

To All Commissioners

Re: 2021 Operating Budget Program

Recommendations

The Commission:

- i) APPROVE the 2021 base operating budget program for public transit services allocated as follows:

| Category | Conventional | Specialized | Total |
|------------------|---------------|--------------|---------------|
| Revenue | \$ 39,848,800 | \$ 2,338,700 | \$ 42,187,500 |
| Expenditures | 80,986,100 | 11,019,400 | 92,005,500 |
| City of London | \$ 29,820,100 | \$ 8,680,700 | \$ 38,500,800 |
| Budget Shortfall | \$ 11,317,200 | | \$ 11,317,200 |

- ii) DIRECT administration to report back on options to mitigate the base budget shortfall at the March 2021 meeting;
- iii) APPROVE the 2021 growth operating budget (revenue and expenditure investment) as summarized in Enclosure I, for London's public transit services of \$1,236,400, noting this would be funded through assessment growth and is allocated as follows:

| | |
|-----------------------|-----------------|
| •Conventional transit | \$1,191,800 |
| •Specialized transit | \$ 187,900; and |

- iv) DIRECT administration to submit the approved 2021 public transit services operating budget to the civic administration consistent with the City of London's reporting format

Background

At the August 28, 2019 meeting, the Commission approved a multi-year operating budget for both conventional and specialized services, covering the period of 2020 through 2023. The table below sets out the operating budget estimates for the Conventional transit service for each year that were submitted to municipal council as part of the multi-year budget approval process, inclusive of the growth component.

2020-2023 Conventional Transit Service Operating Budget Estimates – Inclusive of Growth

| Funding Source (millions) | 2020 | 2021 | 2022 | 2023 |
|--|------------------|------------------|------------------|------------------|
| Transportation/Operating/Reserve Revenue | \$39.426 | \$ 40.440 | \$ 41.550 | \$ 42.715 |
| Provincial Gas Tax | 7.501 | 7.488 | 7.638 | 7.791 |
| City of London | 30.814 | 32.947 | 34.774 | 36.857 |
| Total Operating Budget | \$ 77.741 | \$ 80.875 | \$ 83.962 | \$ 87.363 |
| City of London Increase over Previous Year | 15.0% | 6.9% | 5.5% | 5.9% |

| Investment Share | 2020 | 2021 | 2022 | 2023 |
|--|---------------|---------------|---------------|---------------|
| Transportation/Operating/Reserve Revenue | 50.7% | 50.0% | 49.5% | 48.9% |
| Provincial Gas Tax | 9.6% | 9.3% | 9.1% | 8.9% |
| City of London | 39.6% | 40.7% | 41.4% | 42.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

The budgets set out in the table above include growth of approximately 18,000 annualized service hours per year, noting when presented to Council, the budget was split between a base budget increase (based on status quo levels of service) and growth budgets, which are split out of the annual budget approval process for consideration for funding from assessment growth.

As set out in Staff Report #2, dated August 26, 2020, the onset of the pandemic in March has resulted in significant budget variances to the 2020 operating budget program. These impacts, in many cases, will carry through future years. As such, the 2021 operating budget has been completely reassessed in an effort to bring it more in line with both current and expected realities relating to the impacts the pandemic has and will continue to have on public transit services.

As discussed in Staff Report #2, dated August 26, 2020, the 2020 operating budget forecast was undertaken as the first step in the reassessment of the 2021 budget. The financial model that has been in place for London Transit for decades calls for significant reliance on transportation revenue to offset expenditures. This coupled with the most significant pandemic impacts being decreased ridership (and related revenue), result in significant budget implications. Further compounding this issue as it pertains to

2021, is the uncertainty with respect to ridership projections, noting another pandemic wave with associated stay at home orders has the potential to significantly sway ridership.

In light of the many uncertainties with respect to 2021, this budget report has been broken into two separate components, with separate recommendations. The first component sets out the base operating budget for 2021 for both conventional and specialized services, which would provide for status quo levels of service based on the fall of 2019 (noting the 2020 service growth plans were not implemented). Essentially these budgets represent the costs of continuing to deliver 2019 service levels in 2021, with consideration to base program changes, unit price increases and COVID-19 related impacts. The second component of the report will present the budgets associated with implementing the deferred 2020 service growth on both the Conventional and Specialized services, noting any funding associated with this budget request would be directed to an assessment growth business case. It should be noted that, given the COVID related impacts city wide throughout 2020, assessment growth dollars in 2021 may be limited.

Both the base and growth budgets are being recommended given the direction provided from the Commission in April 2020 was to defer the service growth on both services for consideration in 2021. Further, the City of London's Strategic Plan includes reference to the growth plans for both the Conventional and Specialized services, and as such, it is important to provide Municipal Council with the business case to proceed with these plans.

Conventional Transit Service – Base Operating Budget

In order to complete the 2021 budget, a number of key assumptions were applied, most of which are consistent with those utilized to complete the 2020 operating budget forecast. Key assumptions include:

- ridership and related revenue in the cash, ticket and monthly pass categories would begin the year at 75% of what would normally be expected, growing to approximately 90% of normal expectations by the end of the year;
- ridership and related revenue in the tuition pass programs is based on the estimated number of students anticipated to attend campus for the 2020/2021 academic year, noting no increases in these numbers were included for the 2021/2022 academic year, which impacts September through December of 2021. Projections provided by the institutions call for Western University participation to be 70% of 2019 levels and Fanshawe College to be 45% of 2019 levels;
- service levels would return to 100% of what would normally be in place for the year based on 2019 service;
- significant increases in employee benefit premiums relating to the number and nature of claims relating to COVID-19 in 2020
- an increase in insurance claims given the recent increase in deductibles and premiums; and
- additional expenditures for ongoing COVID-19 related cleaning protocols (bus and facility cleaning), driver protection (masks and hand sanitizer) projected for the remainder of the year.

The conventional transit operating budget accounts for 88% or \$80.986 million of the total \$92.005 million transit operating investment. The balance applies to the Specialized transit service which is discussed later in this report. Summary particulars of the make-up of the Conventional transit operating budget are provided on page 2 of Enclosure I.

The following table sets out the operating investment share breakdown for 2021 as compared to 2020 projected actual results.

| 2021 Base Operating Budget Summary – Conventional Transit Services | | | | |
|---|-----------------------------|------------------------|---------------------------|-----------------------|
| Category | 2020 | | Total Variance | % Variance |
| | Projected Actual | 2021 Budget | | |
| Revenue | | | | |
| Transportation revenue | \$ 21.354 | \$ 29.119 | \$ 7.766 | 37.0% |
| Operating revenue | 1.280 | 1.254 | (0.026) | (2.0)% |
| Transfer from reserves | 0.872 | 1.122 | 0.250 | 28.7% |
| Provincial Gas Tax | 8.030 | 8.354 | 0.323 | 4.0% |
| | \$ 31.535 | \$ 39.848 | \$ 8.313 | 26.4% |
| Expenditures | | | | |
| Personnel cost | \$ 50.370 | \$ 54.868 | \$ 4.499 | 8.9% |
| Fuel | 5.574 | 7.248 | 1.674 | 30.0% |
| Direct bus maintenance/servicing | 6.456 | 6.622 | 0.166 | 2.6% |
| Facility | 3.136 | 3.244 | 0.108 | 3.4% |
| Insurance | 3.079 | 3.828 | 0.749 | 24.4% |
| Contributions to reserves | 1.288 | 1.445 | 0.157 | 12.2% |
| All other material costs | 3.403 | 3.730 | 0.328 | 9.6% |
| Total Expenditure | \$ 73.306 | \$ 80.986 | \$ 7.681 | 10.5% |
| City of London | \$ 29.091 | \$ 29.820 | \$ 0.729 | 2.5% |
| Operating Shortfall | \$12.679 | \$ 11.317 | \$(1.362) | |

| Category | 2020 | 2021 | Total | % |
|---------------------------------|---------------------|--------|--------|---------|
| | Projected Actual | | | |
| Investment Share | | | | |
| Trans/Operating/Reserve Revenue | 32.1% | 38.9% | 6.8% | 21.1% |
| Provincial Gas Tax | 11.0% | 10.3% | (0.6)% | (5.4)% |
| City of London | 39.7% | 36.8% | (2.9)% | (7.3)% |
| Unfunded Shortfall | 17.3% | 14.0% | (3.3)% | (19.1)% |
| | 100.0% | 100.0% | --- | --- |
| Ridership (millions) | 16.187 | 17.947 | 1.760 | 10.9% |

Operating Revenue Investment

The approximate \$39.848 million in identified operating revenues is comprised of:

- \$29.119 million in transportation revenue which is directly related to ridership and fares, noting this projection is down substantially relating to the anticipated impacts of COVID throughout 2021;
- \$1.254 million in operating revenues – primarily associated with advertising contracts for shelters, buses and benches and investment income including that earned on reserve funds;
- \$1.122 million transferred from reserves in support of operating investment; and
- \$8.354 million Provincial Gas Tax allocation.

The above sources support 49.2% of budget operating expenditure investment in 2021, which is down significantly from the approximate 60% which has been the basis for the funding model over the past number of years. While it is anticipated that the revenue sources above can again grow to reach the traditional levels, it is not deemed possible at this time given the uncertainties with respect to impacts COVID may continue to have throughout 2021.

Operating revenues have declined slightly given the reduced interest earned on the Commission's reserves and reserve funds due to declining balances. The other operating revenues are largely driven by contract and market conditions.

The funds transferred from reserves include:

- transfer from the public liability reserve fund offsetting the accident benefit and public liability deductible costs; and
- transfer from Health Care Management reserve offsetting the return to work program costs, which is a critical element of LTC's attendance management costs.

In 2021, \$8.354 million in allocation from the Provincial Gas Tax reserve is the allocation that has been established for the base budget approval, noting given past decisions with respect to the multi-year budget, this reserve is anticipated to be completely depleted by 2023. Also, as noted in Staff Report #1, dated August 26, 2020, COVID related impacts on fuel sales in 2020 are anticipated to significantly reduce the allocations from the Provincial Gas Tax for Transit program in the upcoming year, which could result in the reserve being depleted prior to previous projections.

Transportation Revenues

Transportation revenues traditionally support approximately 48% of operating expenditure investment; however, given the assumptions for 2021 with respect to ridership and related revenue, are anticipated to support only 36%.

Operating Expenditure Investment

The overall operating expenditure investment for 2021 is budgeted to increase by 10.5% or approximately \$7.681 million vs. 2020 projected actual results. The 10.5% increase is comprised of:

- \$1.493 million in unit price and base program increases for such items as fuel, energy, insurance and personnel costs. These increases account for a 2.0% increase in overall investment;
- \$4.061 million in 2020 COVID-19 related impacts, primarily relating to service levels increasing over those provided in 2020, resulting in the associated costs in personnel, fuel, direct bus maintenance all increasing at a proportionate rate;
- 0.450 million in 2021 COVID-19 related costs dealing with the anticipated cleaning costs that will carry throughout the year; and
- \$1.676 million in base program changes, primarily relating to additional insurance and employment benefit increases.

The following provides further discussion with respect to the most significant drivers of the increase in the expenditure budget for the Conventional transit services for 2021 versus 2020 projections.

Personnel Costs

Personnel costs include salaries, wages and employment benefits for 587.3 full time equivalent Conventional transit employees. Personnel cost accounts for approximately 68% of the annual operating expenditure investment for conventional transit.

As set out above, personnel cost investment is budgeted to increase by 8.9% or some \$4.5 million over 2020 projections. The increase is comprised of the following:

- 5.1% increase or some \$2.594 million relating to increased service hours over those provided in 2020, noting the 2021 budget returns service levels to normal versus the significantly reduced hours in 2020;
- 2.3% increase or \$1.169 million relating to unit price. The unit price respecting salaries, wages, including movement along the pay grid is as provided by the Collective Agreement and Employment Policy Statements as well as new positions. The unit price relating to employment benefits, both Commission provided and statutory benefits is as determined by supplier contracts, benefit utilization experience or as set by governing authority; and
- 1.4% increase or \$0.736 million relating to adjustments in program delivery during the previous multi-year budget period.

Fuel Expenditure

For 2021, fuel expenditure is budgeted at \$7.248 million. The cost inputs are mileage travelled (which is directly impacted by the extent of service provided), rate of consumption (litres per kilometre) and price.

Fuel prices during 2020 were much lower than budget, but also subject to wide fluctuations. It is unknown how closely 2020 pricing was tied to COVID-19, making it difficult to predict 2021 pricing. As such, the pricing utilized for the 2021 budget has returned to what was expected in the multi-year budget noting prices have started to climb in August and are anticipated to continue to rise through the remainder of 2020. Any net annual favourable/unfavourable price performance impact will be applied to/or funded from the Energy Management Reserve.

Direct Bus Maintenance and Servicing

Direct bus maintenance and servicing investment for 2021 totals approximately \$6.622 million, representing an increase of 2.6%. While direct bus maintenance costs were also impacted in 2020 given reduced service levels, it was not to a great extent noting that buses need to continue to be maintained whether they are operating or not. As such, the increase in costs over 2020 projections are more tied to general price increases than anything COVID-19 related.

Operating Budget Shortfall

Given that municipalities and transit systems by extension are not allowed to operate at a deficit as a requirement of the Municipal Act, the recommendation of a budget with a projected shortfall is not a normal practice; however, the onset of the COVID-19 pandemic has resulted in many aspects of operations being far from normal. As the earlier table sets out, the 2021 base operating budget for conventional transit services is projecting a shortfall of approximately \$11.3 million. The intent of the report recommendation to approve the 2021 base operating budget is not to end the 2021 fiscal year with an operating deficit, but rather to provide staff with the general direction relating to the service levels that should be planned to be delivered in 2021. From the onset of the pandemic declaration, through shutdowns and re-openings, the need for public transit has been evident across the country. Locally, London Transit continued to provide service to front-line workers, many of who were declared essential through the pandemic period, to and from work. While it is not anticipated that ridership will rebound completely in 2021, it is also not recommended that service levels be reduced below those that were in place pre-pandemic. The investments made over the last number of years to improve public transit services in London have been significant, and have met their objectives. Any significant reductions to service levels has the potential to reverse these gains, and result in further ridership losses above those related to COVID-19.

Consistent with the 2020 operating budget shortfall, there are a number of options that can be utilized to address it, including the following:

- Funding from the Safe Restart Program, noting the parameters of this funding program will only cover budget shortfalls relating to COVID-19 for the period January 1, 2021 through March 31, 2021;
- Use of Commission reserves, to the extent necessary;
- Reductions in service levels given slower than anticipated ridership rebound;
- Reductions in other expenditure programs;
- Increased investment from the City of London;
- Use of any new funding programs established by senior levels of government noting advocacy efforts continue in earnest given the anticipated longer-term nature of the COVID-19 related

budget implications. Both the Provincial and Federal governments have recognized the impacts on public transit to be longer term than the current funding programs provide for, and conversations with respect to this are ongoing.

As set out in report recommendation ii), Administration will report back in March 2021 with options to address the operating budget shortfall for 2021.

Specialized Transit Services – 2021 Base Operating Budget Program

In order to complete the 2021 budget, a number of key assumptions were applied, including:

- ridership and related revenue will rebound to approximately 90% of normal expectations by the end of the year; and
- service levels would return to what would normally be in place for 2021;

The specialized transit operating budget accounts for 12% or \$11.019 million of the total \$92.066 million transit operating investment. Summary particulars of the make-up of the specialized transit operating budget are set out on page 3 of Enclosure I.

The following table sets out the 2021 Base Operating Budget as compared to 2020 projected actual results.

2021 Base Operating Budget Summary – Specialized Transit Services

| Category | 2020 Projected Actual | 2021 Budget | Total Variance | % Variance |
|---------------------------------|-----------------------------|------------------|-------------------|---------------|
| Revenue | | | | |
| Transportation revenue | \$ 0.244 | \$ 0.632 | \$ 0.388 | 159.0% |
| Provincial Gas Tax | 1.487 | 1.706 | 0.219 | 14.7% |
| | \$ 1.732 | \$ 2.339 | \$ 0.606 | 35.0% |
| Expenditures | | | | |
| Personnel cost | \$ 1.095 | \$ 1.191 | \$ 0.095 | 8.7% |
| All other material costs | 0.254 | 0.256 | 0.002 | 1.5% |
| Contracted services | 7.460 | 9.572 | 2.112 | 28.3% |
| Total Expenditure | \$ 8.811 | \$ 11.019 | \$ 2.209 | 25.1% |
| City of London | \$ 7.903 | \$ 8.681 | \$ 0.779 | 9.9% |
| Operating Surplus | \$0.825 | --- | | |
| Investment Share | | | | |
| Trans/Operating/Reserve Revenue | 2.8% | 5.7% | 3.0% | 107.1% |
| Provincial Gas Tax | 16.9% | 15.5% | (1.4)% | (8.2)% |
| City of London | 89.7% | 78.8% | (10.9)% | (12.2)% |
| Surplus | (9.4)% | - | | |
| | 100.0% | 100.0% | --- | --- |
| Ridership (millions) | 0.152 | 0.311 | 0.159 | 104.6% |

Operating Expenditure Investment

As set out above, overall operating expenditure investment for the 2021 specialized transit service is budgeted to increase by 25.1% or \$2.208 million versus the 2020 projected actual results bringing the total operating investment to \$11.019 million. The 25.1% increase results from:

- \$0.808 million in unit price increases for contracted service and personnel costs, noting the increased hourly; and
- \$1.420 million in increased service costs over 2020 noting the significant reductions that occurred in 2020 as the result of COVID-19.

The following provides further discussion with respect to the most significant drivers in the increase in the expenditure budget for Specialized transit services for 2021 versus 2020 projections.

Personnel Costs

Personnel costs (relating to the brokerage operations) cover salaries, wages and employment benefits for 13.5 staff. The unit price respecting salaries and wages includes movement along the pay grid as provided by the respective Employment Policy Statements and benefit contracts. The unit price relating to employee benefits, both Commission provided and statutory benefits, is as determined by the supplier contracts, benefit utilization experience or as set by governing authority.

The increase in 2021 over 2020 projections is related to service level reductions in 2020 that are not expected to be repeated in 2021.

Contracted Service Delivery Costs

The delivery of the specialized service is provided via primary and secondary service contracts, which cover the provision of drivers and vehicles. The contracts are based on hourly rates for service, and are subject to annual increases based on the change in consumer price index relating to transportation costs. Enclosure I sets out a summary analysis of the change in contract service delivery costs. As noted, contract delivery costs are expected to increase by \$2.112 million or 28%; however, these increases are mostly related to the re-establishment of service levels in 2021, noting it is anticipated that ridership demand will return, as well as contracted prices increases in August 2020. The increase is comprised of:

- \$0.796 million in unit price increases as provided by service contracts; and
- \$1.360 million increase in service as compared to the reduced 2020 levels.

Conventional Transit Service – Growth Budget

At the February 27, 2019 meeting, the Commission approved the 5 Year Conventional Service Plan Framework which provides for service improvements and monitoring of same for the period of 2020-2024. The timing and implementation of the recommended service improvements align with the planned move to a rapid transit platform, ensuring the base route structure and service frequencies will be at the required levels to support the future rapid transit corridors, and as importantly, addressing the current service quality issues relating to schedule adherence, demand for expanded services into industrial areas and system-wide frequency improvements.

At the April 29, 2020 meeting, the Commission approved the deferral of the planned 2020 service growth, with a recommendation for reconsideration in 2021. The growth component of the conventional transit service represents the reconsideration of the growth components that were included in the 2020 plan, noting, it calls for a total increased investment of \$1.191 million. The growth budget is made up of:

- the addition of 18,000 service hours, noting the draft plan that had been approved for implementation in 2020 will be revisited to ensure that recommended improvements are consistent with what is currently being experienced. The increased service is budgeted to result in a related increase in ridership of approximately 96,300, noting the service improvements would not be implemented until September 2021; and
- the addition of approximately \$250,000 to cover the operating costs associated with the introduction of an alternative service delivery model to serve the Innovation Park industrial area.

As indicated earlier in this report, should the Commission approve the report recommendation, a business case for assessment growth funding will be completed and submitted to Municipal Council for consideration as part of the 2021 budget approval process.

Specialized Transit Service – Growth Budget

Also at the April 29, 2020 meeting, the Commission approved the deferral of the planned 2020 growth of 6,000 annualized hours (3,000 in 2021) on the Specialized service for consideration in 2021. These hours have been re-introduced in the 2021 service growth budget, at an increased investment cost of \$187,900. There are no other growth components to the 2021 Specialized service budget.

Unlike the Conventional service, the increase of hours on the Specialized service can be introduced prior to September; however, given that ridership demand on the Specialized service is generally lower in the summer months, improvements are generally made within the same time period.

As indicated earlier in this report, should the Commission approve the report recommendation, a business case for assessment growth funding will be completed and submitted to Municipal Council for consideration as part of the 2021 budget approval process.

City of London Budget Presentation

Subsequent to Commission approval of the 2021 base and growth operating budgets as presented in this report, administration will reformat the presentation to be consistent with the standard presentation format utilized for all civic departments, boards and commissions. The finalized documents will be provided to the Commission at a future meeting, once same has been completed.

Enclosure

I – 2021 Operating Budget Public Transit Services

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