niagara
transit
commission

Subject: Niagara Transit Commission Proposed 2024 Budget Considerations

Report to: Niagara Transit Commission Board

Report date: **Tuesday, December 12, 2023**

Recommendations

1. That Niagara Transit Commission (NTC) Board **APPROVE** the following program changes to the Board approved 2024 operating budget (Report 17-2023):
   a) Maintain PGT Operating Revenues of $1.6 million, increasing budgeted revenues by $300,000.
   b) Maintain transfer to capital reserves of $2.16 million, reducing operating budget by $146,666.
   c) Reduction of Legal Claims operating budget by $100,000.
   d) Delay in local route replacing WEGO City (route 116/216), reducing operating costs by $300,000.
   e) Reduce the budget for 2024 Specialty Services Transit Request for Proposal by $300,000.

Key Facts

- The purpose of this report is to provide the Board with options to reduce the 2024 Niagara Transit Commission (NTC) Operating Budget and Requisition, presented to Budget Review Committee of the Whole on November 30, 2023, as per the following motion:

  *That the 2024 Niagara Transit Commission proposed operating budget **BE REFERRED** to the Niagara Transit Commission to provide options to reduce the budget for consideration at a Budget Review Committee of the Whole meeting to be held on December 14, 2023.*

- Report NTC 17-2023 was approved by the Board on October 24, 2023, with a 2024 NTC Special Levy of $59,348,376 for a net increase of $4,295,426 or 7.8%.

- On November 9, 2023, Report NTC17-2023 was referred back to the board by the Region’s Budget Review Committee of the Whole, as per the following motion:

*That the NTC proposed budget **BE REFERRED** to the Niagara Transit Commission to provide options to consider reducing the special levy, including a fare increase, reduction of service, capital reserve transfers with context on operational impacts and revenue generation opportunities through advertising.*

- On November 21, 2023, the Niagara Transit Commission confirmed the budget as outlined in Report NTC 17-2023. Considerations for reducing the special levy were included in report NTC-23 2023.

Financial Considerations

On October 24, 2023, the Board approved a net budget increase of $4,295,426 or $7.8%. On November 30, 2023, the Budget Review Committee of the Whole referred the budget back to the Board to consider mitigations to reduce the overall budget increase. The adoption of these proposed mitigations will result in a net budget increase of $3,148,760 or 5.7%. This is a reduction from the original approved budget (NTC 17, 2023) by $1,146,666 or 2.1%. Once assessment growth is applied, the net budget increase is 4.1%.

Table 1-Summary of Budget Mitigation Recommendations

Description	2024 Increase	Change (%)
2023 Approved Budget (excluding One-time EFB)	$55,052,950	-
2024 Board Approved Budget per NTC 17-2023	$59,348,376	-
2024 Budget Increase	**$4,295,426**	**7.8%**
1. a) Maintain PGT in Operating Revenues	($300,000)	-0.54%
1. b) Maintain Transfer to Reserve	($146,666)	-0.27%
2. Reduction in Legal Claims	($100,000)	-0.18%
3. Delay in Local Route replacing WEGO City	($300,000)	-0.54%
4. Reduction in Budget for 2024 Specialty Services RFP	($300,000)	-0.54%
Budget increase after Recommended Mitigation Options	**$3,148,760**	**5.7%**
Average Assessment Growth		-1.6%
Change net of assessment growth		**4.1%**

If the above items are approved by the Board, recommendations 1 and 2 of Report NTC 17-2023 will be amended as follows:

1. That the NTC Board **APPROVE** the proposed 2024 gross operating budget submission of ~~$83,234,433~~ ***$82,096,767*** and Special Levy of ~~$59,348,376~~ **$58,201,710** for an increase of ~~$4,295,426~~ **$3,148,760** or ~~7.8%~~ **5.7%,** which net of assessment growth for 2024 reflects an overall 2024 budget increase of **4.1%.**

2. That the Special Levy of ~~$59,348,376~~ ***$58,201,710*** **BE APPORTIONED** between the local municipalities as per Appendix 1 as determined in accordance with the methodology approved in PW 55-2021 and based on final 2023 current value assessment.

Appendix 1 presents the amended requisition by municipality with Appendix 2 providing the year over year comparison both by municipality and by average household cost for each municipality.

The net requisition changes by municipality after assessment growth ranges from -18.4% to 18.4%. These requisition changes are the result of the differences in local service hours, 2023 assessment changes, the reduction in direct revenue assessment and budget increase. The cost per household has been calculated based on the final 2024 tax roll assessment but is still subject to change based on Regional tax policy decisions in the first quarter of 2024.

Analysis

While reviewing the report, it is important to highlight the budget mitigations which were accounted for in the original 2024 budget submission. The 7.8% increase proposed had already accounted for mitigations of 3.7% ($2.02 million) as discussed below:

- Included in the triple majority process was the strategy to build up capital reserves. This strategy included phasing in $6.5 million of required annual transfers to capital reserve over three years ($2.17 million in 2023; $4.33 million in 2024 and $6.5 million in 2025 and ongoing) in order to meet the significant capital requirements. To mitigate the pressures in the 2024 budget only $2.3 million is included as the transfer to capital (an increase of only $0.15 million instead of $2.16 million). Of this transfer, $2.1 million is required in order to fund the 2024 capital projects. Currently, there is only $0.4 million available in the capital reserves. As was experienced during 2023, costs to replace capital vehicles, equipment, etc. continue to increase, resulting in the inability to leave a significant amount in reserves when capital costs increase above current estimates.

- Further reductions deferred implementation of the approved by triple majority Service Standards. The triple majority proposal included a strategy to harmonize all operating hours by 2025 and add Sunday and holiday service to inter-municipal routes. The implementation of any of these service increases had been deferred in order to mitigate budget impacts in 2024.

Staff examined the entirety of the budget to identify the most feasible options to reduce the budget.

The first three mitigation options listed below, with context on operational risks, were provided for the Board and for Regional Council's consideration as requested by the Budget Review Committee of the Whole in Report NTC 23-2023. The fourth option is a new mitigation to be considered.

1. **Reduction of Capital Transfers**

a) *Maintain Provincial Gas Tax (PGT) Revenue of $1.6 million, increasing operating revenues by $0.3 million.*

The triple majority strategy that was adopted included the provision to reserve PGT entirely for capital funding of long-term asset sustainability, however as a 2023 budget mitigation measure $1.6 million of PGT was used in the operating budget with the strategy to reduce by $0.3 million to $0 over 5 years in order to remove the unsustainable funding source from the operating budget. This mitigation option proposes to continue to fund operations with the full $1.6 million PGT again in 2024reducing $0.3 million in the operating budget.

Operational Risks: The use of PGT in operating will cause increased pressure on future capital budgets as capital costs continue to increase. The use of PGT to mitigate operating budget transfers the burden to future capital budgets. The estimated average annual investment required to replace the existing conventional fleet is $10.8M per year for diesel buses and $16.8M per year with a transition to a zero-emissions fleet option. The total annual PGT of $6.8M represents only 63% of diesel bus funding and 40% of any zero-emission bus strategy. The utilization of PGT to mitigate operating pressures has a direct and equal financial impact on funding required for conventional fleet replacements.

b) *Maintain Transfer to Capital Reserves of $2.16 million, reducing budget by $0.15 million.*

Included in the triple majority strategy was the provision to build up capital reserves. The strategy included phasing in $6.5 million of required annual transfers to capital reserve over three years ($2.17 million in 2023; $4.33 million in 2024 and $6.5 million in 2025 and ongoing). In order to mitigate the pressures in the original 2024 budget only $2.3 million was originally proposed as the transfer to capital (an increase of only $0.15 million instead of $2.16 million). The increase of $0.15 million has now been removed, with the minimum amount of $2.1 million maintained in order to not impact the 2024 capital projects.

Operational Risks: The decrease in the capital reserve transfer for use in operating will put increased pressure on future budgets as capital costs continue to increase. As noted under the sustained use of PGT in operating above, the reduction of capital reserves further compounds the available funding for conventional stock replacements. It is estimated that an additional $1.0M is required for fleet maintenance for every year the fleet average surpasses six years. The current average age for the NTC's conventional fleet is 8 years for an annual fleet operating and maintenance budget impact of $2.0M. Delays in capital replacement will result in future vehicle maintenance operational pressures.

2. Reduction of Service

- *Delay in Local Route replacing WEGO City (route 116/216), reducing budget by $0.3 million.*

A start date for the new local Route 116/216 of August 5, 2024, is proposed for the service replacing WEGO on Lundy's Lane instead of the original May 6, 2024 date included in report NTC 17-2023. This delay will create cost savings of $0.3 million.

Operational Risks: The impact will result in a very short transition period from the existing WEGO Red line service to the new 116/216 local Niagara Falls route. The existing Lundy's Lane route is one of the core routes of service in Niagara Falls and has been in place since 2012. The route crosses and connects many routes in Niagara Falls and is heavily used by local riders. The change will cause confusion for riders due to the limited amount of time to educate and inform riders about the substantial shift in service. The shift will require massive digital and standard communications outreach to riders to ensure a smooth transition. Communication methods include NTCs online apps, website, social media accounts, customer service staff, physical posters throughout the network and education of existing staff and customers. A shift to the Aug. 5, 2024, start date would require approval from the Union, as it shortens the standard signup period of four months.

3. Other

- *Reduction in Budget for Legal Claims costs $0.1 million*

A reduction of $0.1 million in shared service-related costs specific to legal claims is recommended as a result of lower-than-expected insurance claims received to date in 2023.

Operational Risks: The NTC does not have a history of insurance claims. It is difficult to predict whether the insurer will impose premium or deductible increases in the future due to the number of claims received. Further reductions to the legal claims budget could potentially put the NTC at risk of being underfunded for not only insurance claim payouts but also uninsurable claim payouts as well.

4. **Reduction in Specialty Services Transit RFP, decreasing cost by $0.3 million.**

The Niagara Transit Commission will be issuing a Request for Proposal (RFP) in the coming weeks to consolidate the various specialized contracts (On-Demand and Para-transit services) in the Region under a single contract and provider (if possible).

Specialty Service contracts represent 12.3% of NTC's operating costs but account for less than 2% of the overall system's ridership. NTC will be setting the budget for this RFP with the expectation that current levels of service will be maintained throughout the Region. NTC is using the existing budgets uploaded from municipalities for service delivery as the budget set for the RFP.

Niagara Transit Commission staff propose reducing the RFP budget by $0.5 million annually ($0.3 million impact for 2024 due to June 1 launch).

Operational Risks- Increased Wait Times and Availability: The risk of reducing the budget for the RFP comes with a risk that the quality of service may be impacted. In the RFP, NTC sets the hours of operation to be consistent with current operations. The risk is that in order to meet the reduced budget, proponents may offer reduced capacity for service. The impact on riders from a reduction in capacity may be increased wait times and/or potentially unavailable trips.

Alternatives Reviewed

In addition to the previously and newly recommended budget mitigation options provided above, staff considered other alternatives as per Regional Council's direction on November 9. 2023. Staff did not recommend these options in NTC 17-2023 or NTC 23-2023 for the reasons outlined below.

5. **Introducing Fare Increases for 2024, increasing revenue by $0.23 million.**

The current fare structure of the NTC is two-tiered ($3 local / $6 inter-municipal). The streamlining of the two-tiered fare structure to one fare for all NTC services was outlined in the Triple Majority Plan and Service Standards plan to be undertaken in 2025. Part of the work associated with homogenizing the local and regional fares is to review and make recommendations to the Board regarding any concession fares and for the potential implementation of a low-income pass program. Staff do not recommend an increase in fares for 2024. Staff would recommend waiting for a fulsome report on homogenizing fares and reviewing options for fare concessions in 2025.

Regional Fare increase

Increases to the regional fare is not recommended as this would further widen the gap between local and regional fares, moving away from the plan to align fares. Homogenizing fares now would require substantially more time than increases to the current two-tier structure, due to changes in fare technology, updated fare solutions and communication.

Local Fare increase to $3.25

An increase to local fares as per below (effective May 1, 2024) would result in a budget reduction of $0.23 million (0.4%). A May 1st date is required to provide staff time to educate and inform the public, as well as to update fare technologies to accommodate the change.

Pass Type	Current Local Fare	Proposed Local Fare	Cost Increase
Cash Fare	$3.00	$3.25	$0.25
Day Pass	$7.25	$7.75	$0.50
Adult 10 Ride	$26.50	$28.00	$1.50
Senior/Youth 10 Ride	$22.00	$23.25	$1.25
Adult 31-Day Pass	$85.50	$90.00	$4.50
Senior/Youth 31-Day Pass	$63.00	$66.25	$3.25

Local Fare Increase Impact

The Board's previously approved budget increase of 7.8% for 2024 results in an average annual increase of $5.85 per homeowner in Niagara, or $0.49 per month. This is less than the cost of a one-way regional trip. Our riders who don't have a U-Pass primarily pay for their trips with cash. NRT sells 75,000 cash single fares each month despite discounts of up to 50% being offered for 10 ride packages, or 31-Day passes which allow unlimited rides. For a lot of riders, the choice to pay a single cash fare is due to a lack of upfront funds to buy discounted offerings and thus, paying more for transit than those that can afford a 31-Day or 10-ride pass. Riders that utilize our 31-Day pass option would face an annual increase of $54.00 over the course of a year. To an individual that is already unable to purchase these passes due to lack of upfront funds, it further compounds the disparity.

It is important to understand specific groups in the planning and cost allocations of programs and services. Low-income households make up the majority of our non-student ridership. Increasing fares could increase fare evasion and decrease ridership impacting fare revenues and gas tax allocations based on ridership.

Pass Type	Budgeted Local Passes Sold	Budgeted Regional Passes Sold
Cash	900,017	48,162
Day Pass	15,834	2,166
Adult 10 Ride	19,597	1,314
Youth 10 Ride	3,885	243
Senior 10 Ride	7,216	452
Adult 31-Day Pass	26,931	1,638
Youth 31-Day Pass	2,490	137
Senior 31-Day Pass	3,248	179

Niagara's median after-tax income for economic families is $86,000, which is 10.4% lower than Ontario's median after-tax income for economic families of $96,000. In Niagara 52% of our population earns below $40,000 in after-tax income.

6. **Service Reductions to NRT OnDemand, budget reduction estimate would require extensive service review.**

Existing local service levels, defined as a minimum of budgeted 2020 local service hours, were required to be maintained for a minimum of 7 years by the NTC. This commitment was identified in the Municipal Transfer Agreement (MTA) Term Sheet and built into the NTC's Establishing By-Law at Section 6.1. To meet the service level obligation at Section 6.1 there is no local conventional service that can be adjusted to reduce the 2024 Operating budget. A delay in local route service replacing WEGO service (route 116/216) was recommended above for a savings of $0.3 million. Other service reduction options considered are in relation to the contracted On-Demand Service.

Reversion to the 2020 Service Levels – Pre-NRT OnDemand

Staff have discussed and reviewed, but cannot recommend the removal of NRT OnDemand for Grimsby, Lincoln, Pelham, Port Colborne, Wainfleet, West Lincoln and Niagara-on-the-Lake effective April 1, 2024.

Through the triple majority process, it was agreed that service levels would be maintained at the 2020 service levels. The Board is reminded there would be base levels of service required to be maintained in Lincoln, Pelham, Port Colborne, and Niagara-on-the-Lake, as these municipalities provided their own local conventional bus service prior to the introduction of NRT OnDemand.

Removing NRT OnDemand and reverting to 2020 service levels is not recommended as this would eliminate transit options in Grimsby, Wainfleet and West Lincoln and reduce service in Lincoln, Pelham, Port Colborne and Niagara-on-the-Lake. This option would impact 28% of Niagara residents and would leave 11% (Grimsby, West Lincoln, Wainfleet) without any transit options. A cost has not been provided as this option would require an extensive service review by staff. Currently, there are also not enough fleet assets in the NTC's livery to deliver 2020 levels of conventional service to the communities who relinquished bus services to participate in the pilot project.

Table 2 shows all budget options, including options not recommended by staff.

Description	2024 Increase	Change (%)
2023 Approved Budget (excluding One-time EFB)	$55,052,950	-
2024 Board Approved Budget per NTC 17-23	$59,348,376	-
2024 Budget Increase	**$4,295,426**	**7.8%**
1. a) Maintain PGT in Operating Revenues	($300,000)	-0.54%
1. b) Maintain Transfer to Reserve	($146,666)	-0.27%
2. Reduction in Legal Claims	($100,000)	-0.18%
3. Delay in Local Route replacing WEGO City	($300,000)	-0.54%
4. Reduction in Budget for Specialty RFP	($300,000)	-0.54%
Budget increase after Recommended Mitigation Options	**$3,148,760**	**5.7%**
Average Assessment Growth		-1.6%
Change net of assessment growth		**4.1%**
Other Considered but not recommended options		
5. Increase in Fares from $3.00 to $3.25	($230,000)	-0.4%

Additional Regional Council Information request (November 9, 2023)

- BUSU and NCSAC Contract Information

As requested by the Regional Council at the Budget Review Committee of the Whole staff provided the contract values for both Brock University Student Union (BUSU) and Niagara College Student Administrative Council (NCSAC). The annual contract with BUSU is $4.9 Million and NCSAC is $6.2 Million.

- The NCSAC U-Pass took effect on September 1, 2023, and has had ridership of 453,471 in the period of September 1, 2023 to November 15, 2023

- A harmonized BUSU contract allows for transit access from January 1 to April 30 and September 1 to December 31 annually. Ridership for the period of September 1 to November 15, 2023, is 609,000.

- Revenue Generation Through Advertising Revenues, budget impact would require additional service review.

As of September 30, 2023, actual advertising revenue for NTC is $0.29 million. Currently, all advertising is managed by third party contracts. The individual contracts were inherited through the upload of transit from the local area municipalities. A review of contracts and revenue generating advertising options will be undertaken at the conclusion of all the contracts. Options may be brought forward for the 2025 budget.

- Capital Facilities Projects – Additional information was requested about Capital Projects to maintain Region of Niagara facilities:
  - NTC Building Equipment ($0.25 Million) – This budget has been requested to address several urgent repairs at all Transit Buildings. These findings are based on third party building condition assessments (BCAs), as well as deficiencies identified by Region of Niagara Facility Operations staff. It is important to stress that the requested funds are the minimum required to address the deficiencies that could have health and safety implications. This project is funded through the NTC's Capital Reserve of $2.16 million.
  - NTC St. Catharines Overhead Door ($0.4 Million) – This budget has been requested to replace all the overhead doors at St. Catharines Transit Garage. Several of the doors are over 30 years old and are well past their service life. As a result, they are in constant need of repair. In some cases, costly emergency repairs are required in order to open malfunctioning doors so that buses can leave the Transit Garage. Additionally, over half of the doors do not have the necessary safety devices installed to prevent damage due to accidental closure (light curtains). Having functional overhead doors is critical to transit operations. Failed doors can result in bus schedule delays, which negatively affects the reliability of transit services, a service that is heavily relied upon by the public. This project is funded through the NTC's Capital Reserve of $2.16 million.

Alternative Motion

Should the Board be supportive of including a fare increase or removing any of the recommended options, the recommendation would need to reflect that additional change to the 2024 Budget.

Other Pertinent Reports

NTC 17-2023	2024 Proposed Operating & Capital Budget Submission and Requisition – Niagara Transit Commission
NTC 23-2023	2024 Proposed Budget Considerations

Prepared by:
Brad Griffin, CPA, CA
Manager of Strategy and Performance
Planning and Performance

Recommended by:
Tim Luey, CPA, CA
Deputy General Manager
Planning and Performance

Submitted by:
Carla Stout, DPA
General Manager

This report was prepared in consultation with Heather Talbot, Manager of Integration and Transformation, and Stephanie Muhic, Program Financial Specialist.

Appendices

Appendix 1	2024 NTC Requisition Summary by Municipality
Appendix 2	2024 vs 2023 Requisition by Municipality & Cost by Household