METROLINX

MEMORANDUM

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March 13, 2020

Catherine Fife, MPP, Chair
Standing Committee on Public Accounts
Room 413, Main Legislative Bldg., Queen's Park
111 Wellesley St W
Toronto, Ontario
M7A 1A8

Dear Ms. Fife:

Thank you for the opportunity to appear before the Standing Committee on February 26th, 2020, on the work Metrolinx has completed in implementing the Auditor General's recommendations included in her 2018 – GO Station Selection - Section 3.06.

As requested by Ms. Catherine Fife, MPP and SCOPA Committee Chair, in a March 3rd, 2020, letter to Metrolinx, I would like to provide formal response to the request for information from the committee as a result of the hearing.

Sincerely,

Phil Verster
President and Chief Executive Officer

Encl.

- 2020 SCOPA Post Appearance Response - Information Request.

cc: Shelley Tapp, Deputy Minister of the Ministry of Transportation
Bonnie Lysyk, Auditor General
Jennifer Gray, Chief Financial Officer
Greg Murphy, Director, Internal Audit

TRANSIT ORIENTED DEVELOPMENT (TOD) / TRANSIT ORIENTED COMMUNITIES (TOC) TRANSACTION PROCESS

BACKGROUND:

Since the public endorsement of Metrolinx adopting a market driven approach to Transit Oriented Development (TOD) / Transit Oriented Communities (TOC), feedback from the development industry has been very positive. The industry has pointed to the intersection and alignment of critical factors:

- The maturity of the development industry
- The evolution of the consumer demand for TOD/TOC living and working
- The consolidation of financial capacity in the market, creating deeper fiscal capacity (e.g. pension funds)
- The scale of the transit infrastructure investment and the high frequency of service being introduced across the region

The timing of the Program is further strengthened by the direction and support provided by the Government of Ontario as well as the willingness to adopt an entrepreneurial, agile stance that is focused on strengthening commercial acumen while maintaining public accountability and transparency.

GUIDING PRINCIPLES:

- **Fair exchange of value** that can generate revenue and create new investment opportunities
- Development that **increases transit ridership** by locating more people and jobs near stations
- **Improved customer experience** by enhancing station areas and making transit more attractive to the market
- **City building** that creates more complete places to live, work and play

THE OPPORTUNITY:

The objective in April 2019, was to adopt a TOD/TOC Market Driven Strategy for the implementation of transit infrastructure that leverages the value of Metrolinx's transit network, service and real estate portfolio.

This strategy is driven by local real estate market conditions and/or the local need for additional transit. The 2041 Regional Transportation Plan supports TOD/TOC as Mobility Hubs, achieved through public and private collaboration, as a vital opportunity to maximize transit investment.

Transit Oriented Development is higher density, mixed-use development that is connected, next to, or within a short walk of transit stations & stops, and is designed to encourage transit use.

Four work streams exist, which are broken down by Metrolinx owned land as well as privately owned land.

- In cases where Metrolinx owns land, there are two avenues: utilizing lands that are not required for station facilities; and joint development opportunities for more integrated development.
- In cases of privately-owned land, integrated development could take the form a joint development; or could be privately-led.

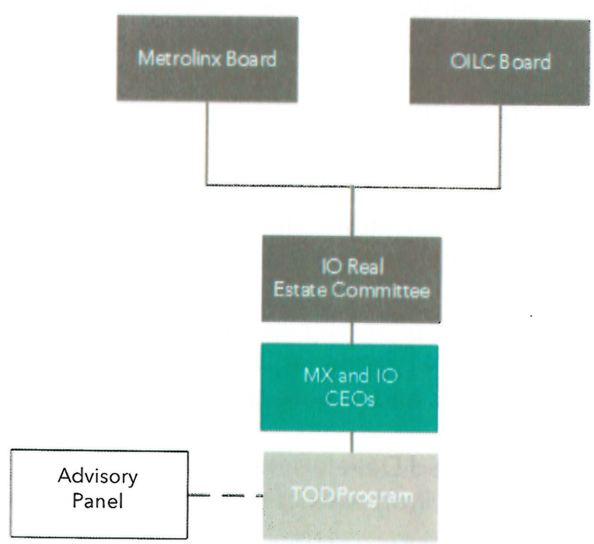
The TOD/TOC Program applies to the Greater Golden Horseshoe transit network. It will be led by an integrated Metrolinx - Infrastructure Ontario staff team. Work streams could be through either direct deals or a competitive deal process. In addition there are other opportunities through strategic dispositions or connection agreements.

GOVERNANCE:

The Ontario Ministry of Transportation (MTO) Letter of Direction to Metrolinx, dated November 26th 2018, directed Metrolinx, among other matters, to develop a TOD/TOC Strategy to leverage third party investment, increase ridership and revenue, and enhance the customer experience

The Ontario Ministry of Infrastructure (MOI) Letter of Direction to Infrastructure Ontario, dated January 4th, 2019 directed Infrastructure Ontario, among other matters, to identify TOD/TOC opportunities for the Downtown Relief Line, and provide general commercial, strategic analysis support in connection with TOD/TOC and transit expansion

Further to the April 10th 2019 Metrolinx Board meeting, the April 23rd 2019 meeting of the Infrastructure Ontario Credit and Real Estate Committee (CREC), and the April 25th Infrastructure Ontario Board meeting, agreement has been established by both Boards to advance the TOD/TOC Program, on the basis of the defined principles and objectives.



Management will retain external industry professionals as required in the preparation of their recommendations. The sequencing of approvals following CREC on proposed transactions require Infrastructure Ontario approval, followed by Metrolinx Board approval in order for a project to proceed.

An Advisory Panel with dual reporting to both the Metrolinx and Infrastructure Ontario Boards, will ensure all financial deals are sound, represent Provincial interest, and meet fair value exchange thresholds.

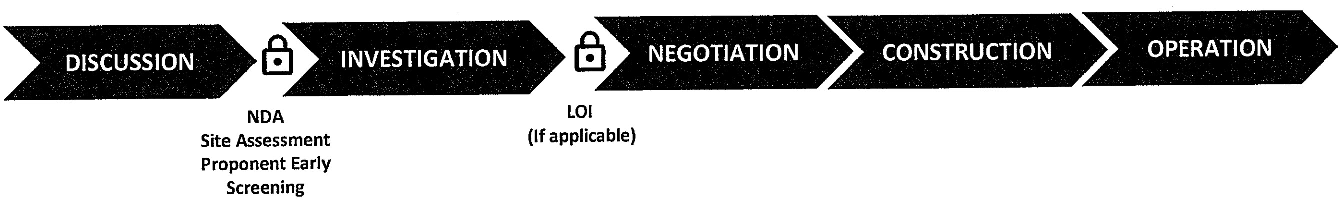
The Advisory Panel has a membership of 5 - 7 including co-Chairs who are Board member from each of Metrolinx and Infrastructure Ontario Board. The Advisory Panel includes industry professionals with experience in the following areas:

- Real estate financing and deal structuring;
- Joint development procurements and market driven business models;
- Strategic acquisition and disposition strategies

IN-TAKE PROCESS:

Metrolinx and Infrastructure Ontario have established a robust in-take process for unsolicited interest that follows the deal's transaction flow. See Figure 1.

Figure 1: Transaction Flow



<u>Unsolicited Interest</u>

A. Discussion
   - Any third party can approach Metrolinx and Infrastructure Ontario and can be done through email, telephone, referrals, or in-person.
   - Metrolinx currently directs inquiries to the Program Senior Vice President's email for general inquiries.
   - Each engagement begins with informal discussion, with an exchange of information between us and the third party, for each asset class. Discussions are focused on overall Program approach and desired outcomes/identification of Provincial transit priorities.
   - At this early stage, one of the due diligence checks is to determine the Proponents capability to deliver a TOD/TOC project.

B. Investigation
   - If there is deemed to be common interest, the discussions advance to an Initial Assessment.
   - Third party is required to sign a non-disclosure agreement (NDA) limiting the share of non-public technical information.
   - An updated Business Case is required as part of the evaluation for new stations.
   - For enhancements or replacements of existing stations, a development valuation is undertaken to inform the transaction.
   - At this stage, declarations of Conflicts of Interest (COIs) are requested.
   - The end result of this stage would be a non-binding Letter of Intent (LOI), which would set out the terms for discussions and establish technical analysis (e.g. business case work) that needs to be able to inform both parties.
   - Metrolinx and Infrastructure Ontario also determine whether there is opportunity for establishing a competitive environment for the station development, if the station can be integrated into more than one developable properties. If not, a direct deal may be the most appropriate way forward.

C. Negotiation
   - Following confirmation of common case for a fair exchange of value, formal negotiations can proceed and negotiations for an Agreement of Purchase and Sale commence. This would have detailed technical and functional requirements (including asset protection requirements).
   - All heads of terms would have been approved by the Metrolinx and Infrastructure Ontario Boards prior to advancing to Treasury Board. Final agreements would be executed following Treasury Board approval.

Competitive Bid Deals

In the event there is either not a natural partner for the station development, Metrolinx and Infrastructure Ontario will pursue a market competition, through a call for interest with specific stipulations as to requirements and qualifications. This is similar but not identical to a procurement call for interest.

Summary Status - Response to Request for supplementary Information by the SCOPA Committee

Metrolinx – Feb. 26, 2020 Post Appearance

Information Requested	Response
Please provide the Committee with copies of the 12 ministerial directive letters (starting in 2017) sent to Metrolinx from the Ministry of Transportation.	Metrolinx is working with the Ministry of Transportation to determine whether the Letters of Direction can be made public and will report back to the Committee as quickly as possible with an update.
Please provide the Committee with information on Metrolinx's Project Evaluation Advisory Panel - who are the members? How were they nominated? What is the scope of their work?	The Panel Members were chosen by the Director Research & Planning Analytics, Principal Sponsor based on their experience and current role, with considerations for balance across the four cases within the business case (i.e., not too many economists) and gender. **Mandate:** See supplementary document – "Project Evaluation Advisory Panel - Terms of Reference" **Panel Members:** • Andy Manahan, Executive Director, Residential and Civil Construction Alliance of Ontario • Anna Pace, Transit Professional • Cherise Burda, Director of City Building Institute, Ryerson University • Clarence Woudsma, Professor, Director School of Planning, University of Waterloo • David Amborski, Professor, School of Urban Planning (SURP), Ryerson University • Dorinda So, Executive Director, pointA • Drew Fagan, Professor, Munk School of Global Affairs, University of Toronto • Glenn Jenkins, Professor of Economics, Queens University • Joseph Kokou, Chief of CBA, Transport Canada • Mario Iacobacci, Partner, Economic Advisory, Deloitte • Matthew Davis, Manager, Capital Projects and Program, Transportation Services, City of Toronto • Mishaal Hussain, Enterprise Portfolio Management Office, CEO's Office, TTC • Patrick Miller, Transportation Consultant, Steer Associate • Steve Allen, Transit Professional
Please provide the Committee a copy of the business case for the Ontario Line, if different from the one available at: http://www.metrolimc.com/en/regionalplanning/projectevaluation/benefitscases/20190725 Ontario Line !BC.PDF.	This is the most current version of this business case

Information Requested	Response
Please provide the Committee a copy of the business case for the Woodbine Station, if different from the one available at: http: //www.metrolinx .com/en/ greaterregion/regions/docs/newstations/2018-11-28a- IBCHighway-27-Woodbine. pdf.	This is the most current version of this business case
Please provide the Committee with information on the criteria and the decision making process involved in the approval of transit-oriented development projects.	See supplementary Document - "TOD_TOC Transaction Process - FINAL"

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PROJECT EVALUATION ADVISORY PANEL

TERMS OF REFERENCE

1. CONTEXT

Metrolinx has a mandate to provide leadership in the co-ordination, planning, financing, development, and implementation of an integrated transit network in the regional transportation area of the Greater Golden Horseshoe. To support this mandate Metrolinx published the Business Case Guidance (the 'Guidance') in April 2019 and developed a stage gate process for capital decisions.

- The role of the Guidance is to establish standards in evaluating investment decisions to ensure that future transit projects meet the transportation needs in alignment with Metrolinx's strategic objectives. The Guidance provides a robust approach for assessing the benefits, costs, and impacts of a range of potential transportation investments, and includes financial considerations of the investment. In doing so, the Guidance supports strong evidence-based decision-making and is a key contributor to the design, selection, and delivery of transport investments.
- Metrolinx's project governance process ensures that progressively detailed business cases are prepared for a project at various stages during its lifecycle. The business case serves as evidence to inform decision-making and to unlock investment (gate approval) in order to advance to the next stage of project development.

In order to achieve the aforementioned, Metrolinx is establishing a Project Evaluation Advisory Panel to provide guidance and input to the Business Case Guidance, and supplement research and innovation efforts in the evaluation of transit projects.

2. ROLE

This Project Evaluation Advisory Panel is intended to be an ongoing forum consisting of external participants with the objective of ensuring that the Metrolinx Business Case Guidance remains up-to-date, to support evidence-based decision-making for transit investment.

The role of the Advisory Panel is to:

- Contribute ideas, support research and provide unbiased, expert advice to Metrolinx in areas such as, but not limited to business case development, benefits management, and modelling and economic considerations

- Assess existing research and practices on the cost, economic value, and social impact of transit
- Share and explore new methodologies, data sources, and approaches for project evaluation and decision making
- Support development of criteria for the strategic factors
- Inform approaches for sensitivity analysis
- Develop a procedure for approving criteria changes and incorporating up-to-date assumptions in financial and economic analysis
- Support a clear framework for how criteria used in business cases are established and changed

3. MEMBERSHIP

Metrolinx will appoint individuals to the Advisory Panel that have knowledge and experience relevant to the *Business Case Guidance*.

The Advisory Panel will be comprised of a minimum of 10 and up to a maximum of 20 members including, (but not limited to) academics, and experts in economics and public policy. Note, members of government public services will be participating in the meetings, however they will not be considered Advisory Panel members.

In addition, Metrolinx staff will provide the following:

- Administrative, technical and procedural support, under the direction of the Director of Research and Planning Analytics.
- Liaise and facilitate the flow of information between the Advisory Panel and appropriate Metrolinx staff.

4. PARTICIPATION

Commitment

Membership on the Advisory Panel is voluntary and members will not be compensated or receive any remuneration for participating. Members must endeavour to attend all Advisory Panel meetings to ensure continuity of the group.

The Director of Research and Planning Analytics of Metrolinx will chair the Advisory Panel meetings.

Timeline

The Advisory Panel meetings shall commence in Fall 2019.

5. NOTICE AND FREQUENCY OF MEETINGS

Metrolinx employees will provide all administrative support required during Advisory Panel meetings. A minimum of 2 meetings per calendar year will be held and will be limited to meeting on a quarterly basis until Fall 2021 with the meeting dates and times determined by the Advisory Panel members and reviewed annually.

The agenda for all Advisory Panel meetings will be established by Metrolinx staff with advice from Advisory Panel members. The agenda and supporting documentation will be sent to all members in advance of the meeting date.

The agenda, overview of discussion, and any action items of the prior meeting will be sent to all members of the Advisory Panel, within 1 week of the meeting date. Meetings will follow Chatham House rules and comments will not be attributed to specific Advisory Panel members.

6. AUTHORITY

The Advisory Panel will provide Metrolinx with relevant advice, timely information, and feedback on research and innovation in the evaluation of transit projects. Metrolinx will determine how best to incorporate this advice into project evaluation practices.

Any feedback received during Advisory Panel meetings will be submitted to the Director of Research and Planning Analytics at Metrolinx.

Participating as an Advisory Panel member does not preclude the member or the organization they are affiliated with/employed by, from working as a vendor with Metrolinx. Conversely, there will be no solicitation of products or services by Advisory Panel members.