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STANDING COMMITTEE ON PUBLIC ACCOUNTS

METROLINX—REGIONAL TRANSPORTATION PLANNING

(Section 4.08, 2014 Annual Report of the Auditor General of Ontario)

1st Session, 41st Parliament
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The Honourable Dave Levac, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

Ernie Hardeman, MPP
Chair of the Committee

Queen's Park
June 2016

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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1st Session, 41st Parliament

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*ARTHUR POTTS was replaced by CHRIS BALLARD on April 5, 2016.

**HAN DONG was replaced by PETER MILCZYN on April 5, 2016.

CHERI DINOVO and MICHAEL HARRIS regularly served as substitute members of the Committee.

VALERIE QUIOC LIM
Clerk of the Committee

ERICA SIMMONS
Research Officer

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PREAMBLE

On November 18, 2015 the Standing Committee on Public Accounts held public hearings on the audit (Section 4.08 of the Auditor General's *2014 Annual Report*) of Metrolinx—Regional Transportation Planning administered by the Ministry of Transportation and Metrolinx.

The Committee endorses the Auditor's findings and recommendations, and presents its own findings, views, and recommendations in this report. The Committee requests that the Ministry provide the Clerk of the Committee with written responses to the recommendations within 120 calendar days of the tabling of this report with the Speaker of the Legislative Assembly, unless otherwise specified.

ACKNOWLEDGEMENTS

The Committee extends its appreciation to officials from the Ministry of Transportation and from Metrolinx. The Committee also acknowledges the assistance provided during the hearings and report writing deliberations by the Office of the Auditor General, the Clerk of the Committee, and staff in the Legislative Research Service.

BACKGROUND

Metrolinx

An agency of the Ontario government, Metrolinx was created by the Greater Toronto Transportation Authority Act, 2006, now the Metrolinx Act, 2006. One of the agency's key objectives is to provide leadership in the coordination, planning, financing, and development of an integrated, multi-modal transportation network in the Greater Toronto and Hamilton Area (GTHA).

The GTHA consists of two single-tier municipalities: Toronto and Hamilton; four regional municipalities: Durham, Halton, Peel, and York; and 24 local municipalities.

Regional Transportation Plan

The agency's Regional Transportation Plan (the Plan), adopted in 2008, sets out the priorities, policies, and programs for a GTHA-wide transportation system.

The Plan aims to build more than 1,200 km of rapid transit to ensure that 80% of GTHA residents live within 2 km of rapid transit. The timeline for completing the Plan is 25 years, with an estimated cost of \$50 billion for upgrading and expanding the regional transportation network in the GTHA, plus additional costs for the maintenance required to keep the additional transportation infrastructure in a state of good repair.

Priorities for the first 15 years of the Plan include various light rail and bus rapid transit projects in the GTHA, the Union Pearson Express (UP Express) rail link between Toronto Pearson International Airport and Union Station, revitalization of Union Station, and the continued development and implementation of the PRESTO electronic fare card system.

AUDIT OBJECTIVES AND SCOPE

2012 Audit

The original value-for-money (VFM) audit of Metrolinx—Regional Transportation Planning appears in the Auditor's *2012 Annual Report*. The 2012 audit assessed whether Metrolinx had adequate systems and procedures in place to implement the initial stages of the Plan cost-effectively, and to report regularly on activities and progress towards achieving the Plan.

FOLLOW-UP AUDIT, 2014

The 2014 follow-up audit found that one-third of the recommendations made in the 2012 audit had been fully implemented. Other recommendations required more time to be fully addressed, in particular,

- defining the business model under which the Union Pearson Express will operate to ensure that it will be a viable and sustainable operation; and
- Metrolinx developing a strategy, in conjunction with the provincial government and transit providers, for implementing better fare integration among GTHA transit systems.¹

SUMMARY OF HEARINGS

- The Moving Ontario Forward Plan, announced in the 2015 Budget, included increased funding of \$31.5 billion over 10 years for an integrated provincial transportation network.
- As recommended by the Auditor General in 2012, Metrolinx is continuing to refine its cost-benefit analysis framework for transit infrastructure investment decisions.
- Metrolinx is also refining its methodologies for alternative financing and procurement (AFP) infrastructure development.
- In 2013 Metrolinx introduced a capital project approval policy that requires an upfront assessment of the proposed method of delivery, an assessment of project risks, and action plans to address risks identified.
- The Eglinton Crosstown project has a capital construction budget of \$5.3 billion, growing to \$9.1 billion when maintenance and lifecycle costs over 30 years are included. An initial ten-year contract is in place for the TTC to operate the Eglinton Crosstown line.
- All the transit agencies in the GTHA are now PRESTO-enabled. By the end of 2016, the deployment of PRESTO fare card devices across the TTC is expected to be completed. The original ten-year

¹ Office of the Auditor General of Ontario, "Metrolinx—Regional Transportation Planning, Follow-up to VFM Section 3.09, *2012 Annual Report*," Section 4.08, *2014 Annual Report*, p. 497.

contract with the vendor for PRESTO ends in 2016, and Metrolinx is evaluating procurement options for a new contract by next year.

- Consultations with stakeholders to formally review the regional transportation plan are underway.
- While the current ridership level on the UP Express rail link from Union Station in downtown Toronto to the Toronto Pearson International Airport is about 2,500 riders per day, Metrolinx aims to achieve 5,000 daily riders by June 2016, and cost recovery for operating costs in the first three to five years of operation.
- Environmental assessments have been done and approval granted for electrification of the UP Express line. Ten-year funding has been received to electrify five of seven rail corridors and environmental assessments for these projects are underway. Metrolinx plans to electrify GO services and the UP Express at the same time.
- Metrolinx has added 14 new midday trains on the GO line, providing nearly 20,000 more seats on a daily basis at a fare between \$5 and \$7. As part of the expansion of Regional Express Rail, the aim is to provide increasing levels of service, and ultimately 15-minute frequencies throughout the day, evenings, and weekends. Talks are underway with municipalities about utilizing CP-owned track to extend the service east.

ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE

Significant issues were raised in the audit and before the Committee. The Committee considers the issues below to be of particular importance.

Metrolinx and the Regional Transportation Plan

The Auditor recommended that Metrolinx

should ensure that all projects contemplated under the Plan are subjected to a rigorous cost/benefit analysis that considers financial, economic, environmental and social needs and impacts and that transit infrastructure investment decisions are made on the basis of that analysis.²

The 2014 follow-up audit reported that “little or no progress” had been made in this area.³

The Committee noted that it is important for Metrolinx to make transit infrastructure investment decisions on the basis of evidence-based planning and rigorous cost/benefit analyses that capture the value of transit to the economy and as a tool for achieving broader public policy goals.

² “Follow-up,” p. 504.

³ Ibid.

The Auditor had also noted that without long-term sustainable funding Metrolinx would not be able to fulfill its primary mandate of providing an integrated regional transportation network. The Committee asked whether Metrolinx has now developed clearly-defined targets for the overall achievement of the regional transportation plan. Metrolinx staff noted that the government's commitment of over \$30 billion funding for transit and regional transportation was a significant step forward. Metrolinx is holding public consultations with stakeholders as part of the legislated review of the Regional Transportation Plan. The review will be completed in summer 2016 and released to the public in 2017.

Committee Recommendation(s)

The Standing Committee on Public Accounts recommends that:

1. Metrolinx should

- **provide an update to the Committee on the results of the review of the Regional Transportation Plan and any associated changes to the Plan; and**
- **publish a ten-year capital spending plan including information about what projects are planned, when construction will take place, estimated costs, and sources of funding.**

Union Pearson Express

The Auditor recommended that Metrolinx should work with the Ministry of Transportation to clearly define the business model for the UP Express to ensure that the service will be a viable and sustainable operation. Also, given the importance of having a reliable ridership projection, Metrolinx should periodically update its forecast.

The Committee asked about the forecasted annual operating cost of the UP Express and the deficit for this first year of operation. In its business plan for the UP Express, Metrolinx reported an estimated operating cost of \$68.1 million in 2015-16. Full year data on the operating deficit was not available, since the UP Express only opened in June 2015.

Committee members asked how Metrolinx plans to double its current ridership on the UP Express in order to achieve its target of an average 5,000 riders per day at the end of the first year of operation.

Information subsequently provided by Metrolinx indicates that monthly ridership from June 2015 to December 2015 ranged from 65,593 per month (in November) to 79,010 per month (in October). The total ridership of 507,055 from June to December was less than half of the ridership projected in Metrolinx's original forecast. Metrolinx's original ridership projection for the first full year was 1.8 million riders. Based on this estimate, the average monthly ridership needed to be about 150,000 riders.

In October 2015, 23% of UP Express passengers paid a discounted fare using a PRESTO card; 21% of passengers received a discount as they belonged to a concession category (e.g., seniors, students, and children) or purchased a

special fare product; and the remaining 56% paid the full fare. Demand to and from the airport peaked between 4:00 p.m. and 5:00 p.m. (about 120-140 riders per hour). Demand was at its lowest at 1:00 a.m. (fewer than 20 riders per hour). There are four train trips each way between Union Station and Toronto Pearson International Airport every hour. Each three-car train can accommodate 173 seated passengers.

UP Express fares were reduced on March 9, 2016 and Metrolinx is currently undertaking a new study to assess the impact of this fare reduction on ridership.

Committee Recommendation(s)

The Standing Committee on Public Accounts recommends that:

2. Metrolinx should

- **provide the Committee with information on the financial results of the UP Express after its first full year of operation, and make this information publicly available on the Metrolinx website thereafter;**
- **provide the Committee with the new ridership study when completed and information about the level of ridership needed at the new fare levels for the UP Express to operate on a break-even basis;**
- **explore ways to integrate the UP Express with the TTC rather than operate it as a separate rail service;**
- **provide better signage to help TTC users and users at the airport to find the UP Express, and ensure that the lower fares and the discount for PRESTO card holders are effectively publicized;**
- **provide the Committee with information on the extent of PRESTO fare card usage on the UP Express as well as ridership data (contrasting ridership at peak demand with non-peak demand) since June 2015; and**
- **provide the Committee with its plan for the electrification of the UP Express and other rail lines.**

Union Station Revitalization

The Auditor noted significant cost increases for the two major projects related to the revitalization of Union Station: the train shed, and replacing the switches in the Union Station rail corridor. The Committee asked about the reasons for this cost increase and whether Metrolinx has taken steps to improve project management systems.

Supplementary information provided by Metrolinx shows that the final cost of replacing switches in the Union Station Rail Corridor in 2012 was \$87.8 million—more than double the initial 2006 purchase order of \$37.6 million. Metrolinx noted that the initial purchase order was based on information available at the time and that this estimate may increase due to the complexity and age of the infrastructure (the switches date back to the 1920s).

The cost incurred to the end of January 2016 for the restoration of the Union Station train shed was \$249.6 million. The Province has committed \$270 million for this project. The original budget was \$220 million. According to Metrolinx, the challenges of working within a historical and operationally active station combined with other construction activities in close proximity to the train shed resulted in several changes to the project scope.

Committee Recommendation(s)

The Standing Committee on Public Accounts recommends that:

3. Metrolinx should

- **provide the Committee with the final cost of the restoration of the Union Station train shed once the project is complete;**
- **continue to improve its project management systems to ensure effective monitoring of individual projects and regularly report publicly on the progress of projects, including status and costs compared to budget; and**
- **ensure that contracts for future projects have firm ceiling prices where appropriate, and that these contracts are monitored for adherence to the ceiling prices.**

Alternative Financing and Procurement (AFP)

An AFP is a contractual agreement between the government and the private sector. Under these agreements, private sector businesses deliver large infrastructure projects and provide other services, and the various parties share the responsibilities and business risks.

The Auditor recommended that actual experience from recent traditional infrastructure procurements and AFPs be thoroughly assessed when assigning values to transferable risks.

The Committee asked how the public sector risk was assessed for the Eglinton Crosstown AFP. Metrolinx staff explained that they reviewed other similar projects to identify the risk factors that can occur in this type of project, and to price those risks in a public sector delivery model versus an AFP model.

Supplementary information provided by Metrolinx included a February 2016 value-for-money (VFM) assessment report for the Eglinton Crosstown Public-Private Partnership. This report identified an estimated cost savings of \$2.2 billion from using the AFP model to procure the Eglinton Crosstown LRT. The main driver of this savings was the difference in the values assigned to retained risks—\$3.2 billion using traditional delivery and \$561 million under the AFP model. However, the report did not provide details on the valuation of the risks associated with the two delivery methods.

Committee Recommendation(s)

The Standing Committee on Public Accounts recommends that:

4. Metrolinx should

- **provide the Committee with detailed risk assessments, the assignment of risks between Metrolinx and the AFP contractor, and the methodology used to justify the use of the AFP procurement model for the Eglinton Crosstown;**
- **where appropriate, use comparators such as the actual performance of GO Transit or the TTC rather than relying on industry standards compiled by external advisors when comparing risks of traditional public procurement versus the risks of AFP;**
- **publish the detailed risk assessments used to justify AFP procurement, as well as the methodology for assessing these risks, so that independent experts can verify the results; and**
- **whenever appropriate, publish contracts, including the schedules outlining the scope of contracts.**

PRESTO and PRESTO NEXT GENERATION (PNG)

The Auditor General described PRESTO and PNG (PRESTO NEXT GENERATION) as being among the more expensive fare card systems of its kind in the world. The Auditor also noted that the system has not facilitated fare integration within GTHA transit systems, a key strategy of the Regional Transportation Plan. The Auditor recommended that Metrolinx work with the provincial government and GTHA municipalities to resolve outstanding issues in the way of seamless fare integration for all GTHA transit systems.

The Committee asked about the current anticipated cost of developing and operating PRESTO and PNG. Supplementary information provided by Metrolinx shows that as of March 2016, projected capital costs are \$790.6 million. Operating costs from April 1, 2008 to March 31, 2016 are \$252.6 million (including projected operating costs for 2015-16 of \$84.9 million).

The Committee requested information on the costs of replacing non-automated with automated fare collection systems on GTHA transit systems and learned that Metrolinx had incurred expenditures of \$571.1 million up to 2014-15. Metrolinx noted that information relating to the cost of replacing fare systems on GTHA transit systems is limited to Metrolinx expenditures. It does not maintain information on municipal service provider costs.

The Committee also asked about the overall usage of PRESTO across the GTHA. Metrolinx staff noted significant growth in service, with all transit agencies in the region now PRESTO-enabled. The key element of Metrolinx's continued deployment of PRESTO in the GTHA is to implement the system on all 18,000 TTC buses and 69 subway stations. The TTC plans to gradually withdraw its legacy fare media (tickets, tokens, and Metropass) so that all passengers will need to use either PRESTO or cash. This will expand the current base of 1.7 million PRESTO users by an additional 1.8 million customers.

The Committee also asked about the findings of a VFM assessment on options for rolling out Presto on the TTC (completed in May 2015) and a technology audit

of Presto's ability to meet future demand (completed in November 2014). According to supplementary information provided by Metrolinx, the assessment recommended a five-stage approach for implementing PRESTO on the TTC. The technology audit identified a number of key risks in the system, and Metrolinx provided high level information on actions to address these risks.

As requested by the Committee, Metrolinx subsequently provided the 2005 Request for Proposal for the original PRESTO system, and the 2006 Master Supply and Services Agreement between the Province and the contractor, but not any amendments to the agreements.

Committee Recommendation(s)

The Standing Committee on Public Accounts recommends that:

5. Metrolinx should

- **report to the Committee with an outline of next steps to achieve fare integration within GTHA transit systems and to resolve outstanding issues related to the deployment of PRESTO on these systems;**
- **consider offering operating subsidies in order to address inter-agency conflicts with respect to fare-sharing;**
- **provide the Committee with a detailed update on how Metrolinx is addressing the risks identified in the technology audit;**
- **provide the Committee with any amendments to the 2006 Master Supply and Services Agreement between the Province and the contractor; and**
- **include the cost of fully implementing PRESTO across GTHA transit systems in PRESTO's projected capital cost and monitor and report the actual cost in relation to the projection in annual reports.**

Scarborough Subway Extension

The Committee asked about the cancellation of the planned Scarborough Light Rapid Transit (LRT) line. Staff explained that Metrolinx does not have the independent ability to implement funding decisions in the absence of local government support; and that Metrolinx continues to support this LRT as the technically preferred solution to provide service to the Scarborough Civic Centre. Metrolinx is currently working with the City of Toronto to move forward on an amendment to the master agreement with regard to the Scarborough subway extension.

Committee members suggested that Metrolinx must be a strong advocate of a fiscally responsible and socially responsive approach to transit planning.

Toronto and Area Transit

Committee members noted that one downtown Toronto neighborhood, frustrated by inadequate public transit during rush hour, had resorted to setting up a private bus service. The Members asked whether there was any discussion of integrating the UP Express with TTC services to operate as a downtown relief line. Metrolinx staff said this was not under consideration.

The Committee noted the need for coordination and consultation with other levels of government on transit decisions that affect local residents.

Committee Recommendation(s)

The Standing Committee on Public Accounts recommends that:

- 6. Metrolinx should report to the Committee on what steps the agency has taken to relieve traffic and transit congestion in downtown Toronto.**

CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS

The Standing Committee on Public Accounts recommends that:

1. Metrolinx should

- **provide an update to the Committee on the results of the review of the Regional Transportation Plan and any associated changes to the Plan; and**
- **publish a ten-year capital spending plan including information about what projects are planned, when construction will take place, estimated costs, and sources of funding.**

2. Metrolinx should

- **provide the Committee with information on the financial results of the UP Express after its first full year of operation, and make this information publicly available on the Metrolinx website thereafter;**
- **provide the Committee with the new ridership study when completed and information about the level of ridership needed at the new fare levels for the UP Express to operate on a break-even basis;**
- **explore ways to integrate the UP Express with the TTC rather than operate it as a separate rail service;**
- **provide better signage to help TTC users and users at the airport to find the UP Express, and ensure that the lower fares and the discount for PRESTO card holders are effectively publicized;**
- **provide the Committee with information on the extent of PRESTO fare card usage on the UP Express as well as ridership data (contrasting ridership at peak demand with non-peak demand) since June 2015; and**
- **provide the Committee with its plan for the electrification of the UP Express and other rail lines.**

3. Metrolinx should

- **provide the Committee with the final cost of the restoration of the Union Station train shed once the project is complete;**
- **continue to improve its project management systems to ensure effective monitoring of individual projects and regularly report publicly on the progress of projects, including status and costs compared to budget; and**
- **ensure that contracts for future projects have firm ceiling prices where appropriate, and that these contracts are monitored for adherence to the ceiling prices.**

4. Metrolinx should

- provide the Committee with detailed risk assessments, the assignment of risks between Metrolinx and the AFP contractor, and the methodology used to justify the use of the AFP procurement model for the Eglinton Crosstown;
- where appropriate, use comparators such as the actual performance of GO Transit or the TTC rather than relying on industry standards compiled by external advisors when comparing risks of traditional public procurement versus the risks of AFP;
- publish the detailed risk assessments used to justify AFP procurement, as well as the methodology for assessing these risks, so that independent experts can verify the results; and
- whenever appropriate, publish contracts, including the schedules outlining the scope of contracts.

5. Metrolinx should

- report to the Committee with an outline of next steps to achieve fare integration within GTHA transit systems and to resolve outstanding issues related to the deployment of PRESTO on these systems;
- consider offering operating subsidies in order to address inter-agency conflicts with respect to fare-sharing;
- provide the Committee with a detailed update on how Metrolinx is addressing the risks identified in the technology audit;
- provide the Committee with any amendments to the 2006 Master Supply and Services Agreement between the Province and the contractor; and
- include the cost of fully implementing PRESTO across GTHA transit systems in PRESTO's projected capital cost and monitor and report the actual cost in relation to the projection in annual reports.

6. Metrolinx should report to the Committee on what steps the agency has taken to relieve traffic and transit congestion in downtown Toronto.