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MEMORANDUM

Subject: Niagara Transit Governance – Welland City Council – RE: Report TRANS-2021-11

Date: September 20, 2021

To: Tara Stephens, City Clerk, City of Welland

From: Matt Robinson, Director | GO Implementation Office, Niagara Region

At its meeting of September 7, 2021, Welland City Council continued the discussion regarding the future of transit in Niagara, the proposed move to a single, consolidated transit agency, and the revised financial, governance, and service strategies developed in response to municipal feedback.

This discussion included a delegation from the Regional project team on behalf of the Governance Steering Committee (GSC), as well as considering and adopting the recommendations of the related report from the Transit Manager (TRANS-2021-11).

The purpose of this memo is to provide additional information for Council and to address concerns identified in this report. Throughout this process, the GSC has been committed to addressing the concerns raised by all municipalities, providing additional information and where possible, making the necessary revisions and updates to the proposed models in response.

Financial Strategy

1) Impact of future Inter-Regional transit Capital Budget to Welland Taxpayers

The total combined annual capital replacement requirement by 2023 (with existing assets) for the consolidated Commission model is estimated at $12.8M and the combined annual Provincial Gas Tax (PGT) is $6.8M; $1.5M of which is currently being utilized by various municipalities for operating budget offsets. The new capital reserve strategy recommends that the $1.5M currently used in operating be phased out over 5 years with an additional annual transfer to reserve of $6.5M being phased in over 3 years. Welland's estimated annual capital replacement requirement for fleet and facilities is $1.4M. The financial funding strategy associated with capital is the same as operating, and allocates costs based on proportion of service hours. In 2025, with the proposed service standardization, Welland's proportion of service hours would increase from 11.1% to 12.4%, resulting in 12.4% of the $6.5M for capital ($0.8M) being allocated to Welland residents on the Regional levy.

2) Assumption regarding transit operating costs in a post COVID-19 environment. [Current ridership for Welland Transit is approximately 28% of pre-COVID levels]

Ridership in Welland is heavily dependent on Niagara College students and therefore the temporary stoppage of in-class participation has resulted in a drastic decrease in Welland transit demand. As of September 2021, Niagara College and Brock University have now moved to a blend of in-class and online curriculum which should start to increase demand for transit within Welland and across the region. As students move back to fully in-class participation, demand for transit should start to return to pre-COVID levels. If the post-COVID environment does not result in ridership demand equivalent to pre-COVID demand, the new Commission would look to alternative service delivery models, such as on-demand, to ensure that demand is met with the most cost-effective service delivery model.

3) Impact on Provincial Gas Tax funding and continued commitment from other levels of government on sustainable new sources of funding for transit

The proposed financial strategy includes the use of PGT for consolidated capital replacement and removes the existing $1.5M collectively used from operating over five years. Future forecasted PGT growth in the new Commission is conservative given the reductions in fuel sales during the pandemic. The Region and all municipal transit partners continue to work with MTO on funding options for governance transition costs, ongoing capital requirements and fiscal sustainability. New, sustainable federal transit funding programs will be leveraged wherever possible to reduce the financial pressures on resident taxpayers within Welland and Niagara.

4) The proposed revised transit levy allocation for future Inter-Regional transit operating costs represents a higher tax dollar to Welland taxpayers for delivery of transit services

The proposed increase to Welland residents on their Regional Tax Levy at the time of transit consolidation is a reflection of the additional corporate overhead/profit that Welland currently charges the Region to deliver its NRT service. As a result, under the existing transit model in Welland, by charging the Region at the rate Welland Transit does, which includes a corporate overhead charge of 15%, the resulting impact under the current assessment-based financial model means residents in all other Niagara municipalities pay an extra $600,000 annually for Regional transit services provided by Welland. Comparatively, St. Catharines and Niagara Falls charge overhead on a costrecovery basis only. This allows Welland to in turn use that $600,000 overhead/profit to offset their local Welland Transit costs, reducing their own local levy.

Under the new proposed financial model, a consolidated Commission would ensure that residents within a municipality pay only for the services that they receive locally. With the new Commission delivering all transit services, Welland would no longer realize that corporate overhead/profit margin. Under the new model, the actual net costs to deliver transit within Welland would be charged to residents. Therefore without Welland's overhead/profit offset, the cost to deliver the same level of service remains the same however now it is all being borne by Welland residents through the special levy rather than the other residents of Niagara through the Regional levy.

5) Application of the Cummings Principle

As part of the Niagara Transit Governance Study (NTGS), a peer jurisdictional review was under taken by Optimus SBR and found that since the Cummings Principle was established through legal decision in 1950, all subsequent transit amalgamations involving public sector assets in the Province of Ontario have been implemented using the Cummings Principle. This principle at its core dictates that public sector (tax levy) purchased assets by one level of government, when uploaded or downloaded and continued in their same initiated service, those assets are not subsequently paid for a second time by the tax levy when in continued use to deliver the same public service. The principle being that by maintaining public sector governance, those assets would retain and continue the existing service life of the asset; the new public sector governance (in this case the new Commission) would ensure the same level of taxpayer protections and stewardship of the assets until their end of useful life.

Moreover, 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 purchased with 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. This in no way negates the actual value of the assets, it merely indicates that municipal contributions (local tax dollars) have been relatively minimal relative in realizing that asset value.

Under the proposed consolidated model, all existing transit capital debt will be assumed by the Commission at the time of consolidation. That means any outstanding municipal debt servicing any of those assets would be assumed by the new Commission. Currently, Welland has $1.5M in debt with annual payments of $168,000 (based on treasurer's template each municipality filled out and reported to the Region). Historical municipal capital contributions are reported through CUTA and reflect a Welland total of $60,000 between 2014 and 2018.

6) Land transfer for transit garage/facilities

Under the proposed terms of the Municipal Transfer Agreements (MTAs) being proposed by the Governance Steering Committee (GSC) for those municipalities with transit capital assets to be transferred to the new Commission, under the current proposal, the land associated with any transit facility purposed to be included with the consolidation and uploaded to the new Commission would be excluded from the transfer. The transit facilities themselves would be transferred, but the land would not. Subsequently, there would likely then be a Payment in Lieu (PIL) of taxes by the new Commission to the respective municipality. This will be addressed in the final MTAs between the Region and those affected municipalities with applicable transit assets.

Commission Board Composition

The proposed composition of the Commission Board was recommended on the basis of two principles:

- that each municipality be provided a minimum of one representative; and

- that extra representation should be considered for the largest three municipalities (St. Catharines, Niagara Falls, and Welland) on the basis of ridership, while balancing the overall size of the Board.

The proposal of three representatives to St. Catharines, two to Niagara Falls, and one to Welland was reflective of the share of ridership between these three large municipalities, as shown in Table 1 below.

Table 1 –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%**

Report TRANS-2021-11 identifies that the result of this process is that Welland is provided similar representation to smaller municipalities with limited transit ridership.

This feedback has been considered by the GSC in parallel to the input received from all twelve municipalities across Niagara regarding their preferred composition of the Board.

The GSC has recommended that the current fifteen-member transitional board model be maintained, reflecting concerns from other municipalities regarding the already relatively large total size of the board, the impact on other municipalities' share of representation resulting from further changes, and in keeping with the existing ridership methodology used to determine that compliment.

The external third party review of the transitional Board 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.

Consideration of Delay to 2023

Welland Council has requested to defer to 2023 the triple-majority approval to move into a consolidated transit system on the basis of the concerns outlined within report TRANS-2021-11.

This request will be joined with the feedback and input received from all twelve municipalities across Niagara as part of the second round of municipal consultation and considered by the GSC when making a recommendation on the timing for the initiation of the triple-majority vote. The Linking Niagara Transit Committee has previously identified initiating the triple-majority process within 2021 as a priority, in keeping with the 2017 triple majority direction to pursue a governance solution for a consolidated Niagara transit system.

The purpose of this memorandum is to respond to the recent concerns raised by Welland Council, in anticipation of facilitating its future consideration of a triple-majority vote.

Respectfully submitted and signed by,

Matt Robinson
Director, GO Implementation Office
Niagara Region