niagara transit commission

Subject: 2023 Year End Results and Transfer Report

Report to: Niagara Transit Commission Board

Report date: **Tuesday, February 20, 2024**

Recommendations

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

2. That the NTC Board request that the 2023 year-end operating surplus for NTC of $2,086,731 **BE TRANSFERRED** to the Transit Stabilization Reserve;

3. That the encumbrances of $1,946,629 (Appendix 3) **BE RECEIVED** for information, and that the deferral of these expenditures be included in the 2024 operating budget; and

4. That this report **BE FORWARDED** for approval to the March 6, 2024 Corporate Services Committee.

Key Facts

- The purpose of this report is to provide an overview of the year-end operating variances as of December 31, 2023, including encumbrances, and to obtain approval from the Board for the 2023 year-end transfer recommendations.
- For the year ended December 31, 2023, NTC operated at a surplus of $2.1 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 $1.9 million is being set aside in the encumbrance reserve to fund commitments made against the 2023 budget for which the good or service was not received in the budget year, in order for the funding to be transferred to the 2024 budget when the good or service is received.

Financial Considerations

As reflected in Appendix 1, the 2023 year-end operating statement for NTC reflects a surplus of $2.1 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 2023 Financial update. (https://www.niagararegion.ca/business/finance/quarterly-reports/default.aspx)

Incorporated in the year-end operating surplus of $2.1 million is a transfer of $1.9 million to the Encumbrance Reserve that will be transferred to the NTC operating budget for the 2024 year. This encumbrance relates mainly to consulting and branding work that was approved in the 2023 budget pending award through the request for proposal formal procurement process at the end of the year, with the work expected to be completed in 2024.

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 Regional Council in in January approved report CSD 1-2024, Request to Write-off Outstanding Amount Over $25,000 which included write-offs of $799 thousand for the NTC. The arrears stems from missing information related to the WEGO Visitor Transportation System (VTS) during the Niagara Transit Commission (NTC) transit amalgamation and 2023 budget process. Contract revenue and service hour-based allocations have been right-sized by NTC in the 2024 budget. This write-off was identified through the quarterly financial update and forecasting reports submitted to the Board.

The recommendations in this report will fully allocate the 2023 year-end operating surplus to the Transit Stabilization Reserve.

Analysis

The year-end operating surplus of $2.1 million is primarily the result of higher than anticipated UPASS and fare revenue of $5.6 million, favourable variance in allocations of administrative costs (referred to as indirect allocations) of $1.5 million due to the timing of hiring of support staff and lower than anticipated insurance premium and claims and unbudgeted supplemental tax revenue specific to Transit of $0.7 million. These favourable variances are offset by unfavourable variances in direct labour-related costs due to higher benefit costs, increases in labour costs as a result of finalizing the collective bargaining agreement, the uncollectible portion of the chargeback to the City of Niagara Falls related to the local portion of the WEGO services and higher fuel-related costs due to fluctuations in fuel prices. In addition, the year-end results included 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.

The primary changes from the Q3 forecast relate to higher than forecasted fare revenue, unbudgeted supplemental special levy tax revenue for the year generated from in year growth in development, less than expected consulting expenses due to the strategic plan award coming in lower than forecasted and less than forecasted education & training costs by year-end.

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, or extraordinary expenses or potential deficits at year end. There is currently no balance in the Transit Stabilization Reserve as 2023 was the first year of operations. The Regional Reserve and Reserve Funds Policy indicates that stabilization reserve target balances should be 10% to 15% of gross operating expenditures (excluding reserve transfers and capital costs). The minimum target balance of 10% of the gross operating costs is $8 million. A few items which could potentially impact the 2024 year-end results include volatility in diesel and gas prices, incremental costs as a result of the finalization of the Collective Bargaining Agreement and potential results of pending request for proposals. Thus, it has been recommended that the full 2023 year-end surplus of $2.1 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 scaled back as a mitigation measure in the 2024 budget however the PGT of $1.6 million was not required in the 2023 operating budget due to the surplus and therefore remains in the PGT reserve. Collectively the year end reserve balance for capital from capital levy ($1.46 million) and uncommitted PGT ($3.26 million) total $4.72 million. The capital funding available will be evaluated in relation to the asset management plan and capital forecasts on an annual basis. Therefore, it has not been recommended to transfer any of the year-end surplus to the Capital reserve at this time.

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. At the end of 2023, the employee future benefit obligation has increased to $1 million. As the EFB reserve is 47% funded in line with Regional EFB reserves a further transfer is not recommended at this time.

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	$0	$2,087	$2,087	$8,037 - $11,975
Transit Capital	$1,460*	$0	$1,460	TBD***
Transit Future Benefit	$479**	$0	$479	$1,015

* Includes $114 thousand specific for Specialized Transit.

** Includes 2024 Employee Future Benefit adjustment (NTC 3-2024)

*** 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 $1.9 million (see Appendix 3). The encumbrances identified will be transferred to the encumbrance reserve at December 31, 2023, and transferred back to the respective department budgets in 2024.

Alternatives Reviewed

The Board may direct staff to consider alternative reserve allocations for NTC's year-end surplus of $2.1 million, however, this is not recommended as there is currently no balance in the stabilization reserve to support any future budget risk or volatility.

Other Pertinent Reports

- NTC 18-2023 Q3 Financial Update
- NTC 11-2023 - 2023 Q2 Financial Update

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Appendices

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

Niagara Transit Commission - Statement of Operations (in thousands of dollars)

Expenditure	Year to Date Budget	Year to Date Actual	Year to Date Budget vs Actual Variance Amount	Year to Date Budget vs Actual Variance Percentage
Labour Related Costs	$37,526	$39,768	-$2,242	-6.0%
Administrative	$2,858	$888	$1,970	68.9%
Operational & Supply	$11,215	$11,229	-$14	-0.1%
Occupancy & Infrastructure	$481	$939	-$458	-95.3%
Equipment, Vehicles, Technology	$13,341	$14,808	-$1,466	-11.0%
Partnership, Rebate, Exemption	$0	$1	-$1	0.0%
Financial Expenditures	$0	$870	-$870	0.0%
Total Expenses	$65,422	$68,503	-$3,081	-4.7%
Taxation	-$56,561	-$57,436	$875	1.5%
By-Law Charges & Sales	-$14,319	-$19,915	$5,596	39.1%
Other Revenue	-$6,330	-$5,805	-$525	-8.3%
Total Revenues	-$77,210	-$83,156	$5,946	7.7%
Intercompany Charges	$0	$174	-$174	0.0%
Total Intercompany Charges	$0	$174	-$174	0.0%
Net Expenditure (Revenue) Before Transfers & Indirect Allocations	-$11,788	-$14,479	$2,691	22.8%
Transfers From Funds	-$179	-$179	$0	0.0%
Transfers To Funds	$3,675	$5,822	-$2,147	-58.4%
Total Transfers	$3,496	$5,643	-$2,147	-61.4%
Net Expenditure (Revenue) Before Indirect Allocations	-$8,292	-$8,836	$544	6.6%
Indirect Allocations & Debt	$8,292	$6,749	$1,542	18.6%
Total Indirect Allocations & Debt	$8,292	$6,749	$1,542	18.6%
Net Expenditure (Revenue) After Transfers & Indirect Allocations	$0	-$2,087	$2,087	0.0%

Niagara Transit Commission

Variance Analysis (in thousands of dollars)

The Niagara Transit Commission (NTC) commenced operations on January 1, 2023. The 2023 budget was prepared using best estimates from the local area municipalities (LAM's). As this is the first year of operations within Niagara Region, it should be noted that variances will exist at the object of expenditure lines and budgets will continue to be refined.

The NTC is operating at year-to-date surplus after indirect allocations of $2,087 due to the following factors:

Labour Related Costs – The unfavourable year-end variance of $2,242 is mainly due to greater than budgeted actual benefits for unionized staff and the budget including 5 hours less per week for some operators. The variance also includes wage increases for nonunion staff approved through report NTC 2-2023 and labour-related adjustments as a result of finalizing a new Collective Bargaining Agreement; offset by year-end surplus in benefits identified by the providers.

Administrative – The favourable year-end variance of $1,970 is mainly attributable to the timing and spend related to consulting and branding projects which were expected to be incurred by the end of the year. These projects were pending final formal procurement awards and are included in the transfer to reserves variance below.

Occupancy & Infrastructure – The unfavourable year-end variance of $458 is due to increased spend related to repairs and maintenance of facilities and higher than expected snow removal costs for end of year based on the Request for Proposal procurement process.

Equipment, Vehicles, Technology - The unfavourable year-end variance $1,466 is mainly attributable to unbudgeted diesel costs used by the City of Niagara Falls and Metrolinx which are charged out and recognized in other revenue below ($518) and higher than anticipated diesel costs ($1,069).

Financial Expenditures – The unfavourable year-end variance of $870 is mainly due to the uncollectible portion of chargeback to the City of Niagara Falls related to the local portion of the WEGO services ($799) and unbudgeted tax write-offs ($129) identified by the local area municipalities due to changes in assessments. This is slightly offset by a gain on disposal of equipment ($58).

Taxation – The favourable year-end variance of $875 is related to the unbudgeted transit special levy supplemental tax revenues collected by the local area municipalities as a result of changes in assessments from growth in the Region.

By-Law Charges & Sales – The favourable year-end variance of $5,596 are due to higher than anticipated fare revenue ($3,567) and unbudgeted fare revenue specific to Niagara College students of ($1,868) as a result of a new agreement in 2023 and additional Brock Summer Service ($161).

Other Revenue – The unfavourable year-end variance of $525 is due to the strategy to not recognize the budgeted Provincial Gas Tax revenue as NTC is in a year-end surplus position ($1,614). The unrecognized Provincial Gas Tax will be available for future Capital and/or Operating use. This is offset by higher than budgeted advertising and commission revenues ($91), deferred revenue transferred from St Catharines Transit Commission ($280) for contracted services and unbudgeted fuel reimbursement from the City of Niagara Falls and Metrolinx ($518) resulting from increased fuel costs ‘Equipment, Vehicles, Technology’ above. In addition, other revenue included the actual EFB payment received by City of Niagara Falls ($86) and reserves from City of St Catharines for capital specialized costs ($114) which was transferred to reserves below.

Intercompany Charges – The unfavourable year-end variance of $174 is due to a secondment of staff from the Region to support the integration and transformation of Transit through the transition.

Transfers – The unfavourable year-end variance of $2,147 is due to branding and consulting RFP’s to be encumbered into the 2024 budget ($1,947), EFB portion funded by Niagara Falls ($86) and a reserve balance transferred from St. Catharines Transit specific for Specialized Transit capital ($114).

Indirect Allocations – The favourable year-end variance of $1,542 is due positions that were not filled as of January 1, insurance premium and claims are lower than anticipated and less than expected facility related costs.

Niagara Transit Commission

Community Impacts & Achievements

Collective Bargaining – The Niagara Transit Commission (NTC) and Amalgamated Transit Union (ATU) Local 846 successfully negotiated a Collective Bargaining Agreement (CBA) that will govern their relationship for five years, from Jan. 1, 2023 to December 31, 2027. The agreement marks a significant milestone as it consolidates three pre-existing CBAs of the former transit providers in Niagara into a single, unified contract that sets the stage for enhanced operational efficiency and improved service delivery.

Branding RFP – An RFP to establish a new, harmonized brand for the Niagara Transit Commission was issued in November. It closes on January 18, 2024.

NRT Cares Initiative – In Q2 of 2023, the NRT Cares program was introduced to provide free transit to individuals that are experiencing absolute homelessness. Throughout Q4, the success of this initiative continued with an additional 9200 passes being provided to Community Services for distribution. In 2023 the value of tickets provided to those most in need in Niagara was estimated to be $100,000.

Public Advisory Appointments – Public Advisory Committee appointment recommendations by local municipalities were made by the end of 2023. The committee will be approved by Regional Council in late January 2024 and made up of 20 public representatives. Orientation and inaugural meetings should commence in early 2024.

Cameras installed on all fleet- Cameras were installed in the entirety of the Niagara Falls fleet in Q4. Staff will continue installations across the entire fleet which will provide enhanced safety and security to staff and the public. Installations will conclude early in 2024 to be followed by policies regarding video use and privacy in the public realm and in a unionized workplace.

Facility and Service Master Plan RFP award - The RFP was awarded in Q4 with announcements to come in the next few weeks on the successful proponent and their workplan. The Consultant is expected to start on this exciting 2-year project which includes Board, staff and public engagement as soon as possible in 2024.

Snow Removal RFP – A snow removal contract was awarded to one provider to provide consistent and reliable service to enhance safety at prioritized stops and shelters across the Region. Winter maintenance service levels were approved by the Board and have been advertised to the ridership and made public.

Chair A Van - Niagara Falls – In late Q4, Board approved plans to harmonize in-house specialized transit services across all NRT conventional sites got underway. Chair A Van in Niagara Falls, as the outlier contracted service with an NRT-owned fleet, was identified to be assumed and work commenced with St John's Ambulance to initiate a smooth transition. A brief contract extension was negotiated for 2024 until the service can be wholly delivered by NRT by March 1, 2024.

Appendix 3 – Encumbrance Summary

Description	Amount
Uniforms	$ 141,000
IT Strategy	101,760
Branding Strategy	101,760
Strategic Plan	341,650
Analysts	101,720
JIQ Consulting	152,640
Branding Decal Strategy	966,722
Benefits Review Consulting	39,377
Total Encumbrance Transit	**$1,946,629**