
MEMORANDUM

CL-C 86-2021

Subject: Addressing Input from the City of Welland – Transit Governance Consultation

Date: November 25, 2021

To: Regional Council

From: Ron Tripp, P.Eng., Chief Administrative Officer

Over the last 10 years, extensive work has been done to develop a recommended governance strategy for the consolidation of transit in Niagara. A significant portion of this time has been focused on consultation: hearing input from municipalities, interested parties, and most importantly the residents who stand to benefit from an enhanced transit system.

The current transit governance proposal that has been developed and recommended by the CAO Governance Steering Committee (GSC) and unanimously endorsed by the Linking Niagara Transit Committee (LNTC), reflects and balances the multitude of competing interests and input received from all parties.

The initiation of triple-majority approval is about moving the process forward and coming to a clear decision point for Niagara: is Niagara prepared to create a single transit agency for its future? After years of extensive working groups, transit-focused committees, and numerous consultant studies, the message from a clear majority of those consulted is that the time to make a decision on consolidation has arrived.

Input from the City of Welland

The City of Welland has outlined a series of what it believes are ongoing concerns with the proposed transit governance strategy and the decision to move forward with the triple-majority vote at this time; most recently in a report to their Council on October 12, 2021 (See Resolution 21-13 - Appendix 1 and Report TRANS 2021-15 – Appendix 2).

The latest concerns raised by the City of Welland are not new and have been considered and responded to throughout the development of the current transit

governance proposal at multiple forums (i.e. LNTC, Welland City Council, Regional Council, CAO GSC, and via staff correspondence). The City of Welland has been a full participant in the transit governance process to date: its Mayor, a local Welland City Councillor and its CAO sit as members of the LNTC; its CAO sits as a member of the CAO GSC, and its input via multiple Council presentations has been given an equal voice to all other municipalities. Significant prior discussion, including the memorandum included as Appendix 3, have previously addressed many of the issues raised.

The feedback received from Welland was considered in parallel to all input received and incorporated where possible and appropriate. As in all other cases, some feedback was acknowledged but ultimately not included where doing so either contravened the Guiding Principles, disadvantaged other municipalities, did not reflect the consensus of the CAO GSC, or the findings of the Niagara Transit Governance Study (NTGS).

The following is a summary of the outstanding discussion points raised by the City of Welland and how these items were acknowledged, weighed, considered and responded to throughout the current process.

It is important to note that the items below reference only those Welland perceives to be outstanding; it does not include all other input also received from Welland which has already been incorporated into the revised transit governance strategy as part of the consensus work to date and agreed to by other CAOs and/or municipalities as part of the revised transit governance proposal, including:

- a) That an updated 2021 asset register be developed to provide visibility on assets to be transferred. This has been included as Schedule 'A' of the MTA Term Sheet included as Appendix 3 to the companion report PW 55-2021.
- b) that lands upon which sits transit facilities being uploaded are to remain with municipalities;
- c) that payment-in-lieu of taxes be provided to municipalities by the Commission where appropriate; and
- d) that a minimum 7-year service guarantee be put in place

Welland: Net Baseline Operating Costs for Welland Transit

The City of Welland has disputed how its existing baseline transit costs are reflected as part of the financial strategy. The financial strategy identifies that the full cost of

delivering transit in Welland today is approximately \$3.1M, compared with net local levy charges of approximately \$2.5M within Welland’s 2020 net transit operating budget.

Niagara Region currently contracts the City of Welland for the delivery of Niagara Regional Transit (NRT) routes on an hourly basis. The guiding principles set in the establishment of the original inter-municipal transit (IMT) proposal in 2011 were that charges be levied to the Region by the cities of St. Catharines, Niagara Falls and Welland on a cost-recovery basis. The premise being, local levies would not pay for Regional service in any way. This was the proposal to the Region at the time of initiation of the pilot NRT service in 2011: that Regional Council operate inter-municipal routes, establish the IMT system, funded exclusively by the Region, operated by the three large operators, on a 100% cost-recovery basis.

In the development of the current governance financial strategy to determine how much each municipality would be uploading to the new Commission, it became apparent that Welland overcharges Niagara Region for its delivery of NRT service by approximately \$600,000 per year. This is done by charging an hourly rate greater than the cost of actual service delivery, as shown in Table 1 below.

Table 1 – NRT Service Delivery Cost Recovery (2020 Operating Rates)

Municipality	Direct Transit OH (% of total operating budget)	Direct Cost / Hr including Transit OH/Admin	+ Indirect Corporate OH	Cost / Hour <u>including</u> Corp OH	Charge invoiced to Region	Total Recovery /Hr <u>over</u> Direct Cost of Service	Total Recovery /Hr <u>over</u> Direct Cost
St. Catharines	9.7%	\$112.20		\$112.20	\$110.00	-\$2.20	-2.0%
Niagara Falls	1.6%	\$98.56	1.2%	\$100.40	\$100.40	\$1.84	1.9%
Welland	13.4%	\$84.91	15.0%	\$97.64	\$105.00	\$20.09	23.7%

This financial review as part of the governance analysis is where Welland continues to assert a “discrepancy” exists.

Following significant staff level discussion among numerous financial professionals, an external auditor/consultant was hired by the City of Welland to address this issue. This auditor working for Welland subsequently confirmed that:

“...the [Welland] City cost would be a city levy of \$2,493,234 and \$598,569 overhead recovery (Profit) for a total of \$3,091,803.”¹

To date this overhead and profit has been used within the Welland budget to offset its own local transit costs.

This means all Niagara residents in other municipalities, through their Regional levy, have been paying for Welland’s local transit costs via the \$600,000 annual profit for delivering NRT service. Based on the initial principle of cost-recovery for service, this is unfair to the other 11 municipalities and will not continue either under a status-quo scenario or the proposed consolidated system. In either case, the City of Welland will need to address the shortfall arising from no longer being able to overcharge the Region within their own local budget.

To be clear, the proposed financial strategy for the current transit governance proposal incorporates and plans for the true cost of service delivery in Welland and that all local services in each municipality are funded by that municipality only. There will be no net new costs to Welland residents upon upload in 2023; only the right-setting of actual local transit costs without corporate overhead profit, with the Region no longer subsidizing this inflated rate.

Welland: Baseline Operating Costs – Selection of 2020 as Base Year for Budget

The City of Welland has requested that the financial model be updated to use 2022 as the baseline budget year – as opposed to the current 2020 baseline supported by the proposal.

The 2020 baseline was selected as it represents the most recent ‘pre-COVID’ estimate of the full costs of delivering transit in Niagara in the future. This baseline was discussed with and agreed to through consensus by the GSC as part of the development of the revised financial strategy throughout the entire Q2 of 2021. It is this model that all municipalities then considered over the summer of 2021.

¹ Fairweather, Steven. Email to Todd Harrison and Heather Talbot. June 18, 2021.

Using an alternative 2022 budget baseline, which includes temporary and unstable impacts arising from COVID-19, was not recommended as it would result in undervaluing the full costs of delivering transit in the future and require the Commission to make significant changes to its budget estimates in the first few years of existence.

No other municipality – staff or Council – has objected to the use of 2020 as the baseline for these reasons.

Welland: Capital Funding and the Use of the Cummings Principle

The Cummings Principle is, at its core, that public assets should transfer at no-cost during municipal amalgamations as the taxpayer has already paid for the asset, so long as the taxpayers will continue to receive the benefit – regardless of what public organization ultimately has ownership. The principle was established through legal decision in 1950, and has governed all subsequent transit amalgamations (among many other asset amalgamations) involving public sector assets in the Province of Ontario.

From its inception as far back as the commencement of the NTGS, the CAO GSC has continually confirmed that the Cummings Principle should be applied in the case of Niagara's transit consolidation. It has formed the basis of the entire financial model and was a recommendation by the NTGS consultants as the singular way to ensure equality and fairness.

Beyond the principle that assets have already been paid for by the taxpayers who will continue to derive benefit from them, the vast majority of all transit assets across Niagara including facilities, garages, fleet, ancillary capital such as hoists, on-board fleet assets (i.e. cameras, modems, radios, fareboxes, automated stop announcements), etc., have been primarily purchased by municipalities using Provincial and/or Federal funding through various transit-exclusive support programs over the last decade.

As a result, very minimal amounts of municipal levy funds have been expended to purchase transit capital in Niagara during this period. Where municipal debt has been issued for the purchase of transit assets, that debt will be transferred to the Commission as identified in Schedule 'B' of the MTA Term Sheet included as Appendix 3 to the companion report PW 55-2021.

Welland: Transitional Commission Board Representation

The structure of Transitional Commission Board was recommended on the basis that each municipality be provided a minimum of one representative; and that extra representation should be considered on the basis of ridership – while balancing the overall size of the Board.

The request from Welland for additional representation was considered by the CAO GSC in parallel to the input received from all twelve municipalities across Niagara regarding their preferred composition of the Board. Other municipalities raised strong opinions with regard the type of Board, its size and composition, equality of representation, and its apportionment of representatives for larger ridership.

Weighing the entirety of the inputs, providing additional representation to Welland was not recommended as doing so would have either disadvantaged other larger municipalities, or required significant expansion of the total size of the board to accommodate and balance the premise of Welland’s request. As shown in Table 2, the share of representation between the three largest operators (St. Catharines, Niagara Falls and Welland) accurately reflects their respective share of current ridership.

Table 2 –Transit Ridership and Share of Representation

Municipality	Ridership	Share	Representation	Share
St. Catharines	4,796,246	54%	3	50%
Niagara Falls	3,164,716	35%	2	33%
Welland	989,357	11%	1	17%
Total	8,950,319	100%	6	100%

The external third party review of the transitional Board, required to proceed as part of the MTAs, will revisit and make recommendations regarding the total Board size, and share of representation, in advance of a permanent Board structure being put in place.

Welland: Defer Initiation of Triple-Majority

Welland Council has requested that the initiation of the triple-majority process be delayed until such time as the above noted items are resolved to its satisfaction, suggesting approval initiation in 2023 is a more appropriate timeline.

The consultation process to date has been extensive, extending over multiple years, and Welland has been provided significant opportunities to provide feedback and input – with numerous specific inputs already accommodated within the revised proposal.

It is not reasonable or realistic to expect that, given the number of parties and complexity involved, that all points of feedback provided by an individual party can be addressed. The current transit governance proposal needs to balance input from ***all*** participants and arrive at a consensus and balanced recommendation.

That objective has been achieved and the time to consider moving forward with a consolidated transit system for Niagara is now.

Respectfully submitted and signed by

Ron Tripp, P. Eng
Chief Administrative Officer

Appendices

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| Appendix 1 | Welland City Council Resolution 21-13 – October 12, 2021 |
| Appendix 2 | Welland City Council Report TRANS 2021-15 – October 12, 2021 |
| Appendix 3 | Memorandum to Welland Council – September 20, 2021
Niagara Transit Governance – Welland City Council – RE: Report
TRANS-2021-11 |