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MEMORANDUM

LNTC-C 6-2020

Subject: Councillor Information Request: Niagara Transit Governance Study – Local Area Municipality Engagement

Date: November 25, 2020

To: Linking Niagara Transit Committee

From: Scott Fraser, P. Eng., Transportation Lead - GO Implementation Office

Introduction

On October 21, 2020, the Linking Niagara Transit Committee (LNTC) considered *LNTC-C 4-2020 - Niagara Transit Governance Study* which presented the preferred governance and financial models for the consolidation of transit in Niagara. LNTC adopted amended recommendations providing support for a Full Commission governance model and recommending further engagement with each of the twelve (12) local area municipalities to seek their feedback on and support for the proposed models. The deadline for receiving this feedback was advanced to February 28, 2021.

In the course of this consideration, Committee provided comment and feedback on the governance and financial models, including a focus on the impacts of the proposed single regional tax levy, the Board of Directors and appointment process, and on social equity as a key driver for transit. The purpose of this memorandum is to outline how this feedback has been reflected and addressed, in advance of engagement with the local area municipalities.

The engagement process to be undertaken with each local area municipality will be tailored to suit preferred timeframes, areas of focus, and level of Regional staff participation. LNTC-C 8-2020 acts as a companion to this report, and provides the draft presentation planned for the Project Team's use at LAM Councils, where or if requested by the local area municipality.

Financial Strategy

The financial strategy proposed to implement the Full Commission model has been developed based on the following key principles:

- Consensus – to arrive at a consensus model which balances benefits and obligations for each party
- Equity – enabling future transit to grow equitably in each municipality
- Phased implementation – enable budgets to accommodate increases or decreases in a manageable way over multiple years
- Asset transfer – ensuring existing investments in capital assets are respected, but not paid for twice by the same taxpayer (see Cummings Principle below)
- Service Enhancements – reinvesting to ensure adequate resourcing is available long term to enable the transit system to grow

Based on these principles, the financial strategy outlined in *LNTC-C 4-2020* recommends the transfer of all existing and incremental transit spending to the new Commission, funded through a single regional tax levy. This strategy includes:

- a two (2) year transition period (2021, 2022) during which funding derived from the levy is applied to the one-time costs associated with establishing the Commission;
- a transfer implementation period of up to five (5) years (2023-2027), varying by municipality, where existing municipal transit costs are transferred to the Regional levy and offset by equivalent budgetary restrictions at the local level; and
- the expansion of transit services, running concurrent with the transfer of existing service, however finishing in 2032.

This recommendation was developed in consultation with local area Treasurers and CAOs after consideration of a variety of strategies ranging between municipal transit grants and a full regional upload to a single transit levy. There was no option to fully consolidate transit into one system without a redistribution impact to municipalities.

Taxpayer Redistribution from Municipal Levy to Regional Levy

The adoption of a single regional tax levy would transition current transit funding from municipalities to the Region, based on the regional property value assessment. As noted during discussions at LNTC, the net impact of this transition is that a proportion of

total regional transit expenditures would be redistributed to residents in municipalities with currently less robust transit systems and historically lower transit investment levels.

This realignment is consistent with the consolidation of transit in Niagara, as the move to an integrated transit system is anticipated to bring a series of proportional benefits to residents in these municipalities, including enhanced and expanded transit service, the ability to leverage capital investments that have been made in and by other municipalities, and a reduction in future financing costs.

- **Service Enhancement** - The proposed financial strategy provides for the allocation of \$2.7M in 2023 for the expansion of transit services, through the reallocation of levy funding originally allocated to the one-time transition costs in 2021-2022. This investment will be focused in areas who currently have less robust transit services, to enhance the connectivity of these areas to the other existing transit systems as quickly as possible, enhancing the transit equity in those municipalities.

These service enhancements will include the expansion of NRT On-Demand, the provision of new conventional NRT connections, and increased frequency on existing routes. These enhancements will facilitate greater connectivity to employment, medical, social and consumer services across Niagara, and link residents to the GTHA through GO train / bus services.

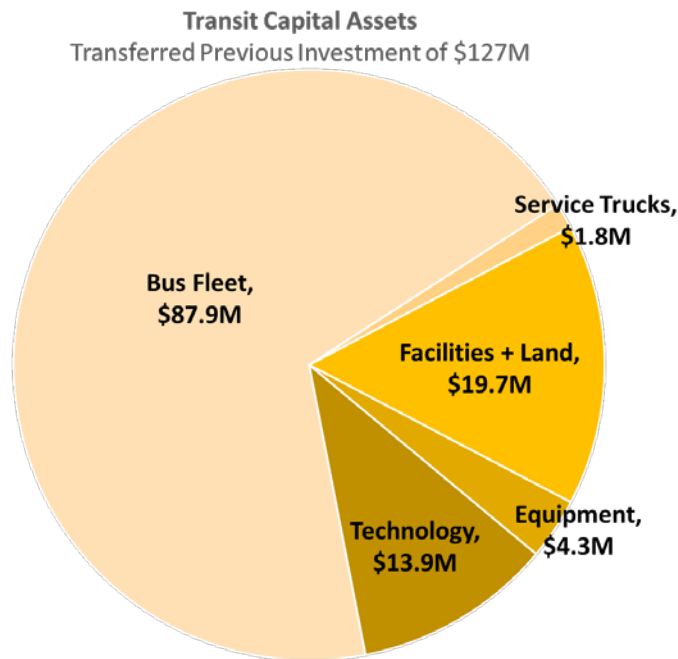
Where the larger systems are robust enough to remain status quo in service changes for a short period of time during the transition phase, smaller municipalities with smaller systems will see the first of the service improvements with a deliberate aim to bring all 12 municipalities to a more equitable transit service as quickly as possible. This approach of front-loading smaller system service enhancements as the levy upload occurs was used very effectively in both Waterloo Region and Durham Region where smaller municipalities received improved service faster, through the early days of the consolidation, while the larger municipalities saw their levy impact decrease.

Additional funding for further service enhancements will be requested by the Commission and subject to the Regional council budget process, as discussed further below and established once the new commission approves its inaugural multi-year service plan.

- **Leveraging of Prior Capital Investments** – municipalities with less robust transit services will benefit from consolidation through the ability to access and

leverage the capital investments that have been previously made by municipalities with more robust services. A total of \$127.5M in capital assets (\$64.3M net of depreciation) are anticipated to be transferred to the Commission, as summarized in Figure 1 below. These assets represent a combination of buses, service trucks, land, facilities, and other equipment and technology.

Figure 1 - Transit Capital Assets across Niagara Region



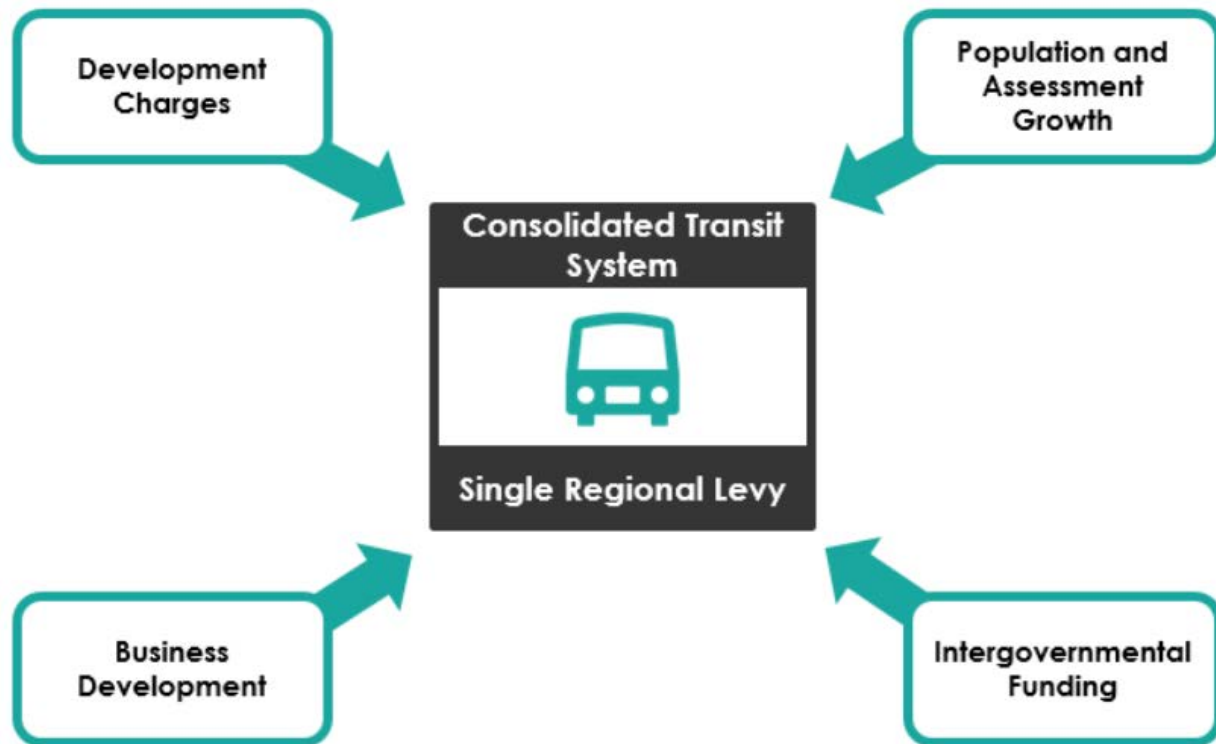
Leveraging previous capital investments will allow the Commission to deliver increased service into new areas of the region; which would have been costly for smaller municipalities to undertake within their municipal budgets. For example, existing garages can be utilized for vehicles purchased to provide increased or new conventional services, avoiding the need for the municipality to invest in new facilities independently.

- Net Operating Costs** – The current net operating cost for all transit across Niagara is \$43.4M which includes \$32.5M in service delivery, \$8.6M in Facility and Administration costs and \$2.3M in debt financing. The move to a single Regional levy redistributes the existing \$8.6M in facility and administrative costs to all new owners of the previous capital investments incurred by St. Catharines, Niagara Falls, and Welland, while the existing local transit net operating cost in St. Catharines and Niagara Falls reflect a reduction to the residents within those

municipalities through the upload to the Commission. It should be noted, that of the existing \$14M in Niagara Region inter-municipal services connecting all municipalities to these urban centres delivered under the current Regional levy funding scenario (i.e. 2020 budget), the municipalities of St. Catharines and Niagara Falls currently contribute 45% of the Regional levy contributions.

- **Intergovernmental Funding** – The Provincial Gas Tax (PGT) is currently utilized in some municipalities for operations (approx. \$1.5M annually). Under a consolidated Full Commission, these funds can be utilized for capital as intended by the program and therefore reduce future financing costs. Based on the current combined fleet size, purchase price, 10-year replacement cycle and the full annual PGT allocation for all municipalities together, it is estimated that 65% of total bus replacements can be funded through Niagara's combined PGT allocation. The \$1.5M which is currently utilized for operations reduces this funding to 50%; thereby increasing debt financing. However, a consolidated PGT fund would maximize PGT investments, lower debt financing and increase fleet replacement and required capital levy investments. Moving forward with consolidation now will also present the opportunity to seek provincial Safe Restart Program funding to offset anticipated transition costs. These costs may otherwise require funding through the Regional levy should consolidation be pursued at a later time.

While not directly included as part of the proposed Financial Strategy, there remains a number of future opportunities to further mitigate the impacts of transition to the single regional transit levy. These contributing factors include both future population and assessment growth in the region, the introduction of transit into the Region's development charges, enhanced business development, and future intergovernmental transit funding programs. Each of these opportunities will continued to be explored in the future for the potential to further offset levy impacts and should be kept in mind in relation to the future projections laid out in the Financial Strategy.

Figure 2 - Future Mitigation Strategies*Future Investment and Growth Opportunities*

The NTGS outlines an aspirational growth target of +80% in transit ridership in Niagara by 2031. This growth would be achieved primarily through unlocking latent demand for inter-municipal trips, and is consistent with growth seen in the usage of transit in peer jurisdictions in their post-consolidation period.

Relating the potential growth of transit ridership to the financial strategy, there are two considerations:

- **Future Investment Levels** – to achieve the aspirational target outlined in the NTGS, additional investment beyond that envisioned by the financial strategy will be required. The NTGS identifies that achieving the high-growth target with an 88% increase in ridership will require an additional \$27M in net operating expenditures. The estimated costs of consolidation contained within this report reflect inflationary growth only. Based on the 2020 Regional Levy, an

aspirational growth strategy would require an incremental separate transit levy of 7.0%.

In addition, an incremental capital investment of \$70M-\$155M may be required to achieve this growth, of which approximately \$40M is currently funded through PTIF and ICIP programs. These investments are in addition to regular lifecycle replacements of existing assets.

The financial strategy includes an additional \$2.7M in service expansion funding previously discussed, which is outside the aspirational growth strategy and is intended for enhancements in those municipalities with less robust current service to improve connectivity to urban centres and amenities. Longer-term service enhancements will be determined by the Commission's transit service strategic plans, and subject to the allocation of funding through the Regional budget process.

- COVID-19 – the aspirational +80% target was developed based on ridership levels and modelling prior to the onset of the COVID-19 pandemic, which has had a direct impact on transit ridership and revenues. While these impacts have been significant in the short-term, the long-term impacts to transit remain unclear. Trends towards greater work and study from home environments may result in lower transit utilization in the long-term, or may have limited impact post-pandemic. A Full Commission governance model will be best able to balance core transit needs while simultaneously being flexible to respond to emerging trends and service levels as circumstances require.

The Cummings Principle and Asset Transfer

The proposed application of the Cummings Principle to the transfer of assets to the Commission remains a key principle of the financial strategy. The premise of the Cummings Principle is to transfer assets (and related outstanding liabilities), from one municipality to another with no additional compensation, since transferring assets for additional compensation results in the taxpayer paying twice for the same public asset.

Board of Directors and Appointment Process

The NTGS presents a recommended Board of Directors comprised of five (5) members of Regional Council, (4) skills-based members of the public, and the Commission's General Manager acting in an ex-Officio capacity. This structure was recommended to

achieve both stewardship over resources and accountability to the residents of Niagara via elected officials, supplemented with additional skills or proficiencies necessary through those with experience in industry or more broadly.

Discussion at LNTC raised the question of the appointment of elected officials other than those already members of Regional Council (i.e. other local councillors). The process for appointment of members to the Board of Directors will be determined as part of the by-law that establishes the Commission as a legal entity, anticipated to be brought forward in parallel with the future triple-majority approval report. Through that process, Regional Council will have the opportunity to establish the criteria by which members can be selected. It is presumed that a nominating committee of Regional Council would then select members on the basis of the established criteria.

The forthcoming engagement with local area municipalities presents an opportunity to solicit further feedback regarding the proposed member selection process and Board Composition.

Social Equity

The guiding principles established for the NTGS determined *fairness* as a key objective of the consolidation of transit, including providing a basic level of services that can be accessed by as many Niagara residents as possible. There is currently a significant disparity in the availability and frequency of transit service across the region between smaller and larger municipalities.

Across the region, there are numerous residents who rely on transit as their primary mode of transportation. As such, transit represents social equity access to employment opportunities, medical services, educational institutions, or social activities.

The consolidation of transit is anticipated to foster a greater level of access to transit services for those residents currently under- or unserved by transit. Under the proposed financial strategy, this greater access in smaller municipalities will be achieved through the expansion of services proportional with increased investment levels and the greater integration with the services currently in place in the larger municipalities. Social equity is achieved through transit equity and access. The aforementioned financial strategy was designed to enable smaller municipalities to enhance their transit service levels and connectivity as quickly as possible as the levy redistribution occurs over time. This means front-loading the benefits of enhanced service and faster upload of the local levy

to regional as soon as possible, so as to increase their levels of social and transit equity for their residents.

LAM Engagement Timeframes and Next Steps

Subject to the adoption of the minutes of LNTC by Regional Council on November 20, 2020, *LNTC-C 4-2020* will be distributed and engagement with the LAMs seeking feedback on and support for the proposed governance and finance models will commence.

The specific timing and method of engagement with each LAM will be determined in consultation with their respective CAOs and Heads of Council, acknowledging the request from LNTC that feedback be received no later than February 28, 2021. Where requested, Regional staff (the Project Team) and the NTGS consultants will be available to support local staff as the item is considered at local Councils.

LNTC-C 8-2020 provides the draft presentation planned for use, where and if requested by the local area municipality. This presentation has been provided to committee separate from this report, as it is not recommended that this presentation be directly distributed to LAMs in parallel with the distribution of the supplementary information contained in this memo (should committee opt to distribute this information). This is recommended in order to facilitate required tailoring and updating for each municipality, and avoid confusion between what is an indicative presentation and the final presentation intended for each LAM.

In parallel to engagement with the LAMs, Regional staff will undertake the evaluation of impacts to Niagara Region Transit, Niagara Specialized Transit, Niagara Region Transit OnDemand, and the Regional tax levy from the proposed resolution in *LNTC-C 4-2020*. This assessment will be returned to LNTC for consideration in advance February 28, 2021, so that input from LNTC and Niagara Region Public Works Committee (as well as a position on the requested motion) can be received in parallel to that from the LAMs.

This collective feedback will be used to further refine the proposed governance and financial models, in advance of the initiation of the triple-majority process in Q2 2021.

Respectfully submitted and signed by,

Scott Fraser, P. Eng.
Transportation Lead | GO Implementation Office