

To All Commissioners

**Re: 2025 Operating Budget Program**

**Recommendation**

The Commission:

- i) APPROVE the 2025 Operating Budget Program for public transit services allocated as follows:

Category	Conventional	Specialized	Total
Revenue	\$ 54,089,900	\$ 939,300	\$ 55,029,200
Expenditures	102,026,400	15,973,700	118,000,100
City of London	\$ 47,936,500	\$ 15,034,400	\$ 62,970,900

- ii) DIRECT administration to submit the approved 2025 public transit services operating budget to civic administration consistent with the City of London's reporting format; and
- iii) DIRECT administration to submit a Budget Amendment Case reducing the City of London investment by \$1.495 million for 2025.

**Background**

At the August 30, 2023 meeting, the Commission approved the 2024-2027 status quo (base) operating budget programs for conventional and specialized transit services and directed administration to submit to the City of London for inclusion in its multi-year budget. Subsequent to Council's budget deliberations, the base operating budget for 2024-2027 was approved at its March 5, 2024 meeting.

Also debated and approved by the Commission at the August 30, 2023 meeting were the details to be included as growth business cases for the multi-year budget submission. Similar to the process for the base budget, Council considered growth business cases, and ultimately approved the operating costs for incremental service hours in both conventional (18,000 hours) and specialized (10,000 hours) for 2025.

Details of the approved 2024-2027 Public Transit Service multi-year operating budget, inclusive of the growth hours are set out in the table below.

<b>2024-2027 Public Transit Service Operating Budget</b>				
Funding Source (millions)	2024	2025	2026	2027
Transportation/Operating/Reserve Revenue	\$ 43.114	\$ 43.827	\$ 44.562	\$ 45.326
Provincial Gas Tax	11.200	11.424	11.653	11.886
City of London	58.349	64.466	70.241	76.285
<b>Total Operating Budget</b>	<b>\$112.663</b>	<b>\$119.717</b>	<b>\$126.456</b>	<b>\$133.497</b>
City of London Increase over Previous Year	27.3%	10.5%	9.0%	8.6%
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Investment Share	2024	2025	2026	2027
Transportation/Operating/Reserve Revenue	38.3%	36.6%	35.2%	34.0%
Provincial Gas Tax	9.9%	9.5%	9.2%	8.9%
City of London	51.8%	53.9%	55.6%	57.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

It should be noted that the funding and expenditures approved to support the growth service hours included in the table above are annualized amounts, and that when implementing conventional service growth in September of each year, only a portion of the total approved growth hours are required, with the remainder being allocated to the following year as flow through costs. This creates a reconciling difference between the actual annualized budget vs. the one included in this report.

When the multi-year budget is prepared, it is based on inputs available at the time, and as such, fluctuations are likely to occur in the subsequent budget years. The annual budget process includes the opportunity to address any such discrepancies through the submission of an updated annual budget and accompanying amendment business case.

Notwithstanding the zero-based budget approach utilized in the creation of the multi-year budget, each year administration re-evaluates the budget on a line-by-line basis to ensure any trends or issues that were not contemplated during the preparation of the multi-year budget are addressed. Material changes to annual budgets are most likely to occur in the areas which account for the most significant portions of the budget (transportation revenue, fuel, insurance, contracted service costs, etc.)

The 2025 operating budget set out in the report recommendation for Commission approval reflects the result of this budget approach, outlining what is required, in terms of operating budget, to deliver the service hours contemplated for 2025 on both the conventional and specialized services.

The following table provides a reconciliation from the approved 2025 budget from the multi-year budget process to that of the updated 2025 operating budget program, which is being recommended for approval in this report.

#### Total Public Transit Services – 2025 Budget

	2025 Annualized Budget	2025 Growth Adjust	2025 Updates	2025 Budget
Transportation/Operating/Reserve Revenue	\$ 43.827	\$ (0.205)	\$ 1.419	\$ 45.041
Provincial Gas Tax	11.424	(1.086)	(0.350)	9.988
City of London	64.466	-	(1.495)	62.971
<b>Total Operating Budget</b>	<b>\$ 119.717</b>	<b>\$ (1.291)</b>	<b>\$ (0.426)</b>	<b>\$ 118.000</b>

The first column of the chart above provides the 2025 budget, inclusive of the annualized growth hours, as approved during the multi-year budget process by Municipal Council.

The second column illustrates the portion of the 2025 annualized growth costs that will not be required in 2025 due to the September implementation date for conventional transit service improvements. As discussed in Staff Report #2, dated August 28, 2024, the funding shortfall in the 2025 bus replacement program resulting from increased costs is being addressed by shifting Provincial Gas Tax funding away from the operating budget to the capital budget. The shortfall created by this shift is being covered by the growth funds that are not required in 2025. Given these costs were included in the budget approved by the City of London, this shift has no net impact on City of London funding for the 2025 operating budget.

The third column represents the shifts in revenue and expenditure line items that resulted from the reassessment of the 2025 operating budget. As the column illustrates, the net impact of the re-assessed 2025 budget is a decrease in City of London investment of \$1.495 million for 2025. Further details with respect to the specific budget areas impacting this change are set out in the respective conventional and specialized sections of the report below as well as in Enclosure I.

This reduction in City of London funding will be submitted to civic administration for inclusion in the 2025 annual budget process. This reduction will be reflected as a one-time 2025 reduction, noting the trends that resulted in the 2025 budget reductions may not continue through 2026 and 2027. Consistent with the process followed for the 2025 operating budget, future budgets will be re-assessed, and any required budget amendment cases will be submitted through respective annual processes.

#### Conventional Transit Service

The conventional transit operating budget accounts for 86% or \$102.0 million of the total \$118.0 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 as compared to 2024 projected actual results are provided on page 2 of Enclosure I and further detailed in Enclosure II (for Commissioners only).

The table below provides a reconciliation between the 2025 budget as approved in the multi-year budget through to the 2025 operating budget being recommended for Commission approval.

#### Conventional Transit Services – 2025 Budget

Category	2025 Annualized Budget	2025 Growth Adjust	2025 Updates	2025 Budget
<b>Revenue</b>				
Transportation revenue	\$ 39.331	\$ (0.205)	\$ 1.767	\$ 40.092
Operating revenue	1.911	-	0.097	2.088
Transfer from reserves	1.620	-	(0.498)	1.122
Provincial Gas Tax	11.424	(1.086)	(0.350)	9.988
	<b>\$ 54.365</b>	<b>\$ (1.291)</b>	<b>\$ 1.016</b>	<b>\$ 54.090</b>
<b>Expenditures</b>				
Personnel cost	\$ 68.995	\$ (0.912)	\$ 0.417	\$ 68.500
Fuel	11.100	(0.184)	(0.225)	10.691
Direct bus maintenance/servicing	9.628	(0.158)	(0.120)	9.350
Facility	3.624	-	0.041	3.665
Insurance	4.678	(0.038)	(0.021)	4.619
Contributions to reserves	1.399	-	-	1.399
All other material costs	3.696	-	0.108	3.803
<b>Total Expenditure</b>	<b>\$103.118</b>	<b>\$ (1.291)</b>	<b>\$ 0.199</b>	<b>\$ 102.026</b>
<b>City of London</b>	<b>\$ 48.753</b>	<b>\$ -</b>	<b>\$ (0.817)</b>	<b>\$ 47.937</b>

Consistent with the table earlier in this report, the first column of the table represents the 2025 conventional operating budget inclusive of the annualized costs for the 18,000 incremental hours. The second column reflects the adjustment between Provincial Gas Tax and the portion of the growth costs not required for 2025 to address the capital funding shortfall in the bus replacement program.

The third column in the table reflects the variances that occurred as the result of the re-assessment of the 2025 operating budget, detailed discussion with respect to each of the line items in the table follows.

#### Operating Revenue Investment

The approximate \$54.090 million in identified operating revenues is comprised of:

- \$40.892 million in transportation revenue which is directly related to ridership and fares;
- \$2.089 million in operating revenues – primarily associated with advertising contracts for shelters, buses and benches and investment income including earned on reserve funds;
- \$1.122 million transferred from reserves in support of operating investment; and
- \$9.988 million Provincial Gas Tax allocation.

The above sources support 53.0% of budget operating expenditure investment in 2025, which is consistent with that included in the multi-year budget.

Transportation revenues have been adjusted by \$1.767 million from the original 2025 forecast as that forecast included the assumption that there would be a decline in tuition pass participants relating to new foreign student ratios beginning in the 2024/2025 academic year. This decline has not occurred as predicted, and as such, 2025 transportation revenues have been adjusted.

Operating revenue includes advertising revenue, interest from the Commission's operating and reserve funds, as well as miscellaneous other revenues. This line item has been adjusted to reflect current interest rates.

The funds transferred from reserves include a transfer from the public liability reserve fund offsetting the accident benefit and public liability deductible costs. This budget has been reduced by \$0.498 million to eliminate the contribution from the Health Care Management Reserve that has been traditionally utilized to cover the costs associated with employee rehab work assignments. As set out in Staff Report #3, dated March 27, 2024, the Health Care Management Reserve no longer has a permanent source of funding due to changes in the WSIB premium program, and as such, can no longer be relied upon for ongoing funding. The costs associated with rehab work assignments are now funded through operations.

In 2025, \$9.988 million is the required allocation from the Provincial Gas Tax reserve for the base budget approval as well as additional base program changes. This allocation was decreased by \$0.350 million representing the proportionate share of the overall decreased operating budget.

#### Operating Expenditure Investment

The overall operating expenditure investment for 2025 is budgeted to increase by 5.3% or approximately \$5.134 million vs. 2024 projected actual results. The 5.3% increase is comprised of:

- \$3.006 million in unit price and base program increases for such items as fuel, energy, insurance and personnel costs. These increases account for a 3.1% increase in overall investment;
- \$1.115 million pertaining to the 2024 flow-thru service improvements that had been implemented in September 2024 along with \$1.204 million for the 2025 service improvements scheduled for September 2025, noting the 2025 budget includes the addition of approximately 18,000 additional service hours in each of 2024 and 2025; and
- \$0.191 million reduction in base program changes.

The following provides further discussion with respect to the most significant line items included in the 2025 conventional service operating budget.

#### *Personnel Costs*

Personnel costs include salaries, wages and employment benefits for 655.8 full-time equivalent Conventional transit employees. Personnel cost accounts for approximately 67% of the annual operating expenditure investment for conventional transit.

The increase of \$0.407 million in personnel costs resulting from the 2025 budget reassessment relates to the implications of new work rules in the collective agreement (\$0.171 million) and inflationary impacts to employee benefits that were higher than those included in the initial multi-year budget (\$0.245 million).

#### *Fuel Expenditure*

Fuel costs represent approximately 10.5% of the total operating budget. Throughout 2024, fuel prices have trended slightly lower than budget. The decrease in fuel expenditure in the reassessed 2025 budget

(\$0.225 million) is the result of lowering the estimated cost of fuel to be more consistent with current trends. Inflation was still applied to this line item and the average price included in the 2025 budget is realistic from administration's perspective. However, fuel pricing is one of the most difficult to predict and as such, the Commission has the Energy Management Reserve Fund which can be utilized to offset significant unanticipated price fluctuations within a budget year.

#### *Direct Bus Maintenance and Servicing*

Direct bus maintenance and servicing investment for 2025 totals approximately \$9.350 million, representing approximately 9% of operating expenditures. Subsequent to the global pandemic, the parts supply chain was significantly impacted resulting in increased lead times and significant price increases. These assumptions were the basis for the multi-year budget noting at the time of budget preparation, there was no sign of relief. Fortunately, parts pricing has stabilized and, in some cases, declined, which has resulted in a reduction of \$0.120 million in the 2025 reassessed budget.

#### City of London Investment

The net impact of the revenue and expenditure adjustments set out in the table above result in a reduction of \$0.817 million in City of London investment for the 2025 operating budget. As set out in the report recommendation, this reduction, in combination with a similar reduction on the specialized operating budget will be submitted as a Budget Amendment to the 2025 City of London budget process. The reduction is being recommended for 2025 only (no flow through going forward) given the unpredictability of a number of the key drivers affecting the operating budget. Should the positive trends included in the 2025 budget continue, a similar submission will be made to the City during the 2026 budget process.

#### **Specialized Transit Services**

The specialized transit operating budget accounts for 13.5% or \$16.0 million of the total \$118.0 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, with additional details in Enclosure III (for Commissioners only).

<b>Specialized Transit Services – 2025 Budget</b>				
<b>Category</b>	<b>2025 Annualized Budget</b>	<b>2025 Growth Adjust</b>	<b>2025 Updates</b>	<b>2025 Budget</b>
<b>Revenue</b>				
Transportation revenue	\$ 0.886	\$ -	\$ 0.053	\$ 0.939
	\$ 0.886	\$ -	\$ 0.053	\$ 0.939
<b>Expenditures</b>				
Personnel cost	\$ 1.750	\$ -	\$ (0.194)	\$ 1.555
All other material costs	0.357	-	0.012	0.369
Contracted services	14.492	-	(0.442)	14.050
<b>Total Expenditure</b>	<b>\$ 16.599</b>	<b>\$ -</b>	<b>\$ (0.625)</b>	<b>\$ 15.974</b>
<b>City of London</b>	<b>\$ 15.713</b>	<b>\$ -</b>	<b>\$ (0.678)</b>	<b>\$ 15.034</b>

#### Operating Revenue Investment

The increase of \$0.053 million in transportation revenue in the reassessed 2025 operating budget is the result of re-alignment of revenue to match ridership projections, which are higher than originally anticipated in the multi-year budget.

#### Operating Expenditure Investment

As set out above, overall operating expenditure investment for the 2025 specialized transit service is budgeted to increase by 9.3% or \$1.36 million versus the 2024 projected actual results bringing the total operating investment to \$15.034 million. The 9.3% increase results from:

- \$0.548 million in unit price increases for contracted service and personnel costs;
- \$0.440 million relating to the flow-thru impact of 2024 service improvements;
- \$0.805 million relating to the approved 2025 service growth slated to be implemented in January 2025 increase; and
- \$0.429 million reduction in base program changes due to the one-time 2024 contribution to reserves as a result of the 2024 projected surplus.

The following provides further discussion with respect to the most significant factors impacting the reassessed 2025 operating expenditure budget.

#### *Personnel Costs*

Personnel costs cover salaries, wages and employment benefits for 14 staff and represents approximately 10% of the total operating budget. The reduction of \$0.194 million in the 2025 reassessed budget relates

to the removal of two incremental staff positions included in the growth budget submission. In light of the new booking system, and the efficiencies anticipated with the new booking process, these positions are not deemed necessary.

#### *Contracted Service Delivery Costs*

The delivery of the specialized service is an outsourced contract, which covers 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. Contract delivery costs represent approximately 88% of the total expenditure budget.

Given the contract is subject to annual inflationary adjustments, the estimated rates utilized in the multi-year budget were based on trends at the time. During 2024, trends improved and as such, price escalation estimates for 2025 have been adjusted, resulting in a reduction of \$0.442 million in expenditure.

#### City of London Investment

The net impact of the revenue and expenditure adjustments set out in the table above result in a reduction of \$0.678 million in City of London investment for the 2025 operating budget. As set out in the report recommendation, this reduction, in combination with a similar reduction on the conventional operating budget will be submitted as a Budget Amendment to the 2025 City of London budget process.

#### **City of London Submission**

As set out in the report recommendation, subsequent to Commission approval, budgets are compiled in the required City of London format and submitted to civic administration.

During deliberations of the 2024-2027 Multi Year Budget at Municipal Council, questions were raised with respect to the manner in which the service growth business cases were submitted and subsequently funded. In prior multi-year budgets, growth requests for public transit services were submitted as Assessment Growth Business Cases, which, should they be approved, resulted in the City of London investment being funded from assessment growth versus the general tax rate.

Assessment growth generally refers to the additional property taxes collected from new and/or expanded homes and businesses. It is the net increase in assessment attributable to new construction less adjustments resulting from assessment appeals and property tax classification changes. While assessment growth results in additional property taxes collected through the tax levy, these new/expanded homes and businesses expect to receive the same municipal services as existing taxpayers. Assessment growth is used to fund the extension of municipal services provided to the existing property tax base (e.g., garbage pickup, snow plowing, road maintenance, etc.).

Civic service areas, boards & commissions that incur costs to provide services due to growth are required to submit business cases to the Deputy City Manager, Finance Supports or designate. The business cases provide justification and rationale for the assessment growth funding requests and include a description of the need for growth funding, corresponding metrics, and the associated financial impacts. The Assessment Growth Policy (section 4.1.5) delegates authority to the City Treasurer or designate to allocate assessment growth funds to approved business cases that align with the Policy.

In advance of the multi-year budget submission for the 2024-2027 period, London Transit administration held discussions with civic administration regarding the manner in which the growth requests should be submitted. It was agreed that, given the eligibility criteria in the Municipal Council-approved Assessment Growth Policy, only service improvements impacting a new growth area of the City would meet the criteria. Given the uncertainty with respect to the Five-Year Service Plan, which was in development at the time, it was not possible to predict with any accuracy where service improvements would be implemented. As such, growth business case submitted looked to the tax rate to fund the growth. While this approach to funding the growth was ultimately approved by Municipal Council for the years 2024-2027, administration was asked to revisit the opportunity to submit Assessment Growth Business Cases in those years, which would shift the funding from the tax rate to assessment growth.

London Transit administration held subsequent discussions with civic administration regarding the metrics that would be required to demonstrate the service growth being contemplated in a given year to qualify for assessment growth funding. It was determined that London Transit would need to provide data/metrics clearly tying the service improvement to new growth. In the event a portion of the service growth in a given year is being directed toward service to an area of the City that isn't currently served by transit, metrics could be provided illustrating the number of Londoners that would now have access to conventional transit services (e.g. within 400m of a transit stop). In the case where infill or residential conversions result in increased population along an existing transit route which results in the need to increase service, the case could be made that assessment growth could support this growth. Transit ridership and boarding data at the stop level could help bolster the case noting it would demonstrate where the growth in transit demand is occurring.

The Five-Year Service Plan includes changes in frequency to two routes for 2025. The Planning department reviewed available data that would support the case that infill relating to population growth has occurred along these routes and none could be identified. The Service Plan for 2026 does include service

improvements to a new area, and as such may support an assessment growth funding request at that time. London Transit administration will continue to work with civic administration to identify areas of the London Transit growth budget that could be supported by assessment growth and will submit appropriate business cases as applicable.

**City of London Budget Presentation**

Subsequent to Commission approval of the 2025 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.

**Enclosures**

- I – 2025 Operating Budget Public Transit Services
- II – 2025 Detailed Operating Budget Analysis – Conventional (Commissioners only)
- III – 2025 Detailed Operating Budget Analysis – Specialized (Commissioners only)

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