mail: jfarag@toronto.ca

SIGNATURE

Peter Wallace, City Manager

John Livey, Deputy City Manager
Cluster B

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Attachment 1

- TTC Transmittal
- TTC Board Report of January 21, 2016 - Toronto-York Spadina Subway Extension
 - Schedule and Budget Reset
- TTC Confidential Attachment

From: John Blommesteyn
Sent: Saturday, January 16, 2016 2:21 PM
To: Regional Clerk
Subject: Deputation Request - Thursday, January 21, 2016 Council meeting

Good afternoon,

Representing the York Region Taxpayers Coalition, I would like to speak to Council about the cost over runs relating to the Toronto York Spadina Subway extension and the reports that York Region will be asked to pay an additional \$160 million towards this.

I will offer York Council some advice on accountability measures our members wish to recommend Council to address the persistent overspending.

Please confirm receipt of this email.

Botsford & Main Insurance Brokers Inc.
John Blommesteyn
7 - 17075 Leslie St.
Newmarket, ON L3Y 8E1
1 877 633 1773