Subject: 2024 Year End Results and Transfer Report

Report to: Niagara Transit Commission Board

Report date: **Tuesday, February 18, 2025**

Recommendations

1. That the unaudited summarized financial results of the Niagara Transit Commission (NTC), as detailed in Appendix 1 of Report NTC 1-2025, **BE RECEIVED** for information;

2. That the NTC Board request that the 2024 year-end operating surplus for NTC of $1,540,824 **BE TRANSFERRED** to the Transit Stabilization Reserve;

3. That the encumbrances of $1,555,793 (Appendix 3) **BE RECEIVED** for information, and that the deferral of these expenditures be included in the 2025 operating budget; and

4. That this report **BE FORWARDED** to Niagara Region's Corporate Services Committee for approval at its meeting being held on March 4, 2025.

Key Facts

- The purpose of this report is to provide an overview of the year-end operating variances as of December 31, 2024, including encumbrances, and to obtain approval from the Board for the 2024 year-end transfer recommendations.
- For the year ended December 31, 2024, NTC operated at a surplus of $1.5 million.
- The recommendations included in this report have been guided by the Regional Operating Surplus/Deficit Policy in accordance with the Municipal Service Board By-law.
- An amount of $1.6 million is being set aside in the encumbrance reserve to fund commitments made against the 2024 budget for which the good or service was not received in the budget year, in order for the funding to be transferred to the 2025 budget when the good or service is received.

Financial Considerations

As reflected in Appendix 1, the 2024 year-end operating statement for NTC reflects a surplus of $1.5 million. See Appendix 2 for explanation of any significant variances from budget.

Quarterly updates reflect a fulsome review and analysis of the unaudited results and estimates prepared by staff to account for the timing of expenses and any changes in operations.

This quarterly report will be included as part of the Niagara Region Q4 2024 Financial Update. Budget and Financial Reports - Niagara Region, Ontario (https://niagararegion.ca/government/budget/past-budgets/default.aspx)

Incorporated in the year-end operating surplus of $1.5 million is a transfer of $1.6 million to the Encumbrance Reserve that will be transferred to the NTC operating budget for the 2025 year. This encumbrance relates mainly to consulting work that was issued and started at the end of 2024 and will be completed in the first half of 2025. There is also a decal strategy that was included in the 2023 budget which will be going to formal procurement, pending the rebranding which is expected to be complete in the first quarter of 2025. All work related to encumbrances identified is expected to be completed within 2025.

As per Regional Policy C-F-001, Accounts Receivable Policy, write-offs of uncollectible accounts receivable balances in excess of $25,000 require Regional Council approval. In absence of a separate NTC policy, a report was brought forward approval by Regional Council in December (report CSD 60-2024), Request to Write-off Outstanding Amount Over $25,000. No write-offs were included for NTC in 2024.

The recommendations in this report will fully allocate the 2024 year-end operating surplus to the Transit Stabilization Reserve.

Analysis

The year-end operating surplus of $1.5 million is primarily the result of the following favourable variances:

- higher than anticipated UPASS and fare revenue of $3.7 million
- unbudgeted supplemental tax revenue specific to Transit of $1.5 million

- savings on the co-mingled service contract of $0.8 million
- net savings related to fuel prices $0.5 million
- favourable variance in allocations of administrative costs (referred to as indirect allocations) of $0.4 million due to lower than anticipated insurance premium and claims
- consulting, legal and other professional costs not required at the end of 2024 of $0.4 million
- savings of $0.3 million in advertising & marketing due to the rebranding being released later in the year

These favourable variances are offset by the following unfavourable variances:
- direct labour-related costs of $4.1 million due to higher than budgeted benefit related costs, overtime and increases in labour costs as a result of the collective bargaining agreement
- the strategy to not recognize the full budgeted Provincial Gas Tax (PGT) revenue of approximately $1.6 million as NTC is in a surplus position. The unrecognized Provincial Gas Tax is available for future use for Capital and/or Operating uses
- higher than budgeted vehicle repair and equipment costs of $0.4 million due to aging fleet

The primary changes from the Q3 forecast relate to unbudgeted supplemental special levy tax revenue for the year generated from in year growth in development, higher than forecasted fare revenue, less than expected advertising and marketing costs, and increase in fuel savings offset by increase in labour-related costs.

Full analysis and explanation of the year-to-date actual variances can be found in Appendix 2 of this report.

Reserve Impacts Based on Report Recommendations

As the NTC is funded by a Special Levy the NTC has separate reserves than those funded from the General Levy, however similar funding principles apply.

Stabilization reserves are used during the budget to cover future one-time items, extraordinary expenses or potential deficits at year end. The Regional Reserve and Reserve Funds Policy indicates that stabilization reserve target balances should be 10% to 15% of gross operating expenditures (excluding debt, reserve transfers and capital costs). The minimum target balance of 10% of the gross operating costs is $7.8 million. There is currently $2.1 million in the Transit Stabilization Reserve and if we

were to transfer the $1.5 million surplus to the stabilization reserve we would still be below the minimum target balance for this reserve. There are a few items which could potentially impact the 2025 year-end results which include volatility in diesel and gas prices, incremental maintenance costs as a result of delay in the receipt of the new diesel buses and potential results of pending request for proposals. Due to the above and to be consistent with Region policy and practice, it has been recommended that the full 2024 year-end surplus of $1.5 million to be transferred to the stabilization reserve.

The Capital reserve is used to provide a funding source for life cycle replacement of capital assets. The capital strategy for transit relies both on capital reserves as well as PGT. The strategy for capital reserve transfers was to increase the transfer by $2.1 million each year over three years to obtain an annual transfer of $6.5 million. The 2025 approved budget included the additional $2.1 million to capital reserves. Collectively the year end reserve balance for capital from capital levy ($1.6 million) and uncommitted PGT ($3.3 million) total $4.9 million. The capital funding available will be evaluated in relation to the asset management plan and capital forecasts on an annual basis and transfers to capital reserves through the budget process. Therefore, it has not been recommended to transfer any of the year-end surplus to the Capital reserve at this time in alignment with Regional policy and practice.

The Transit Employee Future Benefit (EFB) reserve is required to fund post-employment benefit costs when they are eventually paid out. As part of the amalgamation process and creation of the NTC, the Municipal Transfer Agreement (MTA) required the local area municipalities to fund 50% of employee obligations estimated at December 31, 2022. In 2024 an adjustment to the local area municipality obligation was calculated based on the actuarial valuation for December 31, 2023 which did not include an evaluation for WSIB due to no historical information and a credit was given. At the end of 2024, the transit EFB obligation is now $3.0 million. The EFB reserve is at $0.5 million which is means future obligation is approximately 20% funded through the reserve which is similar to the Regional and Police EFB reserves. A further transfer to the EFB reserve is not recommended at this time as the transit stabilization reserve remains underfunded.

The following table provides a summary of the Transit specific reserves before and after the recommended transfers, including target balances.

Table 1: Reserve Summary (in thousands)

Reserve Description	Balance Before Recommended Transfer	Recommended Transfer	Balance After Recommended Transfer	Target Balance
Transit Stabilization	$2,087	$1,540	$3,628	$8,061 - $12,092
Transit Capital	$1,615*	$0	$1,615	TBD**
Transit Future Benefit	$479	$0	$479	$2,372

* Includes $114 thousand specific for Specialized Transit (Included in 2025 approved capital budget).

** To be determined once the asset management plan has been updated

Encumbrances

Encumbrance accounting is a mechanism to facilitate the accounting of goods and services when an obligation to purchase has occurred in the year, but the goods or services have not been received by year-end. An obligation to purchase can be in the form of a purchase order, contract, or other legally binding commitments. Funds are requested to be set aside in the encumbrance reserve for use in the following year.

Incorporated in the year-end operating surplus are encumbrances totaling $1.6 million (see Appendix 3). The encumbrances identified have been transferred to the encumbrance reserve at December 31, 2024, and will be transferred back to the respective department budgets in 2025.

Alternatives Reviewed

The Board may direct staff to consider alternative reserve allocations for NTC’s year-end surplus of $1.5 million, however, this is not recommended as the stabilization reserve is currently under the 10% minimum target threshold which is not in alignment with our reserve policy or enough to support any future budget risk or volatility.

Relationship to Niagara Transit Commission Strategic Priorities

Service Excellence: The year-end update provides the Board with updated budget to actual variance analysis which is in alignment with the Service Excellence strategic priority.

Other Pertinent Reports

- NTC 38-2024 Q3 2024 Financial Results and Variance Analysis (https://pub-ntc.escribemeetings.com/filestream.ashx?DocumentId=447)
- NTC 19-2024 Q2 2024 Financial Results and Variance Analysis (https://pub-ntc.escribemeetings.com/filestream.ashx?DocumentId=322)
- NTC 17-2023 2024 Proposed Operating & Capital Budget Submission and Requisition – Niagara Transit Commission dated October 24, 2023 (https://pub-ntc.escribemeetings.com/filestream.ashx?DocumentId=95)

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Appendices

Appendix 1	Niagara Transit Commission - Statement of Operations
Appendix 2	Variance Analysis
Appendix 3	Encumbrance Summary