London Transit Commission

2015-2018 Financial Plan

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Introduction

The 2015-2018 Business Plan has as a key underlying theme, “driving change”. The Plan sets out a vision and mission for the organization as well as a number of strategic outcomes that will be used to measure progress over the period.

LTC’s vision - *The valued and trusted mobility choice for Londoners*

LTC’s mission - *Moving Londoners – progressively, reliably and affordably*

The vison and mission statement provided overarching direction for five competing and congruent strategic outcomes, namely:

- *An integrated, affordable and valued mobility choice*
- *An engaged, diverse and respectful workplace*
- *Demonstrated fiscal accountability*
- *Being open, transparent and understood*
- *Effective utilization of infrastructure*

The Business Plan informs financial planning. The Financial Plan links/translates the strategic outcomes and related work plan initiatives into financial projections and performance expectations.

An underlying theme of the Business Plan recognizes that successful planned investment in transit has the potential to be the launching pad for a wide range of initiatives aimed at strengthening the community, increasing economic competitiveness, enhancing mobility and protecting the environment.

While the task of moving customers from origin to destination remains unchanged, attitudes and expectations regarding transit have changed. There is a growing recognition that public transit:

- is good for the environment - supporting a healthy community;
- is good for the economy - supporting economic competitiveness;
- is an effective and choice means for a changing demographic (seniors and millennials);
- is an investment in building stronger more efficient communities;
- reduces transportation costs – both on an individual as well as community wide basis; and
- benefits everyone - even those who don’t use it.

The Financial Plan serves as the blue print defining *Demonstrated Fiscal Accountability*, which calls for prudent fiscal and operational management supporting accountability, sustainability, competitive positioning, affordability and a valued return on investment. The investment return includes consideration of social, economic and environmental returns to the community. The Financial Plan is as much about the effective and efficient management of expenditure investment fostering a culture of continuous improvement as it is about developing supportive and predictable sources of investment.

The Financial Plan, at a high level, sets out the Commission’s multi-year revenue and expenditure investment requirements (capital and operating) and related performance expectations based on the assumptions and parameters as discussed in the Plan. The Financial Plan is congruent with the Business Plan focusing resources, setting direction and aligning decisions and actions with desired strategic outcomes. The Financial Plan will be the key input document to the preparation of the 2015-2019 multi-year budget submission.

Financial Plan - 2015 -2018 Operating Investment Program Overview

As noted, the Financial Plan for 2015-2018 takes its direction from 2015-2018 Business Plan. As with the Business Plan, the starting point in developing the Financial Plan (operating estimates) is the annualized 2014 operating results and performance trends. The annualized results and performance trends serve as the base adjusting for the expectations associated with the development and implementation of various work plan initiatives directly associated with the Business Plan's strategic outcomes.

A summary of the overall operating investment and performance expectations for London's public transit services (conventional and specialized) for the period 2015-2018 is set out in the following table. Of note, the 2015 amounts, while listed as provisional, represent the actual re-costed budget approved by the Commission and the City of London investment amount approved by Municipal Council.

Total Public Transit Services Provisional Operating Investment Estimates 2015-2018

Description	Actual 2014	Provisional Operating Estimates 2015	2016	2017	2018	Percent Change
Ridership (millions)						
Conventional	23.813	22.919	23.377	23.845	24.321	2.1 %
Specialized	0.259	0.284	0.321	0.338	0.353	36.3 %
	24.072	23.203	23.698	24.182	24.674	2.5 %
Revenue service hours (millions)						
Conventional	0.571	0.587	0.606	0.622	0.640	12.1 %
Specialized	0.108	0.116	0.131	0.138	0.144	33.2 %
	0.679	0.703	0.737	0.760	0.784	15.5 %
Total operating investment (millions)						
Conventional	$ 62.405	$ 61.855	$ 64.828	$ 67.500	$ 70.289	12.6 %
Specialized	5.352	5.823	6.549	7.002	7.427	38.8 %
	$ 67.757	$ 67.678	$ 71.377	$ 74.501	$ 77.715	14.7 %
Source of investment						
Passengers, operating and reserves	53.5%	51.5%	49.8%	49.2%	48.9%	(8.7)%
Provincial gas tax	8.0%	8.5%	10.5%	10.8%	10.9%	36.0 %
City of London	38.5%	40.0%	39.8%	40.0%	40.3%	4.6 %
	100.0%	100.0%	100.0%	100.0%	100.0%	0.0 %
Investment by function						
Transportation services	54.3%	56.7%	57.3%	57.5%	57.8%	6.5 %
Fuel	11.1%	11.1%	11.2%	11.4%	11.6%	4.8 %
Vehicle maintenance and servicing	18.4%	18.7%	18.4%	18.3%	18.1%	(2.1)%
Direct on road service	83.8%	86.5%	86.9%	87.2%	87.5%	4.4 %
Facility	4.7%	4.8%	4.7%	4.7%	4.6%	(1.8)%
General and administrative	6.5%	6.5%	6.2%	6.1%	5.9%	(8.7)%
Other -financial	5.0%	2.2%	2.1%	2.0%	1.9%	(61.2)%
	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%

While a more complete discussion on operating investment and performance expectations is set out under the conventional and specialized transit operating program sections, the Financial Plan overall, consistent with the direction of the Business Plan, provides for the strategic maintenance and growth of conventional and specialized transit services and the start of a fundamental shift in the sources of funding for the services. These changes are highlighted by the following performance expectations:

- an increased investment allocation to "on road service" migrating from an approximate 83.8% share to 87.5% (or an increase of approximately 5%). The increased investment share is a direct result of a net addition of 105,000 service hours to the respective systems over the period representing an approximate 16% increase in service;

- a net ridership increase of 2.5% or 602,000 riders noting the approximate 1.3 million loss of ridership relating to the 2014 change in how the City of London applies the transportation benefit under the Ontario Work program;
- overall City of London operating investment migrating to a 40% share. This share is consistent with the Commission's direction to grow city investment, which is deemed critical to the overall continued growth of the service/system. The migration will see the actual City investment share grow from approximately $26.1 million in 2014 to $31.3 million by 2018. The $5.2 million investment growth represents an approximate 1.1% increase in the mil (property) tax rate;
- increased City of London capital investment in expansion buses for service growth to existing areas, moving to a 50% share of such purchases, effective 2015 noting previously the purchase of expansion buses applying to existing service area were fully funded from provincial gas tax investment; and
- an increased dependence on provincial gas tax investment to support current operations. Provincial gas tax investment share is targeted to increase by 57% over the period, moving to 11% investment share from approximately 8%.

Of note, the Financial Plan does not take into consideration the service and financial investment requirements (capital and operating) associated with the City of London implementing the "Our Move Forward Plan", which deals with the economic, social and environmental renewal, revitalization of the downtown.

The Our Move Forward Plan is defined by investment in a number of transformational projects, one such project is to transform the blocks of Dundas Street between Wellington Road and the Forks of the Thames from a conventional downtown public right-of-way into a public space.

The investment in transforming Dundas Street into a flexible street includes investment in the re-routing of conventional public transit services off Dundas Street. The impact of the re-routing on transit, both in terms of operations and investment is discussed in the 'Going Forward' section of this report. Costs associated with the removal of buses off of Dundas Street have been included in the financial projections for the implementation of the Our Move Forward Plan.

Conventional Transit – Operating Investment Program

2015-2018 operating financial plan and performance expectations for conventional transit is set out in the following table.

Conventional Transit Provisional Operating Investment Estimates 2015-2018

Description	Actual 2014	Provisional Operating Estimates 2015	2016	2017	2018	Percent Change
Service performance indicators						
Ridership (millions)	23.813	22.919	23.377	23.845	24.321	2.1%
Revenue service hours (millions)	0.571	0.587	0.606	0.622	0.640	12.1%
Rides per capita	63.1	60.1	60.7	61.3	61.9	(1.9)%
Rides per revenue service hour	41.7	39.1	38.6	38.3	38.0	(8.8)%
Revenue service hours per capita	1.5	1.5	1.6	1.6	1.6	8.5 %
Financial performance indicators						
Total operating investment (millions)	$62.405	$ 61.855	$ 64.828	$ 67.500	$ 70.289	12.6 %
Total operating cost per revenue service hour	$109.34	$ 105.43	$ 106.94	$ 108.50	$ 109.88	0.5 %
Total operating cost per ride	$2.48	$ 2.70	$ 2.77	$ 2.83	$ 2.89	16.5 %
City investment per ride	$0.93	$ 1.00	$ 1.01	$ 1.04	$ 1.07	15.3 %
Source of investment						
Passengers	52.0%	50.6%	50.5%	50.1%	50.0%	(3.8)%
Operating	3.9%	2.3%	2.2%	2.1%	2.0%	(48.7)%
Reserves	1.5%	2.6%	1.2%	1.2%	1.1%	(26.0)%
	57.4%	55.6%	53.9%	53.4%	53.1%	(7.5)%
Provincial gas tax	7.0%	7.4%	9.6%	9.8%	9.8%	39.9 %
City of London	35.6%	37.0%	36.6%	36.8%	37.1%	4.2 %
	100.0%	100.0%	100.0%	100.0%	100.0%	0.0 %
Investment by function						
Transportation services	50.3%	52.6%	53.0%	53.2%	53.4%	6.2 %
Fuel	12.1%	12.2%	12.4%	12.6%	12.8%	6.0 %
Vehicle maintenance and servicing	20.0%	20.5%	20.2%	20.2%	20.0%	(0.2)%
Direct on road service	82.4%	85.3%	85.7%	85.9%	86.2%	4.6 %
Facility	5.2%	5.3%	5.2%	5.2%	5.1%	(1.4)%
General and administrative	7.0%	7.0%	6.8%	6.7%	6.5%	(7.0)%
Other -financial	5.4%	2.4%	2.3%	2.2%	2.1%	(60.3)%
	100.0%	100.0%	100.0%	100.0%	100.0%	0.0 %

The starting point for constructing the 2015-2018 operating estimates is the annualized 2014 performance results and trends. A number of key 2014 events and trends have a flow through impact on 2015 expectations specifically as well as the overall projections for 2015-2018. The events and trends include:

- the annualized impact of the 2014 service plan for conventional transit services;
- the net projected loss of Citipass ridership and revenue associated with the change in how the transportation benefit under the Ontario Work program is provided. The change occurred in late 2014 and will result in an estimated annual net loss of ridership of 1.3 million rides in 2015 and related revenue of $1.6 million;
- significant decline in fuel prices over the last half of 2014 with the lower prices continuing into the early part of 2015. The lower prices impact the base price to which an inflationary factor is applied for the period 2015-2018; and

- restructuring of reserve and reserve funds in 2014 given the net favourable operating performance and the restructuring of the non-insured funding arrangement for identified employment benefit programs funded under an administrative service agreement. The restructuring resulted in the opportunity to level such investment for 2015-2018.

The flow-through impacts of the above events are reflected in the provisional estimates and expectations for 2015-2018. Of note for 2015, the events are projected to require the one time transfer of $0.850 million in funding from the General Operating Reserve to balance the 2015 budget. Over the period 2016–2018, the one-time funding will be made up through cost containment initiatives and net other investment from passengers, provincial gas tax and the City of London.

Overall Expenditure Investment

As indicated, overall expenditure investment is expected to increase over the period by 12.6% or $7.884 million (from $62.405 million to $70.289 million).

The major factors impacting the net increase in expenditure investment include:

- service growth;
- inflation, primarily personnel, energy prices and insurance;
- net reduction in financial expenditure investment primarily related to the 2014 restructuring of reserves and reserve funds; and
- expenditure control program supported by an environment of continuous improvement which ensures doing the right things at the right time in the most efficient and effective manner.

The following table provides a summary of the expenditure investment by object of expenditure. On balance the make-up of expenditure investment, by object of expenditure will for the most part be consistent year over year with a gradual change in the make up being directly related to the significant investment in service growth which directly impacts such costs as personnel, vehicle maintenance and servicing and fuel.

Objects of Operating Expenditure Investment - Conventional Transit - 2015-2018

Description	Provisional Estimates			
	2015	2016	2017	2018
Personnel	67.5%	67.5%	67.6%	67.6%
Materials, Supplies and Services				
Fuel	12.2%	12.4%	12.6%	12.8%
Vehicle maintenance parts, services and supplies	6.8%	6.8%	6.8%	6.8%
Facility utilities, taxes, services and supplies	4.3%	4.3%	4.2%	4.2%
Insurance	2.7%	2.8%	2.8%	2.7%
Other - financial	2.4%	2.3%	2.2%	2.1%
Technology, communications services and supplies	0.9%	0.9%	0.9%	0.8%
Fare product, sales, services and processing cost	0.9%	0.9%	0.8%	0.8%
All other material cost	2.2%	2.1%	2.1%	2.0%
	100.0%	100.0%	100.0%	100.0%

Service Growth Investment

The Business Plan, through its strategic outcomes, identifies a number of key themes supporting continued growth and development of the business of public transit. One such theme is providing a high quality, economically sustainable service; a service that is responsive and affordable. This includes, over the planning period, a focus on ridership retention by way of addressing in a priority manner the current service deficit and related service quality issues, while setting the stage for transitioning to the rapid transit strategy, early in the next planning period. The secondary emphasis is on ridership growth.

Accordingly in each year of the period 2015-2018, on an annualized basis, 17,700 new revenue service hours are scheduled to be added to the system. The new growth revenue service hours are critical to the retention and growth of ridership and to better position the system to transition to a rapid transit strategy.

The need for the growth in revenue service hours is highlighted by:

- the current estimated 200,000 service hour deficit, noting the hours are based upon the nature and extent of service requests and known service deficiencies;
- the nature and extent of service quality issues evidenced by the continued high number of complaints respecting schedule adherence, missed passenger (full load) and overcrowding which total 3.9 complaints per 100,000 rides or approximately 950 complaints per year; and
- ridership growth outstripping service growth over the past four years.

The new revenue service hours will be implemented in a priority manner, consistent with the ongoing service assessment and recommendations set out in the Route Structure and Service Review.

The addition of the new growth revenue service hours impacts the level of investment in direct on-road service. Over the period direct on road service expenditure investment is targeted to grow from 82.4% of total expenditure to 86.2%, representing an increase of approximately 5%. Direct on road service expenditure includes the following major functions (or area of activity):

- transportation services re: - scheduling, dispatch, inspection and operations;
- vehicle maintenance and servicing; and
- fuel

The added hours will require the hiring of an estimated 46 employees (44 Operators and 2 maintenance staff). The additional positions account for a significant portion of the increase in personnel cost investment over the term.

Performance objectives (indicators) assessing the effectiveness and efficiency of the service hour investment over the term are set out in the following table.

Selected Performance Indicators - Revenue Service Hours - Conventional Transit 2015-2018

Description	Provisional Estimates			
	2015	2016	2017	2018
Rides per capita	60.1	60.7	61.3	61.9
Rides per revenue service hour	39.1	38.6	38.3	38.0
Revenue service hours per capita	1.5	1.6	1.6	1.6
Service performance complaints per 100,000 riders	5.3	5.0	4.7	4.5
Percent revenue service hour to payroll service hour	92%	92%	92%	92%

Actual new revenue service hours reflected in the operating estimates total 69,000 hours, which is comprised of 2014 flow through hours, annual service hour additions for 2015, 2016 and 2017 and 25% of the 17,700 annual hours planned for 2018, noting the new service hours are implemented in the fall of each year. The 69,000 actual hours call for an expenditure investment of $4.5 million accounting for a

7.1% increase in operating investment or 57% of the approximate $7.9 million overall expenditure investment increase.

Personnel Investment

Personnel investment accounts on average for approximately 67.5% of overall expenditure investment. In addition to the increased investment associated with service growth, personnel costs are subject to upward pressure given such factors as the rising costs of statutory and Commission-provided employment benefits and compensation expectations. The issues/challenges over the next four years with respect to such costs are similar to those encountered over the last number of business planning periods.

The strategy in dealing with the upward pressure includes a number of key elements, namely:

- considering compensation adjustments that reflect the London market (economy), noting the London market includes both private and public sector employment and the financial capacity of the Commission's economic model, which is largely a user pay system;
- assessing compensation in terms of cost per available productive hour, which accounts for all changes impacting availability of productive hour regardless of their genesis including those defined by work rules and/or legislated requirements;
- continuous improvement in the effective and efficient utilization of LTC's human resources, at all levels of the organization, with the focus of having the right people doing the right things, the right way, at the right time and consistent with the strategic direction of the business; and
- assessing and implementing cost containment initiatives associated with personnel costs particularly in the area of employment benefits, this includes continued focus on the development and delivery of a progressive disability and attendance management program.

Set out below is a number of selected performance indicators respecting personnel costs that will serve as the basis for performance management. The indicators provided are at a summary level, noting ongoing performance management breaks out the performance indicators in greater detail.

Selected Performance Indicators - Personnel Cost - Conventional Transit 2015-2018

	Provisional Estimates			
Description	2015	2016	2017	2018
Average days lost -illness and disability	7.8	7.8	7.8	7.8
Percent available work hours of total payroll hours	86.2%	86.2%	86.2%	86.2%
Total personnel cost per revnue service hour	$ 71.19	$ 72.23	$ 73.37	$ 74.32

Fuel Investment

Fuel costs account on average for 12.5% of operating expenditure investment requirements. Beyond the increased consumption associated with service growth, fuel costs are targeted to increase on average by 3.2% per year, which is based on the average expected change in the transportation consumer price index year over year. The price increase will, by the end of the period, account for an approximate $1.6 million expenditure increase.

Effective 2015, fuel costs will be based upon a standard pricing model (average price paid for previous 12 months adjusted for change in the transportation consumer price index) for the recording/reporting of fuel expenditure on a monthly basis. Any net annual favourable or unfavourable price performance impact will be applied to or funded from the energy management reserve. The reserve will be more active in absorbing price variances associated with fuel price volatility, mitigating the need for adjustment to the current year's financial plan. Discussion on the status of the energy management reserve is set out in Appendix A.

Key performance indicators (targets) associated with fuel expenditure over the term are:

- average 19.87 kilometers per revenue service hour
- 1.58 kilometers per litre of fuel

The targets are influenced by the efficiency of the schedules, operating environment and vehicle maintenance and servicing programs.

Vehicle Maintenance and Servicing Investment

Vehicle maintenance and servicing costs (labour and material costs) on average account for 20% of total operating expenditure investment. Vehicle maintenance and servicing costs in real dollars are projected to increase by 11% (versus 2014), with the increase being split with 50% relating to the addition of service hours and associated fleet expansion and a net 50% related to the nature and extent of maintenance requirements and inflation. The following table provides a summary of vehicle maintenance and servicing operating expenditure investment over the next four year period as well as a number of key performance indicators.

Vehicle Maintenance and Servicing Operating Expenditure Investment - 2015-2018

Description	Provisional Estimates			
	2015	2016	2017	2018
Expenditure investment, excluding fuel (*) (millions)	$ 12.675	$ 13.126	$ 13.620	$ 14.029
Fleet size at December 31	205	208	212	216
Average vehicle maint/service cost /revenue service hour	$ 21.60	$ 21.65	$ 21.89	$ 22.24
Average vehicle maint/service cost/vehicle (millions)	$ 0.062	$ 0.063	$ 0.064	$ 0.065
Average fleet age	6.9	6.9	6.9	6.9
Number of buses per skilled trade - fleet maintenance	3.8	3.9	3.9	3.9
Number of buses per general labour - fleet maintenance	6.6	6.5	6.6	6.8

(*) allocated on average 66% personnel cost and 34% materials, supplies and services, excluding fuel

The Commission's Asset Management Plan provides in greater detail discussion on the objectives for fleet (vehicle) maintenance and servicing. A performance review of fleet operations was completed in early 2014 consistent with the strategy of "continuous improvement". The review resulted in a number of recommendations calling for the re-focus and re-investment in preventative, predictive maintenance, clarifying reasonable expectancies (for work completion), and improvements to work planning. The re-focus and re-investment is a contributing factor for targeting vehicle maintenance costs, outside of service growth to increase at less than the rate of inflation.

Facility Investment

Facility investment accounts for an average 5.2% of overall operating expenditure investment each year over the period 2015-2018, averaging between $3.3 million and $3.6 million in expenditure per year.

Facility investment for the most part is targeted to increase at or less than the current rate of inflation with the exception being utility prices. Utility prices are expected to rise at a rate higher than inflation, particularly hydro and water rates. The make-up of the facility costs is set out in the following table.

Summary of Facility Operating Expenditure Investment 2015-2018				
	Provisional Estimates			
Description	2015	2016	2017	2018
Facility costs (millions)				
Personnel costs (a)	$ 0.595	$ 0.623	$ 0.641	$ 0.660
Material costs -supply and service cost	2.667	2.756	2.848	2.944
	$ 3.262	$ 3.379	$ 3.489	$ 3.603
Percent of total operating investment	5.3%	5.2%	5.2%	5.1%
Percent make up of total facility cost				
Personnel costs	18.2%	18.4%	18.4%	18.3%
Information office	1.2%	1.2%	1.2%	1.1%
Maintenance of stops	7.3%	7.1%	7.0%	6.8%
Utilities (electricity, natural gas, water)	35.5%	36.0%	36.6%	37.2%
Municipal taxes	21.4%	21.3%	21.2%	21.2%
Contracted services (b)	10.2%	10.0%	9.8%	9.5%
Maintenance supplies and services (c)	10.7%	10.5%	10.2%	10.0%
Expenditure offset - sale of hydro roof top panels	(4.6)%	(4.4)%	(4.3)%	(4.2)%
	100.0%	100.0%	100.0%	100.0%

Notes
(a) personnel cost - equivalent of 7 full time positions, including 4 plant engineers
(b) contracted services includes janitorial, security, garbage collection, summer/winter maintenance
(c) minor repair and upkeep to facility, grounds, equipment including building systems

As indicated, the most significant portion of the costs relate to utilities (averaging 36.5% of facility costs) and municipal taxes (averaging 21% of facility costs) at London Transit's two owned facilities, located on Wonderland Road and Highbury Avenue N. The two facilities have capacity for storage and maintenance of the equivalent of 287 – 40' buses having a total combined square footage of 385,100 square feet.

Much has been done in terms of energy (utility) conservation including occupancy sensitive use of heat, light and water; installation of in-ground rain water storage tanks at the Wonderland Road facility to provide the ability to use the rain water to wash buses, installation of high speed doors limiting the amount of energy loss associated with the movement of buses in and out of the facilities, and upgrade of 50 year old HVAC system and air make up units at 450 Highbury Avenue facility. Notwithstanding these actions, the nature of the transit operations and the size/design of the facilities have a significant impact on utility consumption. In terms of size and design the Wonderland Rd. facility is more efficient given it is more compact and built specific to support transit operations while the 450 Highbury Ave facility is larger and for the most part is a converted manufacturing facility.

As an offset to the facility operating costs at the Wonderland Road facility, roof top solar panels were installed, creating a revenue source used to offset operating cost of the facility. On average, $150,000 per year is generated from the sale of electricity generated from the solar panels.

Insurance Investment

Insurance costs account for about 2.7% of total operating investment requirements, with annual costs growing from $1.7 million to $1.8 million by the end of 2018. Premium costs are subject to the dictates of the insurance market as well as London Transit's performance, with the latter currently experiencing an unfavourable trend. Premiums are projected to increase on average 6% per year recognizing certain of the increase includes consideration of the increase in value of the property being insured (primarily buses).

Deductible costs, which are funded from the public liability reserve fund, have been flat lined at $0.600 million per year. The flat lining underscores an increased commitment to accident/incident prevention over the planning period. It also recognizes the ongoing expected favourable results associated with successfully lobbying to exclude transit from Ontario's no fault insurance regime to one predicated on the principle no crash no cash. The exemption is estimated to have reduced no fault claims (accident benefits) deductible exposure by $200,000 to $300,000 per year.

Insurance - Operating Expenditure Investment - 2015-2018

Description	2015	2016	2017	2018
Program (millions)				
Property - buildings/equipment	$ 0.136	$ 0.153	$ 0.159	$ 0.165
Public liability	0.888	0.994	1.034	1.075
Brokers fees	0.077	0.079	0.082	0.085
Deductible costs	0.600	0.600	0.600	0.600
	$ 1.700	$ 1.825	$ 1.874	$ 1.925
Selected performance indicators				
Preventable accidents per 1 million km	13.3	12.6	12.0	11.3
Passenger fell accidents per 100K riders	0.2	0.2	0.2	0.2

General and Administrative Investment

Over the period general and administrative expenditure are targeted to increase by a net 4.5% growing from $4.379 million in 2014 to $4.576 million in 2018. The net increase is well below the inflation rate over the period estimated at 9.7%. General and administrative investment currently accounts for 7% of total expenditure investment. By 2018, the investment share is projected to decline to 6.5%.

The current 7% share of total expenditure investment for general and administrative investment is on average 70% of London's Ontario peer group average, which as with other areas of investment reflects the traditionally lower cost structure associated with Commission operations as well as how such investment is provided.

General and administrative investment covers:

- financial (accounting, payroll, budget, purchasing, and performance management)
- fare administration
- corporate communication
- technology (information) management
- human resources
- short, medium and long-term service planning
- customer service
- legal
- Commission and general management

Many of the items of expenditure associated with the general and administrative investment will be:

- re-purposed based upon improvements to processes and procedures (through internal process review management program);
- impacted by enhanced use of technology with the focus on system and performance management;
- impacted by the move to smart card system (impacting fare administration investment); and
- growth and development of corporate communication protocol

A significant portion of the general and administrative investment pertains to work that employs external services. Examples of processes and functions that are currently outsourced in whole or in part include payroll production, fare media sales, cash fare processing, a variety of health and safety services, technology support, pre-screening/assessment of job applications and legal services.

The following table provides a summary of general and administrative operating expenditure investment over the next four year period.

General and Administrative Operating Expenditure Investment - 2015-2018

Description	Provisional Estimates			
	2015	2016	2017	2018
Expenditure investment (*) (millions)	$ 4.355	$ 4.414	$ 4.495	$ 4.576
Average cost per revenue service hour	$ 7.42	$ 7.28	$ 7.22	$ 7.26

(*) allocated on average 66% personnel cost and 34% materials, supplies and services

Overall Expenditure Investment

The total conventional operating investment, expressed in terms of cost per trip over the period is projected to range from $2.70 to $2.89. The cost per trip is expected to continue to be well below the average cost per trip in comparison to London's Ontario peer group average. For 2013, the average cost per trip for the peer group, including London was $4.59. London's cost per trip was $2.49, which was the lowest of the 16 systems in the group. The lower cost is a reflection of a number of factors including the service delivery model (the Commission structure on balance has shown to be a more cost effective delivery model), organizational culture and the cost structure that has developed over time. The Ontario peer group is comprised of the sixteen transit systems, with bus only operations having a population of greater than 100,000.

Source of Operating Investment

As indicated in the following table, ridership and related fares (transportation revenue), operating revenues, and use of reserves will continue to fund the majority of the operating investment albeit the amount will decline. Over the period, percent funding will decline from approximately 56% to 53% of operating expenditure investment. The decline, primarily influenced by the loss of 1.3 million rides relating to the change in the manner in which the transportation benefit under Ontario Works is allocated, will be offset by increased investment (funding) from provincial gas tax and the City of London.

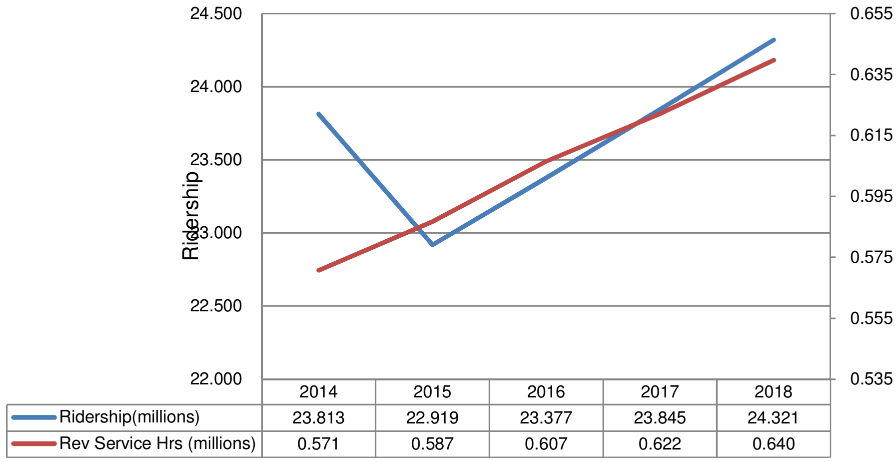
Source of Operating Investment Funding - Conventional Transit Services

	2014	2015	2016	2017	2018
Internal Investment					
Transportation revenue	52.0%	50.6%	50.5%	50.1%	50.0%
Operating revenues	3.9%	2.3%	2.2%	2.1%	2.0%
Funding from reserves	1.5%	2.6%	1.2%	1.2%	1.1%
	57.4%	55.6%	53.9%	53.4%	53.1%
Public Investment					
Provincial gas tax	7.0%	7.4%	9.6%	9.8%	9.8%
City of London	35.6%	37.0%	36.6%	36.8%	37.1%
	42.6%	44.4%	46.1%	46.6%	46.9%
	100.0%	100.0%	100.0%	100.0%	100.0%

Transportation Revenue - Ridership and Fares

As previously referenced, ridership over the period is targeted to increase a net 1.4% or by 0.342 million rides, which takes into account the projected loss of 1.2 million rides relating to change in the manner in which the transportation benefit under the Ontario Works Program is provided. Excluding the loss of such ridership, overall ridership increases by 1.5 million trips. Ridership and related service hour trends over the period are on depicted on the following graph.

Conventional Service Ridership and Service Hours



The percent funding generated by ridership and fares is a factor of ridership and fares received, with the latter being based upon the fare media tendered. The following table sets out the make-up of ridership by fare media type. The mix, in concert with ridership levels, produces an average fare that will increase over the period from $1.36 in 2014 to $1.45 by the end of 2018 for an increase of 6%.

Conventional Transit - Average Fare and Ridership Make up by Fare

Description	2014	2015	2016	2017	2018
Average fare	$ 1.362	$ 1.366	$ 1.400	$ 1.419	$ 1.445
Ridership make up by fare media					
Cash	6.6%	6.7%	6.6%	6.5%	6.3%
Ticket	22.2%	23.3%	23.4%	23.6%	23.7%
Monthly passes	24.2%	21.8%	22.7%	23.6%	24.6%
Post secondary -tuition based pass	47.0%	48.2%	47.2%	46.3%	45.4%
	100.0%	100.0%	100.0%	100.0%	100.0%

The Commission's fare pricing and media strategy has the following objectives:

- meet established transportation revenue requirements;
- maintain and build ridership, mitigating the traditional ridership loss associated with fare increases; and
- ensure that fare administration is both effective and efficient, balancing fare administration cost, fare validation requirements and customer convenience.

The fare pricing and media strategy reflects the following principles:

- customers want a service that provides direct travel that is convenient, reliable, safe, and affordable;
- customers are sensitive to savings;
- fare pricing and media options can influence service use;
- customers will pay for service quality;
- that it is beyond the mandate and expertise of London Transit to effectively resolve broader social and community issues related to income distribution; and

- that new or reduced concession fares, intent to resolve broader social and community issues relating to income distribution be considered if arrangements are made to subsidize London Transit for the associated loss of revenue – noting such subsidy is not a public transit subsidy but a subsidy supporting a defined group's use of the service.

The Commission's fare pricing and media strategy focuses on the conventional transit rider and market. The Commission has long adopted the principle of fare equity between conventional and specialized transit services notwithstanding the uniquely different service and cost structures of the two systems. Fare equity simply states that all standard fare pricing and media options available for use on conventional transit will equally apply to specialized transit. The issue of fare equity is now a regulatory requirement under Accessibility for Ontarians with Disability Act.

The current fare structure is summarized in the chart below. The fare pricing and media policy has played a critical role in meeting both revenue and ridership objectives. The overall success of the fare pricing and media strategy over time was achieved by:

- avoiding the traditional "across the board" fare increases;
- maximizing the time period between fare adjustments;
- alternating the timing of fare adjustments for the respective media;
- linking price adjustments to service quality and quantity improvements or events outside of the Commission's control; and
- effective marketing of changes, e.g. use of key themes such as "deep discount fares" and/or "value and choice".

London Transit Commission - Fare Media and Pricing Programs

Description	Rates	Basis	Revenue Rides	Price per Trip
Adult, Student, Senior	$ 2.75	per trip	1	$ 2.75
Child (5 yrs. - Grade 6)	$ 1.35	per trip	1	$ 1.35
Tickets				
Adult	5 for $9.50	per strip	1	$ 1.90
Student (Gr. 7 to Gr. 12)	5 for $7.50	per strip	1	$ 1.50
Seniors (65 yrs. and older)	5 for $7.15	per strip	1	$ 1.43
Seniors - equalization grant City 25%				$ 0.47
Child (5 yrs. - Grade 6)	5 for $5.50	per strip	1	$ 1.10
Passes - non transferrable				
Citipass (unlimited)	$ 81.00	per month	54	$ 1.50
Weekday (Mon-Fri only)	$ 69.00	per month	46	$ 1.50
Seniors (65 yrs. and older)	$ 57.50	per month	54	$ 1.06
Seniors - equalization grant City- 25%				$ 0.44
Post-secondary	$ 70.00	per month	54	$ 1.30
CNIB - equalization grant -City 100%	$ 34.20	per month	18	$ 1.90
Student Summer Pass	$ 81.00	two month	108	$ 0.75
Park and Ride Pass	$ 50.00	per month	54	$ 0.93
Tuition Based Pass (non-transferrable)				
Western - Undergrads	$ 204.90	annual	230	$ 0.89
Fanshawe College	$ 204.90	annual	230	$ 0.89
Western - SOGS	$ 204.90	annual	230	$ 0.89
Other				
CNIB registration card	$ 10.00			
Photo identification card - passes	$ 3.00			

Effective dates of Fare Media rates
December 1, 2008 for cash, ticket and monthly passes
September 2014 for tuition based passes

For the purpose of constructing the Financial Plan 2015-2018 fare pricing was predicated upon ridership revenue funding, as a minimum 50% of total operating expenditure investment in any one year. Fare pricing and media options that will apply on a going forward basis are subject to a detailed business case assessment. The timing of the assessment will be subject to a number of considerations including:

- the success of efforts to improve service quality and make reasonable progress in addressing the service deficit;
- addressing (reconciling) the issue of equity between fare programs; and
- the implementation of the smart card system.

In terms of the latter, the planned introduction of the smart card system will have a significant impact on revenue determination, revenue ridership, and fare administration costs. The critical areas of change include:

- smart card monthly passes will be transferrable (limited by time), noting the transferability will have an impact on associated revenue estimated at approximately $40,000 per year. The change would also eliminate the need for photo identification associated with current monthly pass program and related annual revenues of $35,000;
- post-secondary student identification cards relating to the tuition-based pass programs being integrated with the Smart Card system. (tuition-based pass programs will continue to be non-transferrable);
- all existing ticket fare programs being replicated on Smart Cards as stored values;
- smart card (stored valued) will be allowed to go into a maximum negative balance of $2, when same is tendered and is short the fare requirement. The negative balance would be paid back when the value on the card is replenished;
- charging a nominal fee for the smart card e.g. $3 which is similar in nature to the current photo identification card associated with the monthly pass program. Charging a fee recognizes the cost of producing and distributing smart card media but also that cards will be able to carry a negative balance; and
- the current 90 minute transfer will be automatically loaded on the smart card at time of fare payment. The 90 minute transfer will apply to all smart card media. Should the smart card be used within the 90 minute window, no fare will be deducted from the smart card or revenue ride recorded. The 90 minute transfer will be validated by the system versus the operator. This eliminates fare disputes associated with transfers and provides for a more accurate accounting of revenue rides. Further, it underscores that the 90 minute transfer is not linked to the service schedule or service performance, but rather is simply time based.

In terms of fare program administration, the smart card system is expected to contract or level fare administration costs given:

- smart cards are reloadable, limiting the need to order paper tickets and monthly passes, inventorying and processing same;
- setting minimum purchase levels associated with accepting debit and credit cards which while being customer friendly, will limit the exposure to related administrative fees; and
- the smart card distribution and revaluing will occur at LTC locations and selected number of third party locations (estimated at 20 to 30). The internet can also be used to revalue smart cards. With the reloadable/revalued nature of the smart card, online revaluing, fewer renewal locations (noting currently LTC has a network of some 275 ticket agents) will be required having a direct impact on fare administration costs.

One of the most important benefits associated with the introduction of the smart card system is the clarity the system brings with respect to defining “revenue rides” vs. “boardings” noting the former serves as the basis for determining the amount of provincial gas tax received each year. It has been a long held position of the Administration that revenue rides associated with the use of the monthly pass and tuition based pass programs have been understated given same are based upon statistical assessment versus confirmed count. Based upon current allocations, each revenue ride recorded provides an estimated $0.38 in gas tax funding.

Progressive, phased implementation of the smart card system is expected to commence mid-2015. Once successfully employed the process and timeframe for phasing out the use/acceptance of the existing fare media i.e. existing ticket and monthly pass program will follow.

Reserves and Reserve Funds

A key element of the Commission's financial plan pertains to the establishment and utilization of reserves and reserve funds. Six reserves and/or reserve funds are maintained. A summary of the Commission's reserves and reserve funds is set out in Appendix A.

Specific to supporting planned operating investment, the Health Care Management Reserve and Public Liability Reserve provide funding support averaging approximately 1.2% of annual expenditure each year (2015-2018). For 2015, the supporting investment equates to 2.6% recognizing, as previously noted, that the flow-through impact of certain 2014 events will require the one time transfer of $0.850 million in funding from the General Operating Reserve to balance the 2015 budget. Over the period 2016–2018, the one-time funding will be made up through cost containment initiatives and investment from passengers, provincial gas tax and the City of London.

Provincial Gas Tax

Over the period 2015-2018, reliance on Provincial Gas Tax (PGT) to support operating investment relating to conventional transit service will grow from approximately 7.0% in 2014 to 9.8% by the end of 2018.

Provincial Gas Tax Funding - Conventional Transit Services - 2015-2018

Description	Actual 2014	Provisional Estimates 2015	2016	2017	2018	Percent Change
Amount (millions)	$4.364	$ 4.600	$ 6.193	$ 6.630	$ 6.881	57.7%
Percent investment share	7.0%	7.4%	9.6%	9.8%	9.8%	39.9 %

The increased reliance on PGT is consistent with the directional shift in use of PGT from an average 70% capital 30% operating to a 65% operating and 35% capital investment split. It also recognizes that the critical need for service growth cannot be solely supported by riders and the City of London, with funding from the latter being subject to constraint.

Operating Revenues

As indicated in the following table, operating revenues over the period 2015-2018 will provide on average between 2% and 2.3% of conventional service operating investment. Operating revenues are considered static in nature. Advertising revenues are governed by contract, the particulars of which are subject to a very volatile industry and market. The investment earnings largely apply to reserve funds.

Make up - Operating Revenue Investment 2015-2018 - Conventional Transit

	Actual	Provisional Estimates			
	2014	2015	2016	2017	2018
Operating revenues (millions)	$ 1.474	$ 1.426	$ 1.426	$ 1.406	$ 1.406
Make up					
Advertising	41.3%	40.6%	40.6%	41.1%	41.1%
Investment return	51.6%	52.0%	52.0%	51.4%	51.4%
Other	7.1%	7.4%	7.4%	7.5%	7.5%
	100.0%	100.0%	100.0%	100.0%	100.0%
Percent of operating expenditure investment	2.4%	2.3%	2.2%	2.1%	2.0%

City of London Investment

Consistent with Commission direction, City investment, expressed as a percentage of total investment support, is migrating upwards in what is considered a balanced and sustainable manner. The increase in actual dollars over the period of approximately $3.9 million equates to less than a 1% increase in the mil rate (property tax rate).

City of London Operating Investment - Conventional Transit Services - 2015-2018

	Actual	Provisional Estimates				Percent
Description	2014	2015	2016	2017	2018	Change
City investment (millions)	$ 22.234	$ 22.881	$ 23.705	$ 24.825	$ 26.076	17.3%
Investment/ride	$ 0.93	$ 1.00	$ 1.01	$ 1.04	$ 1.07	15.3%
Investment/rev. service hr.	$ 38.96	$ 39.00	$ 39.10	$ 39.91	$ 40.76	4.6%
Percent investment share	35.6%	37.0%	36.6%	36.8%	37.1%	4.2%

The average 37% City investment share is still well below the Ontario peer group average. For 2013, the average City investment share for the Ontario peer group, which includes London Transit was 49%. The peer group average includes the 16 Ontario transit systems with populations of greater than 100,000 that are bus only operations. London is ranked 7th in terms of population and 2nd in terms of ridership of the peer group.

Operating Program – Specialized Transit

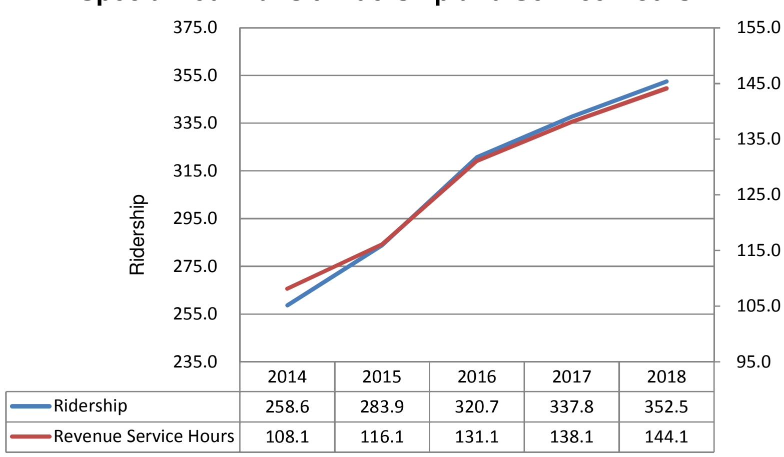
2015-2018 operating financial plan and performance expectations for specialized transit is set out in the following table.

Specialized Transit Provisional Estimates 2015-2018

Description	Actual 2014	Provisional Estimates 2015	2016	2017	2018	Percent Change
Service performance indicators						
Ridership (millions)	0.259	0.284	0.321	0.338	0.353	36.3 %
Revenue service hours (millions)	0.108	0.116	0.131	0.138	0.144	33.2 %
Rides per capita	0.7	0.7	0.8	0.9	0.9	28.2 %
Rides per revenue service hour	2.4	2.4	2.4	2.4	2.4	1.9 %
Revenue service hours per capita	0.3	0.3	0.3	0.4	0.4	22.3 %
Financial performance indicators						
Total operating investment (millions)	$ 5.352	$ 5.823	$ 6.549	$ 7.002	$ 7.427	38.8 %
Total operating cost per revenue service hour	$ 49.49	$ 50.15	$ 49.95	$ 50.70	$ 51.54	4.1 %
Total operating cost per ride	$ 20.70	$ 20.51	$ 20.42	$ 20.73	$ 21.07	1.8 %
City investment per ride	$ 14.93	$ 14.66	$ 14.71	$ 14.71	$ 14.77	(1.0)%
Source of investment						
Passengers, operating and reserves	8.8%	8.8%	8.9%	8.8%	8.7%	(1.3)%
Provincial gas tax	19.1%	19.7%	19.7%	20.2%	21.2%	11.0 %
City of London	72.1%	71.5%	71.4%	71.0%	70.1%	(2.7)%
	100.0%	100.0%	100.0%	100.0%	100.0%	0.0 %
Investment by function						
Transportation services	99.5%	99.5%	99.5%	99.5%	99.5%	0.1 %
General and administrative	0.5%	0.5%	0.5%	0.5%	0.5%	(17.2)%
	100.0%	100.0%	100.0%	100.0%	100.0%	0.0 %

As indicated, ridership and service hours are targeted to increase by 36% and 33% respectively. The increases are influenced largely by the legislative requirement to expand service eligibility to individuals with temporary disabilities effective January 1, 2017. The expanded eligibility criteria will add an estimated 1,500 registrants to the system. The additional hours are also required to address service quality issues evidenced by the level of non-accommodated trips on the service. For 2014, there were 15,000 non-accommodated trips representing 5% of all bookings. Ridership and service growth trends over the period are depicted on the following chart.

Specialized Transit Ridership and Service Hours



The service hour growth is the major reason overall operating investment is targeted to increase by 39% or by $2 million. The increase in service hours accounts for approximately $1.4 million of the $2 million increase. Inflation accounts for the balance.

The service is expected to face significant demand over the next four year planning period given current service quality issues, demographic changes and the expansion of eligibility criteria to include individuals with temporary disabilities. A number of linked initiatives will be undertaken in order to effectively address and/or mitigate the growth challenges. The initiatives include:

- investment in new system technology, to improve scheduling efficiency and maximize the use of larger vehicles. The upgraded technology will also facilitate improved system performance management. The upgraded technology is scheduled for implementation in 2015; and
- the assessment and implementation of various forms of service integration between the accessible conventional and specialized transit services. Integrating the services will be critical given the expected growth in demand for service and significant cost differential per trip on the two services. The cost per conventional trip is approximately 14% of that for specialized transit e.g. cost per trip for 2015 on conventional transit is $2.70 while on specialized transit the cost per trip is $20.51.

Operating Expenditure Investment

The major object of expenditure investment is the contract service delivery cost, which in 2015 accounts for 84% of total expenditure investment increasing to approximately 87% of total expenditure investment by 2018. The terms and conditions of service delivery are governed by contracts with primary and secondary service providers, including the setting of delivery rates and changes to same.

Objects of Expenditure - Specialized Transit - 2015-2018

	Provisional Estimates			
Description	2015	2016	2017	2018
Personnel	13.9%	12.6%	12.1%	11.7%
Materials, supplies and services				
Contract service delivery	84.0%	85.5%	86.1%	86.6%
Technology, communications	1.1%	1.0%	0.9%	0.9%
All other material cost	1.0%	0.9%	0.9%	0.8%
	100.0%	100.0%	100.0%	100.0%

The balance of operating expenditure investment, averaging approximately 15% on an annual basis, pertains to the operation of the brokerage, which is responsible for managing the service delivery contract, call taking, service scheduling, dispatching and overall management of the service. Such costs are expected to increase over the period somewhat less than the rate of inflation noting, as with conventional transit, such expenditures are subject to the same rigor of continuous improvement and repurposing.

Overall, 99.5% of total operating investment in specialized services is defined as on-road service. The system is managed as a brokerage with actual service delivery (drivers and vehicles) being provided by contract to a third party.

The total specialized transit operating investment, expressed in terms of cost per trip over the period is projected to range from $20.51 to $21.07. The cost per trip is expected to continue to be well below the Ontario specialized transit system average. For 2013, the average cost per trip was $34.57, London's was $18.57. As with conventional transit the lower cost results from a number of factors including the service (Commission structure) model, culture and developed cost structure.

Sources of Investment

Transportation Revenue - Ridership and Fares

Ridership and fares support just under 9% of the total operating investment. The 9% contribution rate is reflective of the nature of specialized transit services and is consistent with specialized transit systems throughout the Province. Fare pricing and media options are identical to those for conventional transit. A make-up of system ridership by fare media and average fare is set out in the following table.

Specialized Transit - Average Fare and Ridership Make up by Fare

Description	2014	2015	2016	2017	2018
Average fare	$ 1.818	$ 1.803	$ 1.817	$ 1.831	$ 1.830
Ridership make up by fare media					
Cash	2.0%	2.0%	2.0%	2.0%	2.0%
Ticket	62.0%	63.0%	63.0%	63.0%	63.0%
Monthly passes	35.0%	34.0%	34.0%	34.0%	34.0%
Post secondary -tuition based pass	1.0%	1.0%	1.0%	1.0%	1.0%
	100.0%	100.0%	100.0%	100.0%	100.0%

Provincial Gas Tax Investment

As noted below, Provincial gas tax investment share is targeted to grow substantially over the period. The extent of the increase is reflective of the shift in the use provincial gas tax to support operating investment versus capital as well as to mitigate the increase in City of London investment. The provincial investment share for London is above the Ontario specialized system average, which for 2013 was 2.5% while for London it was 14%. The investment level is based upon strategic decisions made by the individual transit systems respecting the use of provincial gas tax.

Provincial Gas Tax Funding - Specialized Transit Services - 2015-2018

Description	Actual 2014	Provisional Estimates 2015	2016	2017	2018	Percent Change
Amount (millions)	$ 1.020	$ 1.150	$ 1.250	$ 1.415	$ 1.574	54.3 %
Percent investment share	19.1%	19.7%	19.7%	20.2%	21.2%	0.0%

City of London Investment

In terms of actual dollars, City investment is projected to increase by $1.3 million representing a 0.25% increase in the mil (property) rate. With increased reliance on provincial gas tax funding, City of London investment share, expressed as percentage of total operating investment is targeted to decline. The City's investment share is well below the Ontario average for specialized transit systems, for 2013 Ontario specialized transit systems reported a municipal investment share of 90% of operating investment. For 2013 the investment share for London was 77%. A summary analysis of the City's investment share is set out in the following table.

City of London Operating Investment Specialized Transit Services -2015-2018

Description	Actual 2014	Provisional Estimates 2015	2016	2017	2018	Percent Change
City investment (millions)	$ 3.862	$ 4.161	$ 4.716	$ 4.968	$ 5.208	34.8 %
Investment /ride	$ 14.93	$ 14.66	$ 14.71	$ 14.71	$ 14.77	(1.0)%
Investment /rev. service hr.	$ 35.71	$ 35.84	$ 35.97	$ 35.97	$ 36.14	1.2 %
Percent investment share	72.2%	71.5%	72.0%	71.0%	70.1%	(2.9)%

Capital Investment Program

Over the period 2015-2018, cumulative capital investment needs totals $45.077 million. The investment represents new capital investment over the period and excludes the impact of carry forward projects from 2014. The two most significant items influencing the extent of the required investment, in comparison to previous planning periods are:

- the increase in the number of growth buses to be acquired i.e. previous average approximately three buses per year, noting over the four year period 17 expansion buses are to be purchased; and
- inflation rate, including the impact of the American/Canadian exchange rate, which is expected to remain consistent over the period 2015-2018.

Summary - Capital Investment Program (new programs) 2015 -2018

Description	2015	2016	2017	2018
Capital investment (millions)	$ 10.895	$ 10.444	$ 12.574	$ 11.163
Investment allocation				
life cycle maintenance	70.4%	84.2%	82.5%	80.3%
service/system growth	29.6%	15.8%	17.5%	19.7%
	100.0%	100.0%	100.0%	100.0%
Percent allocation				
fleet	88.3%	88.4%	77.8%	89.5%
facilities	2.8%	2.9%	2.4%	2.7%
technology, equipment, service fleet	9.0%	8.7%	19.8%	7.8%
	100.0%	100.0%	100.0%	100.0%
Source of investment				
City of London	45.8%	51.9%	51.7%	52.1%
Development charges	4.2%	0.0%	0.0%	0.0%
Provincial gas tax	31.0%	28.4%	32.3%	29.9%
Federal gas tax	13.8%	14.4%	11.9%	13.4%
LTC capital program reserve	5.3%	5.3%	4.1%	4.6%
	100.0%	100.0%	100.0%	100.0%
Fleet size	205	211	216	222
Average fleet age	6.9	6.9	6.9	6.8

Note: 2015 capital investment, excludes $4.0 million in 2014 carry forward projects

The $45.007 million in capital investment is split 80% on life cycle maintenance programs and 20% on growth programs.

The significant investment in life cycle maintenance programs is a key initiative under the Business Plan's strategic objective/outcome of *"effective utilization of infrastructure".* The investment, over successive Business Planning periods has led to the elimination of the infrastructure deficit, and an overall positive rating of LTC assets being "very good – fit for the future". The summary assessment by asset category is set out below.

Summary Assessment of Infrastructure at December 31, 2013

Description	Assessment
Facility - 450 Highbury	Very good - fit for the future
Facility - 3508 Wonderland	Very good - fit for the future
Rolling stock	Very good - fit for the future
Shelters, stops and pads	Good - adequate for now
Fare and data collection system	Good - adequate for now
AVL/radio system (smart bus technology)	Very good - fit for the future
Shop equipment and tools	Very good - fit for the future
Smart card system	Very good - fit for the future
All other infrastructure - e.g. service fleet	Very good - fit for the future

As noted "shelters, stops and pads" and the "fare and data collection system" are the only two Commission assets not assessed as being *"very good – fit for the future".* The two assets are assessed as *"good – adequate for now".*

The assessment rating for the Commission's infrastructure is based upon the following key considerations:

- the assessment is in relation to the asset condition supporting meeting and maintaining current service levels;
- the nature and extent of state of good repair infrastructure investment over the past 10 years;
- the nature and extent of operating programs and investment supporting state of good repair e.g. move to pro-active preventative maintenance programs for buses including ancillary systems; and
- the nature and extent of planned infrastructure investment over the 10 year period 2014-2023 focusing on state of good repair investment.

Bus Replacement

Of the $35.798 million in life cycle maintenance investment 82% or $29.360 million is specific to bus replacement. The replacement of buses at 12 years of age, which is considered the economic useful life of the bus has been critical, contributing to:

- the virtual elimination of the number of occurrences and risks of not having a bus available for scheduled service from a high of being short 7-15 buses per day representing approximately 7% to 10% of the daily service requirements;
- a reduction in the number of "in service" interruptions from an average of 1 every 2,200 kilometers to 1 every 5,100 kilometers representing an improvement of 138%;
- 100% of the fleet being accessible effective the fall of 2012;
- reduction in the average fleet age from 12.1 years to 6.8 years for a 46% improvement;
- lower vehicle maintenance and servicing costs, declining from 25% of total operating cost (one facility) to a projected 20% of operating cost (two maintenance facilities). The reduction has resulted in a cumulative operating cost avoidance over the period in excess of $2 million supporting the re-purposing of investment; and
- a reduction in spare fleet supporting capital cost avoidance for four buses (approximately $2.0 million). The spare fleet expressed as a percentage of peak requirements declined from 29.6%, (one maintenance facility) to 25.2% (two maintenance facilities).

In addition to retiring buses at 12 years, the fleet management program has a number of critical goals namely:

- establishing direct bus maintenance and servicing costs, exclusive of fuel at 20% of total operating cost per revenue service hour (based upon operating from two facilities), with an objective of reducing same to 18% over the medium term;
- ensuring compliance with all regulatory requirements pertaining to MTO Safety Inspections, Ontario Highway Traffic Act, Commercial Vehicle Operators Registration, Occupational Health and Safety Act, Ontario's Drive Clean Program and the Accessibility for Ontarians with Disabilities Act;
- establishing and maintaining quality preventative and predictive maintenance programs versus relying on reactionary unscheduled maintenance;
- establishing and maintaining a spare fleet not exceeding 25% of peak fleet requirements, migrating to a 24% spare fleet make up by the end of the business planning period;
- meeting scheduled service requirements 100% of the time;
- continuous improvement in reducing the number of service interruptions relating to fleet issues, through analysis, trending of same and taking corrective and/or preventative measures;
- standardizing fleet and/or fleet components to the extent same is economically viable and logistically feasible;
- acquiring extended warranties (risk transfer) relating to major component parts, technology, etc., which is particularly critical given evolving technology;
- maintain a rebuild program for engines and transmissions that utilize fully insured/warrantied reconditioned engines/transmission (vs. rebuilding same in-house); and
- continuing investment in upgrading and maintenance of shop equipment, tooling, and technology.

Technology

A key theme of the Business Plan supporting continued growth and effective management of the business is the progressive use of existing and new technology. In light of the increased and growing reliance on technology coupled with the rapidly changing methods and approach for providing same, administration has undertaken to complete a comprehensive technology plan which will cover the same horizon as the Business Plan, but also provide some directional guidance for the years beyond 2018.

The Plan will be based on the current structure in place to provide the required support for information systems; two full time employees coupled with a number of support agreements for specific hardware and software components. This approach has worked well in terms of cost effectiveness, however the level of external support may need to be enhanced going forward in order to provide assurance that all systems will continue to operate and be available when required. The Technology Plan is anticipated to be completed mid-2015.

For the period 2015-2018, $1.3 million has been identified for both new and upgraded technology system software and hardware requirements including:

- the ongoing replacement/upgrade of system hardware infrastructure i.e. work stations, servers;
- the replacement (and upgrade) of the call taking, scheduling and dispatch system associated with the specialized transit system; and
- updating of various management information database systems.

The investment of $1.3 million is reflective of one of the key themes of the 2015-2018 Business Plan which is the progressive use of existing and new technologies supporting effective and efficient management and delivery of services.

Passenger Amenities - Stop Upgrades

The 2015-2018 capital budget programs call for a $1.3 million investment in stop upgrades. The largest portion of the investment pertains to the phased replacement of existing shelters, commencing in 2016. The balance of the stop upgrade program deals with the expansion of the passenger shelter program and installation of landing pads. The installation of passenger shelters is undertaken on a priority basis with selection being based upon a warrant system that considers the number of boardings, service frequency and site conditions at the stop location.

Currently there are 2,180 stop locations in the system. The following table sets out a profile of the amenities at the stop locations.

Summary of Passenger Amenities

Amenity	Total	% of Stops
Passenger shelters	406	19%
Benches	301	14%
Accessibility pads	2,009	92%

The large majority of the 406 passenger shelters were supplied under the terms of past shelter advertising contract(s) as replacement or expansion shelters. The shelters reverted to LTC ownership at the expiration of the contract. The current advertising shelter contract does not contain any provision for the supply of new or replacement shelters. The change reflects the constrained and competitive nature of the shelter advertising contract.

Other Life Cycle Maintenance Programs

Other life cycle maintenance programs for 2015-2018 are set out below, noting certain of the identified programs are impacted by legislative requirements (i.e. hands free radio communication) and the implementation of the smart card system (i.e. replacement of the on-board fare collection system):

- Shop and garage equipment – replacement/expansion - $0.2 million
- Fleet radio replacement - $0.6 million
- Fare collection (on board bus) equipment – replacement - $1.5 million
- Service fleet replacement replacement/expansion - $0.2 million

Growth Programs

As previously noted, the Business Plan identifies a number of key areas or themes supporting continued growth and development of the organization and the business of public transit. One of the key areas is providing a high quality economically sustainable service; a service that is responsive and affordable. This includes, over the planning period, a focus on ridership retention by way of addressing in priority manner the current service deficit and related service quality issues, while setting the stage for transition to the rapid transit strategy, early in the next planning period. The secondary emphasis is on ridership growth.

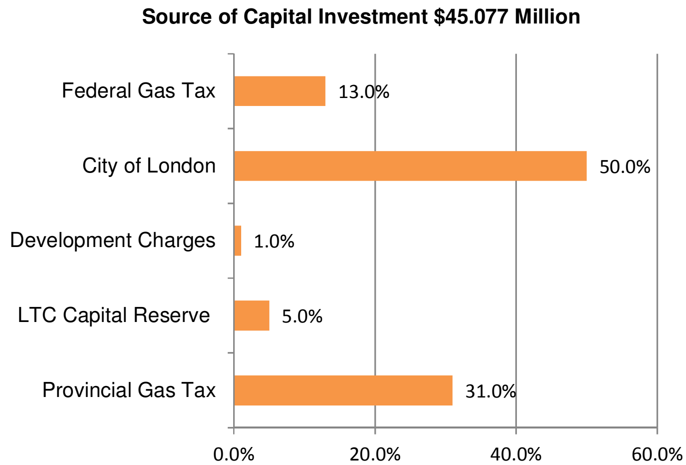
On an annualized basis, operating and capital investment over the four year period call for the acquisition of 17 expansion buses, including allowance for a spare fleet associated with growth buses and the addition of 17,700 new revenue service hours per year. The 17 expansion buses have a capital cost of $9.279 million.

One of the 17 expansion buses and related annual revenue service hours are set for new growth areas (areas not previously served by transit), with the bus purchase being eligible for funding from

Development Charges. The remaining 16 buses will apply to the existing service area addressing current service quality issues, and ridership growth within the area.

Sources of Capital Investment

The new capital investment needs over the period total $45.077 million, which is shared as follows:



Federal Gas Tax investment over the period accounts for 13% of total investment needs ($6.0 million). The annual allocation of approximately $1.5 million is decided upon by the City of London. The $1.5 million represents approximately 7% of Federal Gas Tax revenues received by the City each year. The $1.5 million is applied to the bus replacement program.

City of London capital investment provides approximately 50% ($22.718 million) of the total investment needs. The amount is somewhat higher than previous business planning periods given the Commission's shift in use of provincial gas tax investment from capital to operating investment. The shift results in an increased use of provincial gas tax funding supporting operations and resulting reduction in capital investment. Provincial gas tax previously funded 100% of expansion buses, with the shift in funding the amount has been reduced to 50% with the City being requested to fund the remaining 50%.

City investment, consistent with the City's financial policy includes a mix of:

- capital levy, which is the amount raised in the year that the capital investment is expected to be spent. Capital levy is comprised of funding from reserves, property taxes, and/or Ontario Municipal Partnership funding; and
- the issuance of debt, subject to the City's policy of capping new debt allowed each year, noting the policy objective is mitigate debt carrying costs

Currently, the capital debt held by the City relating to public transit is $24.960 million. The debt primarily relates to fleet. In addition there is $2.530 million in authorized but not issued debt and $2.7 million in debt pending authorization. The City's capital investment in public transit accounts for approximately 1.4% of the average property tax bill.

Development Charges (DC's) investment over the period accounts for 1% of the total investment requirements. Utilization of DC's as a source of investment must be consistent with the approved Development Charges by-law. With respect to LTC capital requirements over the period, only program subject to funding from DC's is the bus expansion program as it relates to new service in areas of the City not currently served by public transit.

LTC's capital program reserve fund supports capital investment needs that are not supported by capital investment from the City of London. Without the fund, the LTC would need to seek additional capital funding in the area of $500,000 per year from the City. On average over the period, the capital program reserve fund supports approximately 4.8% of annual capital expenditure investment needs, ranging from 4.2% to 5.3% of new capital investment requirements.

Provincial Gas Tax capital investment over the period 2015-2018 provides 30% of new capital investment needs or $13.736 million. The investment is somewhat lower than in previous planning periods, given the shift in use of provincial gas tax. Further discussion on provincial gas tax funding is set out in Appendix A of this report.

Going Forward – Post-2018

City of London – Our Move Forward Plan

The Financial Plan 2015-2018 does not take into consideration the service and financial investment requirements (capital and operating) associated with the City of London implementing the "Our Move Forward Plan". The City's 'Our Move Forward Plan' is about the economic, social and environmental renewal and revitalization of the downtown. The redefinition is defined by a number of transformational projects, one such project is to transform the blocks of Dundas Street between Wellington Road and the Forks of the Thames from a conventional downtown public right-of-way into a public space.

The construction would create a seamless environment that allows vehicles and people to effectively share the same space. The flexible street concept would have physical design characteristics similar to that of a public square: no curbs, a paving surface other than asphalt, and using elements of the design itself (paving patterns, trees, street furnishings, lighting, etc.) to delineate space for different functions.

The transformation of Dundas Street is an investment in downtown revitalization and renewal, one component of that investment is the re-routing of conventional public transit services off Dundas Street between Wellington Road and the Forks of the Thames. Currently 21 routes utilize Dundas Street through the downtown (travel on or across). For seven of the routes, there will be a direct impact associated with shifting the east/west service from Dundas, between Wellington Rd and Ridout St to Queens and King. The shift will increase transit operating costs and potentially negatively impact transit use. The bus route reconfiguration will require one-time costs of approximately $1.650 million for three additional buses (2016 prices) and $170,000 for infrastructure relocation (wayside service information signage, stops, shelters, and transit priority measures). The ongoing operating cost increase is estimated at $282,000 per year. The operating estimates exclude any consideration of ridership loss on the assumption that maintained service levels and inclusion of transit priority measures will mitigate any loss. The capital and operating estimates exclude any consideration of changes to north/south routing across Dundas (primarily along the Richmond Street corridor). A move off of Richmond Street, would expect to result in the purchase of a further 6 buses ($3.3 million) and add $680,000 in operating expenditure.

Actual costs should the City approve the flexible street concept for Dundas Street may be impacted by service and/or routing change stemming from Route Structure and System.

Rapid Transit Strategy

Over the latter part of the current planning period and early in the next planning period, London plans to implement its rapid transit strategy. The Financial Plan and related processes will be critical to the implementation process.

The implementation of the rapid transit strategy will have a significant impact on capital and operating expenditure investments. Based upon the rapid transit strategy defined in the 2030 Transportation Master Plan, capital investment of $389 million will be required. Of the $389 million required, approximately $300 million relates to road work along the north/south and east/west rapid corridors. The balance of the investment pertains to the purchase of fleet, construction of maintenance and storage facilities and a downtown terminal. The $389 million would be expended over a period of six years. The expectation is that the capital investment needs would be shared equally by the City of London, Province of Ontario and Government of Canada. The final costs associated with the implementation of the rapid transit strategy are subject to the related Environmental Assessment process (Shift), which is scheduled to be completed in 2016.

A new Development Charges By-law was approved by the City in 2014 without appeal. The new By-law identifies rapid transit as being eligible for Development Charges funding; that is, the By-law serves the primary source for the City's share of capital investment requirement supporting the establishment of rapid transit. The 2030 Transportation Master Plan was a key input to establishing the 2014 Development Charges By-Law.

In terms of federal investment, the key funding program for support of London's rapid transit is the New Building Canada Plan 2014-2024. The Plan has two program elements namely the national infrastructure component ($4 billion) and the provincial-territorial infrastructure component ($10 billion). Transit is identified under both programs with available funding ranging from 33% to 50% of capital investment needs. The related program criteria and decision protocol or metrics are currently being assessed.

In terms of provincial investment, the current government has approved, as part of its adopted budget, the establishment of a transportation/transit infrastructure investment program. The new program provides for provincial investment of $29 billion over a 10 year period, $14 billion of the fund applies to transportation and transit Infrastructure investment outside the GTHA.

Program particulars and decision metrics are in the process of being developed, noting discussion to-date has focused on those seeking an investment to demonstrate the application is evidenced based, providing:

- clear linkage to the municipality's Official Plan and the Transportation Master Plan
- supportive Business Case measuring the economic, environmental and social (community) returns and benefits. The Business Case, supporting the rapid transit strategy set out in the 2030 Transportation Master Plan has been completed. The plan provides a benefit return of $1.80 in benefit for every $1 invested. The Business Case may require updating pending the results of completing a required Environmental Assessment.
- related financial plan

Prior to any implementation of rapid transit, an Environmental Assessment (EA) must be completed, consistent with provincial requirements as prescribed under the Environmental Assessment Act. The EA assesses, at an appropriate level, the potential natural, social, cultural, economic and technical impacts of the project (including assessment of alternative methods).

The EA will define where Rapid Transit will go, what it will look like, and how it will be implemented. The form/design rapid transit takes, will be derivative of prioritizing the following objectives of:

- economic development and city building
- mobility and transportation capacity
- community building and revitalization

In terms of operating expenditure investment requirements, such investment is targeted to be shared 50% by passengers/fares and 50% by the municipality. How this roles out is subject to further review and assessment.

LTC administration will, over the next two years, be working with City, Provincial, Federal administration (officials) on the Financial Plan for the rapid transit strategy, which in turn will be rolled in as part of the Commission's overall Financial Plan for the next planning period.

Post-2018 Financial Plan

The Financial Plan (and related processes) demonstrates prudent fiscal and operational management supporting sustainability, competitive positioning, affordability and valued return on investment. In the same manner as the strategic outcomes of the Business Plan, the Financial Plan policies and processes are designed to transcend time, linking successive planning periods. Accordingly, many of the directions and emphasis set out in the 2015-2018 Financial Plan will be reflected in the post-2018 operating and capital estimates, noting for the City's 2016 operating and capital budget development – operating estimates will have to be included for 2019 while capital estimates will extend to 2025.

Appendix A
Overview of Reserves & Reserve Funds

A key element of the Commission's financial plan pertains to the establishment and utilization of reserves and reserve funds. Six reserves and/or reserve funds are maintained. The reserve and reserve funds are integral to the Commission's financial plan which in turn is a key element of the approved 2015-2018 Business Plan.

The Provincial Gas Tax Reserve Fund, one of the six reserve/reserve funds maintained, is required by agreement under the Province's Provincial Gas Tax Program. A summary of the six reserve funds and reserves are set out in the following table.

Reserve and Reserve Fund Balances at December 31 (millions)

	Actual	Provisional Estimates			
Description	2014	2015	2016	2017	2018
Reserve Funds					
Provincial gas tax reserve fund	$27.483	$24.666	$23.831	$21.351	$ 19.159
Capital program reserve fund	4.753	4.273	4.023	3.774	3.550
Public liability reserve fund	3.992	3.817	3.662	3.507	3.352
	$36.227	$32.755	$31.516	$28.631	$ 26.060
Reserves					
Energy management reserve	$ 3.203	$ 3.203	$ 3.203	$ 3.203	$ 3.203
General operating reserve	2.999	2.149	2.149	2.149	2.149
Health care management reserve	2.441	2.581	2.721	2.862	3.002
	$ 8.643	$ 7.933	$ 8.074	$ 8.214	$ 8.355
	$44.871	$40.689	$39.590	$36.845	$ 34.415

Reserves and reserve funds, as indicated in the following table, currently provide investment support of approximately 9% of total operating expenditure investment, growing to approximately 12% by 2018. In terms of capital expenditure, investment reserves and reserve fund currently support approximately 52% of such investment with the share declining to approximately 35% by 2018.

Percent Funding Provided by Reserves and Reserve Funds

	Actual	Provisional Estimates			
Description	2014	2015	2016	2017	2018
Percent of operating expenditure investment	9.3%	10.9%	11.6%	11.8%	11.9%
Percent of capital expenditure investment	51.7%	51.7%	33.8%	36.4%	34.5%

Reserves do not have identified assets - the reserves represent the Commission's working capital supporting current operations. Reserve funds have dedicated assets which are only used for the purpose defined by the reserve fund. Investment returns generated from reserve fund assets stay vested with the reserve fund.

Of note, going forward, with the expectation that City investment levels will be approved or set as part of a multi-year budget program, the operating reserve will be relied upon to balance overall favourable or unfavourable operating performance results (variances) in the short term.

Provincial Gas Tax Reserve Fund

In 2004, the Province of Ontario announced the establishment of the Provincial Gas Tax Program (PGT) dedicated specifically for public transit services (conventional and specialized transit services). The PGT program is a performance based program, with the annual allocations received by respective transit systems being based upon the transit service's position in terms of population and ridership in relation to total population and total ridership for all Ontario public transit services. The amount of PGT moneys available is fixed at $0.02 per litre of gasoline sales in a given a year. Annual allocations are placed in a reserve fund maintained by the transit service with the reserve fund being subject to annual reporting and audit to/by the Province.

The administrative guideline respecting the PGT reserve fund provides for the balance at the end of any one year to be sufficient to 1.5 years of planned use. The guideline recognizes:

- the continuance of the PGT program is subject to approval by the Provincial government;
- the amount to be received in any one year is variable in that it is subject to London's ridership and population performance in comparison to all Ontario municipalities with public transit services. Further, the amount of money subject to allocation is predicated on annual gasoline sales which is considered variable given the sensitivity of oil pricing; and
- the growing dependency on PGT funding to support operations (capital and operating) will require sufficient time to adjust capital and operating budget expectations should the PGT program be discontinued or London's share of annual allocation decline.

The following table sets out the actual reserve fund activity for 2014 and provisional estimates for 2015-2018.

Provincial Gas Tax Reserve Fund (millions)

	Actual	Provisional Estimates			
Description	2014	2015	2016	2017	2018
Opening balance	$ 32.951	$ 27.483	$ 24.666	$ 23.831	$ 21.351
Provincial contributions	4.828	9.415	9.150	9.150	9.150
Investment income	0.545	0.490	0.470	0.470	0.450
Approved expenditure					
capital	(5.458)	(6.972)	(2.971)	(4.056)	(3.337)
operating - conventional	(4.364)	(4.600)	(6.193)	(6.630)	(6.881)
operating - specialized	(1.020)	(1.150)	(1.290)	(1.415)	(1.574)
Closing balance	$ 27.483	$ 24.666	$ 23.831	$ 21.351	$ 19.159
Budget expenditure investment - funded by PGT	$ 12.722	$ 10.454	$ 12.101	$ 11.792	$ 11.122
Years available at December 31	2.2	2.4	2.0	1.8	1.7

Capital Program Reserve Fund

The capital program reserve fund is used to fund:

- information system hardware and software costs, maximum cost per any one asset of $100,000
- bus maintenance and servicing tools - average cost of $100,000 per year
- purchase of shop and garage equipment, maximum cost per any one asset of $100,000
- purchase of replacement and expansion service fleet
- stop upgrades and expansion re: signs, landing pads, and shelters – maximum any one year $100,000
- other such capital related projects as approved by a specific resolution of the Commission from time to time or as part of the annual budget program approval

On average, the capital program reserve funds supports approximately 4.8% of annual capital expenditure investment needs. Actual reserve fund activity for 2014 and provisional estimates for 2015-2018 are summarized in the following table.

Capital Program Reserve Fund (millions)					
	Actual	Provisional Estimates			
Description	2014	2015	2016	2017	2018
Opening balance	$ 3.401	$ 4.753	$ 4.273	$ 4.023	$ 3.774
Contributions - capital cost amortization	1.572	0.200	0.225	0.225	0.250
Investment income	0.041	0.040	0.042	0.042	0.042
Capital expenditure	(0.261)	(0.720)	(0.517)	(0.516)	(0.516)
Closing balance	$ 4.753	$ 4.273	$ 4.023	$ 3.774	$ 3.550
Budget allocation (new expenditure investment)	$ 0.577	$ 0.517	$ 0.516	$ 0.516	$ 0.516
Years available at December 31	8.2	8.3	7.8	7.3	6.9

The administrative guideline for the reserve fund calls for the fund to have, at a minimum, a balance at the end of any one year sufficient to support seven years of planned capital investment. The maximum balance is 10 years.

Reserve Fund - Public Liability

The public liability reserve fund is used to fund:

- annual public liability claims costs up to the established deductible amount, which for pre-1998 claims, is $100,000 and for post-1998 claims, is $50,000 per accident; and
- annual post-2003 accident benefit claims costs up to the established deductible amount of $10,000 per accident. Effective January 1, 2006 the deductible was increased to $50,000.

In addition, the reserve fund would be used to support other property and liability claims costs, not covered by an insurance policy and/or as part of the policy deductible program.

Actual reserve fund activity for 2014 and provisional estimates for 2015-2018 are summarized in the following table.

Public Liability Reserve Fund (millions)					
	Actual	Provisional Estimates			
Description	2014	2015	2016	2017	2018
Opening balance	$ 3.876	$ 3.992	$ 3.817	$ 3.662	$ 3.507
Contributions - current operations	0.800	0.380	0.400	0.400	0.400
Investment income	0.047	0.045	0.045	0.045	0.045
Insurance claims costs					
- accident benefits	(0.540)	(0.400)	(0.400)	(0.400)	(0.400)
- public liability	(0.192)	(0.200)	(0.200)	(0.200)	(0.200)
Closing balance	$ 3.992	$ 3.817	$ 3.662	$ 3.507	$ 3.352
Outstanding - deductible claims cost at Dec. 31	$ 1.655	$ 1.550	$ 1.500	$ 1.450	$ 1.450
Unencumbered	2.337	2.267	2.162	2.057	1.902
	$ 3.992	$ 3.817	$ 3.662	$ 3.507	$ 3.352
Percent unencumbered	58.5%	59.4%	59.0%	58.7%	56.7%

The administrative guideline calls for the reserve fund balance at December 31 of each year to have an unencumbered balance of between 55% and 65%.

General Operating Reserve

The general operating reserve is primarily intended to fund, as a short-term measure, net unfavourable operating budget performance, where the opportunity exists to defer, in whole or in part, fare adjustments, expenditure cuts and/or requests for additional funding from the City of London within a budget year.

Using the reserve for such purpose is decided upon either at the annual re-costing of the current operating budget or as recommendation via the ongoing monitoring of the annual operating budget to address any net unfavorable operating budget performance. Actual reserve fund activity for 2014 and provisional estimates for 2015-2018 are summarized in the following table.

General Operating Reserve (millions)

Description	Actual	Provisional Estimates			
	2014	2015	2016	2017	2018
Opening balance	$ 2.999	$ 2.999	$ 2.149	$ 2.149	$ 2.149
Contribution from/(to) current operations		(0.850)			
Closing balance	$ 2.999	$ 2.149	$ 2.149	$ 2.149	$ 2.149
Total expenditure	$64.370	$66.203	$69.793	$72.964	$76.262
Reserve as percent of total operating expenditure	4.7%	3.2%	3.1%	2.9%	2.8%

The administrative guideline for the reserve provides for maintaining a reserve balance of between 2.5% and 5.0% of total direct operating expenditure.

Energy Management Reserve

Contributions to and from the energy management reserve relate, for the most part, to actual vs. budget performance for consumption and pricing of energy costs (diesel fuel, natural gas and hydro). There are no scheduled (budgeted) contributions to, or draw from, the reserve. Such activity is performance based i.e. determined based upon overall actual to budget operating performance.

Actual reserve fund activity for 2014 and provisional estimates for 2015-2018 are summarized in the following table.

Energy Management Reserve (millions)

Description	Actual	Provisional Estimates			
	2014	2015	2016	2017	2018
Opening balance	$ 3.203	$ 3.203	$ 3.203	$ 3.203	$ 3.203
Contribution - current operating surplus					
Closing balance	$ 3.203	$ 3.203	$ 3.203	$ 3.203	$ 3.203
Estimated total energy costs (diesel, hydro. CNG)	$ 8.622	$ 8.642	$ 9.196	$ 9.727	$ 10.311
Reserve balance as a % of energy cost	37.2%	37.1%	34.8%	32.9%	31.1%

As set out in the table, the reserve balance at December 31 for the identified years expressed as a percentage of total energy costs, meets the administrative guideline of maintaining a reserve balance of between 25% and 35% of annual energy costs.

Effective 2016, fuel expenditure will be based upon a standard pricing (average price paid for previous 12 months adjusted for change in the transportation consumer price index) model for the recording/reporting of fuel expenditure on a monthly basis. Any net annual favourable/unfavourable price performance impact will be applied to or funded from the energy management reserve. The reserve will be more active in absorbing favourable or unfavourable impacts of fuel price volatility, mitigating the need for adjustment to the current year’s financial plan.

Health Care Management Reserve

The health care management reserve is used to:

- fund, in whole or in part, a progressive return to work program for both work and non-work related injuries and illnesses;
- fund unfavourable retrospective Workplace Safety Insurance Board (WSIB) assessment for years of poor claims experience; and
- fund, in part retrospectively, the impact of any significant increase in premiums relating to non-insured extended health care, vision and dental plan employment benefits noting such adjustments augment the deposit account, held by carrier, on LTC behalf which is targeted to be sufficient to cover up to one year of premium payments.

Actual reserve fund activity for 2014 and provisional estimates for 2015-2018 are summarized in the following table.

Health Care Management Reserve (millions)

Description	Actual 2014	Provisional Estimates 2015	2016	2017	2018
Opening balance	$ 2.240	$ 2.441	$ 2.581	$ 2.721	$ 2.862
Contributions - Neer rebate	0.382	0.320	0.320	0.320	0.320
Return to work program cost	(0.181)	(0.180)	(0.180)	(0.180)	(0.180)
Closing balance	$ 2.441	$ 2.581	$ 2.721	$ 2.862	$ 3.002
Employment benefit cost (excl. Neer rebate)	$ 10.600	$ 10.898	$ 11.219	$ 11.681	$ 12.175
Reserve as percent of employment benefit cost	23.0%	23.7%	24.3%	24.5%	24.7%

The administrative guidelines call for the reserve to have a balance at the end of any one fiscal year of between 20% and 30% of employment benefit costs.