

CITY OF HAMILTON

PUBLIC WORKS DEPARTMENT
Transportation, Energy & Facilities Division

8.2

Report to: Mayor and Members Committee of the Whole	Submitted by: Gerry Davis, CMA General Manager Public Works Department
Date: October 16, 2009	Prepared by: Don Hull Extension 1860

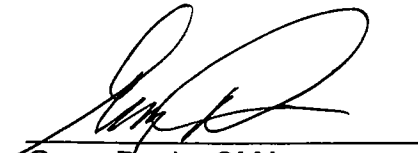
SUBJECT: 2010 Transit Operating Budget (PW09089) - (City Wide)
Committee of the Whole Outstanding Business List

RECOMMENDATION:

- (a) That the General Manager of Public Works be directed to implement the following recommendations in order to achieve a 2% expenditure increase for the Transit program in 2010:
 - (i) Amend the HSR fleet replacement policy to purchase only forty foot diesel buses;
 - (ii) Adopt an ATS fleet replacement policy to purchase only low floor ramp equipped fleet;
- (b) That the following amendments to the maintenance budget for implementation be considered:
 - (i) Authority to amend the current bus advertising contract with Street Seen Media Advertising for HSR fleet, in reference to Report PW08125, to include the ATS (DARTS) fleet;
 - (ii) An increase in the current contribution to the Operating budget from the Tickets in Public Hands account by \$100,000, in accordance with Report FCS09054/PW09047;
 - (iii) A transit fare increase effective January 1, 2010 that increases fares by an average \$0.XX per trip resulting in an estimated increase in fare box revenue of \$X.X million;
- (c)(i) That the recommendations from Accessibility Committee for Persons with Disabilities (ACPD) Report 08-006, Item 2, to increase the level of subsidy and increase the Taxi Scrip cap on the maximum purchase be received and referred to the 2011 budget process;
- (c)(ii) That this item be removed from the Committee of the Whole Outstanding Business List;

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- (d) That the Operational Review report undertaken by IBI Consultants be received, and **referred to staff** for a report back to Committee of the Whole responding to the report recommendations.



Gerry Davis, CMA
General Manager
Public Works

EXECUTIVE SUMMARY:

This budget submission responds to the corporate goal for 2010 of a 2% net levy increase. The report recommendations are intended to align with the guiding principles arising from Report FCS09094 that apply to this program for this year's budget preparation.

The 2010 maintenance level budget before consideration of initiatives to achieve the net levy goal is:

- a 2.5% or \$2.1 million increase in gross expenditures;
- a 3.0% or \$1.3 million decrease in net revenue;
- resulting in a 8.0% or \$3.4 million net levy increase.

The 2010 Current Budget major drivers are:

- increase of Employee Related Expenses of \$1.8M;
- net decrease in Fare Revenue of \$1.3M;
- increase in Fleet Insurance Premiums of \$0.3M.

Proposals for achieving Council's 2% budget goals, while maintaining program sustainability, are provided for Council's consideration:

- expenditure mitigation measures totalling \$500K;
- non-fare related revenue generation measures totalling \$125K;
- a fare increase of an average of \$0.20 per trip that will generate an estimated \$1.9 million in new revenue.

New investment in public transit is critical to; achieving Council's strategic objectives, economic development, compliance with emerging legislation, and the basic social necessity to provide citizens with access to their daily activities.

Transit budgets have financial characteristics unique to most municipal budgets. Transit programs in Ontario municipalities with populations similar to Hamilton, in recent history, typically recover about 50% of operating expenditures through user fees (fares).

As such, this uniqueness becomes evident when the rate of change in expenditures differs from the rate of change in revenue, simplistically demonstrated as follows:

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- A 2% increase in expenditures without a corresponding 2% increase in revenues results in a 4% net levy increase.

Transit programs will become unsustainable in an environment of successive years where the rate of rise in expenditures exceeds the rate of growth in revenue and escalate as options for non-service level mitigation diminish. Employee related expenses, fuel, bus parts, and insurance have been the major expenditure drivers common to the transit industry in recent years, consistently rising at a rate in excess of budget targets, inflation, and new revenue generation. During the last few years of economic prosperity, revenue growth has tended to keep pace with new investment in transit (expenditures). However, in 2009 that trend reversed and there is no reliable means of forecasting when this trend will turn positive again.

Fare Increase

Council approval of a fare increase by November 30, 2009 is required to allow the necessary lead time for implementation on January 1, 2010. It should be noted that the forecast includes phased-in rate increases to the University/College Transit Pass and other pass programs that have previously been negotiated with students at McMaster University, Mohawk College IAHS, Redeemer University College, and Columbia International College. Foregone revenue from a delay in a fare increase beyond January 1, 2010 would be in the order of \$100K per month.

The fare increase extends to the specialized transit (DARTS) program.

Fare increases can serve a number of purposes. Ideally, transit program managers recommend fare increases to generate new revenue to fund service level increases stipulated in corporate strategic objectives. Less desirably, in a challenged fiscal environment, fare increases are applied to meet fiscal goals for program budgets versus strategic goals. Finally, fare increases where the new revenue is used to offset increases to the general tax levy are detrimental to the sustainability of transit programs.

Expenditure Mitigation Plan

Significant expenditure mitigation is necessary for staff to deliver on the budget goal of balanced impact to the program and the customer.

HSR Fleet replacement policy

This initiative is presented on the understanding that the 10-year capital plan for HSR fleet replacement will be amended to include only 40-foot diesel buses and there will be no further purchases of hybrid/electric or articulated buses and that staff will be recommending, in a subsequent report, the introduction of smaller buses in service areas where maximum load capacity is more closely matched to peak load demand. On this basis, this reserve remains sustainable in the 10-year capital plan. Implementation of this initiative will result in a permanent reduction in the operating budget of \$200K.

ATS Fleet replacement policy

This initiative is presented on the understanding that the 10-year capital plan for ATS fleet replacement will be amended to purchase only low floor ramp equipped vehicles, at current pricing, versus the alternative to high floor lift equipped vehicles for the specialized transit program. It should be noted that this policy is unique to most of North America, wherein, most municipalities purchase the latter at roughly half the life-

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cycle cost. Coincidentally, Staff has had to recommend the purchase of high floor fleet on an emergency basis in the last few years due to the lack of availability of any vendor of low floor fleet. Notwithstanding, Staff continue to support the wishes of Hamilton ATS clients in general and that of our service provider DARTS, so long as the 10-year capital program for ATS fleet replacement remains sustainable. Staff, in consultation with DARTS, are currently piloting an entirely new low floor ramp equipped vehicle available to the North American market. Early trials are encouraging with positive feedback from DARTS clients and drivers. Based on this early indication of success with this type of vehicle, Staff views the risk of a permanent reduction in the contribution to the ATS fleet replacement reserve, reflecting the current purchase price of low floor ramp equipped fleet supplied by a new vendor with no historic experience, relative to the historical price as reasonable. Implementation of this initiative will result in a permanent reduction in the operating budget of \$100K.

Advertising on ATS/DARTS buses at a guaranteed revenue for 2010

Staff has received an unsolicited proposal from Street Seen Media, the current contractor for bus advertising on the HSR fleet, to amend the contract to include advertising on DARTS fleet. Staff has consulted with DARTS management who have expressed their support in principle. Implementation of this initiative will guarantee new revenue in the operating budget of \$25K, which is anticipated to be permanent.

Increase transfer of funds from the Tickets in Public Hands account

Report FCS09054/PW09047 gave staff the authority to draw from this account conditional upon maintaining sufficient balance to fund future unredeemed ticket liabilities. Implementation of this initiative will generate new revenue in the operating budget of \$100K, which is anticipated to be permanent.

Non-service level related efficiencies

Transit staff have made a commitment to find further non-service level related ongoing efficiencies over the course of 2010. This will be a considerable challenge given that the majority of the 2010 commitments within their control that are already made for 2010 are below 2%. Implementation of this initiative will result in a permanent reduction in the Operating budget of \$200K.

Taxi Scrip

Council's Advisory Committee for Persons with Disabilities (ACPD) has recommended that Council increase both the monthly availability and the subsidy level for the Taxi Scrip program. Staff supports the recommendations, however, does not recommend implementation of this enhancement at this time; while the Taxi Scrip program has proven to be effective in diverting trips from the Specialized Transit service (i.e. DARTS), there is potential for elimination of the Taxi Scrip program under the pending AODA legislation, as there may be a perceived inequity between those that are able to use Taxi Scrip and those that cannot by reason of their disability.

Benchmarking

Historically, prior to the current Provincial and Federal Gas Tax programs, Transit programs generally experienced consistent, if not predictable, benchmarking results. Flexibility in the method of investment of these funds is resulting in notable

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differences in transit program cost and ridership (efficiency & effectiveness) outcomes as illustrated in the benchmarking graphs included in the accompanying presentation to this report.

Hamilton continues to demonstrate above average results in all categories of performance tracked through the Ontario Municipal Benchmarking Initiatives Program (OMBI) for both the conventional (HSR) and specialized (ATS) transit programs.

Performance metrics for the Specialized Transit program are being provided for the first time in 2010. Council direction to transfer the Scheduling function of the ATS program DARTS, completed in August, effectively transferred operational control and accountability of the specialized transit program to DARTS. The 2010 budget year will be the first full year of operation in this governance model. The primary purpose of providing benchmarking data for the specialized transit program is to provide Council with the baseline performance measures at the time of transfer of operational control from the City to DARTS to permit future evaluation of the change. Productivity improvements committed to by DARTS arising from their recommended change in governance model has been reflected in the 2010 DARTS budget, representing a permanent savings of \$170,000 through increased scheduling productivity while providing the same year-over-year level of service.

Finally, the budget excludes consideration of implementation of Council's new eligibility policy for ATS services. Staff will be submitting a dedicated report on this initiative in the near future. The 2010 budget, as presented, will not be impacted by a future direction by Council to proceed with implementation, however, there will be substantive financial impacts on future budget years beyond 2010 to achieve compliance with the pending AODA legislation as it is currently contemplated.

BACKGROUND:

The information/recommendations contained within this report have City wide implications and relate to matters/facilities/programming/property within the entire City.

The 2010 budget strategy is intended to align with the guiding principles that apply to this program for this year's budget preparation that include: sustainability into the future; support Council's Strategic Plan; a balanced approach to budget reductions including efficiencies, new revenue sources, and service adjustments; maintain current capacity to serve the public; services relevant to public expectations and needs and current in terms of best practices demonstrating continued fiscal responsibility; endeavour to preserve legislated services and service levels, while ensuring they are delivered effectively and efficiently; endeavour to preserve key services, recognizing that some service levels may need to be adjusted to align with funding levels; seek new and diverse revenues; where revenue increases are considered, they should be evaluated against impacts on demand and accessibility, and total revenues; proposals resulting in one-time or short-term savings should identify any long term risks which may have a negative impact on future budgets or capacity; endeavour to preserve and maintain adequate infrastructure; and budget must match service delivery expectations.

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The last fare increase for HSR was in January 2008, that increase being \$0.15 on cash, \$0.10 on tickets, and \$8.00 on monthly passes, and included a \$0.10 increase in the price of a fare on specialized transit (DARTS). Transit fare structures have historically been designed to promote ridership and reward frequent use in recognition of Council's desire to balance the amount the user pays with user satisfaction, and further, to ensure the service is accessible to high need populations.

Ninety-two percent of urban Canadians think public transit makes their community a better, healthier place to live.

ANALYSIS/RATIONALE:

Staff regularly review fare structures in place at other comparable Ontario and Canadian municipalities providing public transit. Hamilton presently ranks low in fare cost when compared to most Ontario municipalities with populations greater than 400,000, being approximately 20% below the median fares elsewhere.

The 2010 budget submission includes a comparison of average fare to average income in response to Council direction arising from the 2009 budget presentation.

ALTERNATIVES FOR CONSIDERATION:

Council could defer consideration of this report to the 2010 budget deliberations, thus delaying the proposed January 1, 2009 implementation date for a fare increase. Such a deferral would significantly reduce the forecasted revenue projections and would result in a budget variance in the order of \$100K per month.

Council could also reduce the overall fare increase, or mitigate it entirely through a higher levy allocation to Transit than the City guidelines, with an ongoing impact on the Transit programs revenue to cost ratio and limiting of opportunities for direction of funding to the maintenance of growth initiatives.

Municipalities have applied the Provincial Gas Tax (PGT) in different ways. Although contrary to the expressed wishes of the Province, some municipalities committed 100% of the PGT to conventional transit operating budgets to expand on service levels and then allocated the ongoing Federal Gas Tax (FGT) to fleet procurement and program infrastructure. Hamilton's experience has been somewhat unique to the other municipalities in that the PGT has been allocated to a much broader range of transit programming including:

- to fund service level increases to both conventional and specialized transit programs
- to offset fare increases
- to achieve net levy goals
- to fund all capital associated with service level increases with no contribution from the ongoing FGT due to other priorities for the FGT.

Council could review service level impacts to mitigate the increase in the operating program. Staff will provide the number of service hours that would be required to be reduced as part of the budget presentation.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

The financial implications are illustrated in Tables 1 through 5 within this report. There are no legal implications associated with the service enhancement recommendations.

POLICIES AFFECTING PROPOSAL:

There are several policies that influence the decision making process within the Transit program.

Official Plan 4.4.2

“Transit service levels shall be increased incrementally, in conjunction with other policies to improve the viability of transit, with a goal of increasing annual ridership per capita”.

A cornerstone of the Corporate Strategic Plan (2007-2011) and the Public Works Business Plan (2008), is to provide programs that adhere to the principle of sound financial management for the long haul, delivered in a fiscally responsible manner. This is achieved by delivering programs according to approved service levels with budgets that match. The proposals in this report achieve Council objectives regarding program cost increases, while implementing a fare increase that maintain fares in Hamilton at or below the average for similar sized Canadian municipalities.

In addition to the above policies, the specialized (ATS) transit program is subject to a settlement agreement between the City and the Ontario Human Rights Commission and pending legislation arising from the *Accessibility for Ontarians with Disabilities Act 2005*. Regulations within the act for Accessible Transportation Standards are to be announced in 2009.

Priority setting was guided by :

- Corporate Strategic Plan
- Public Works Business Plan, Innovate Now!
- Transportation Master Plan
- Transit Ridership Growth and Asset Management Plans (2006)
- City Official Plan
- Corporate Strategic Plan (2007-2011)
- Roadmap to Sustainability
- GRIDS Direction 6
- CUTA Vision 2040

RELEVANT CONSULTATION:

Public Works and Finance & Corporate Services staff was involved in the preparation of the report.

Staff has consulted with the Strategic Planning Section of the Public Works Department towards implementation of Council's Transportation Master Plan.

CITY STRATEGIC COMMITMENT:

By evaluating the “**Triple Bottom Line**”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. **Yes** **No**
Participation in community life is accessible to all Hamiltonians.

Environmental Well-Being is enhanced. **Yes** **No**
A sustainable transportation network provides many options for people and goods movement; vehicle-dependency is reduced.

Economic Well-Being is enhanced. **Yes** **No**

Does the option you are recommending create value across all three bottom lines?
 Yes **No**

Do the options you are recommending make Hamilton a City of choice for high performance public servants? **Yes** **No**

Table 1

2010 Operating Budget - Expenditures

Account	2009 Restated	2010 Draft Budget	2010 Draft vs. 2009 Restated Budget	
			\$	%
Employee Related Cost	47,578,743	49,360,860	1,782,117	3.7%
Material And Supply	1,397,220	1,339,860	(57,360)	(4.1)%
Vehicle Expenses	13,160,476	13,177,116	16,640	0.1%
Building And Ground	206,640	206,640	-	0.0%
Consulting	51,880	51,880	-	0.0%
Contractual	12,528,720	12,678,330	149,610	1.2%
Reserves / Recoveries	3,694,700	3,694,700	-	0.0%
Cost Allocations	4,289,280	4,510,116	220,836	5.1%
Financial	1,954,600	1,952,350	(2,250)	(0.1)%
Expenditure [Maintenance]	84,862,259	86,971,852	2,109,593	2.5%
Expenditure Reductions				
Policy - HSR Fleet Replacement Reserve (small bus & diesel only)			(200,000)	
Various efficiency improvement initiatives			(200,000)	
Policy - ATS Fleet Replacement Reserve (reduced low floor cost)			(100,000)	
Expenditure [Proposed]	84,862,259	86,471,852	1,609,593	1.9%

- Community
- People
- Processes
- Finance



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2010 Transit Budget Presentation

Table 2

2010 Fare Revenue Variances

Growth/Decline Factors	Budget	Change to Budget	Change to Actual	% Change to Budget	% Change to Actual
2008 Approved Budget	\$30,833,500				
2008 Actual Growth	\$758,450				
2008 Actual	\$31,591,950	\$758,450		2.5%	
2009 Projected Growth	\$474,330				
2009 Approved Enhancement	\$(41,000)				
2009 Approved Budget	\$32,025,280	\$1,191,780	\$433,330	3.9%	1.4%
2009 Program Impacts	\$229,960				
2009 Golden Age Impact	\$(184,310)				
2009 Economic Downturn Impact	\$(1,598,030)				
2009 Projected Actual	\$30,472,900	\$(1,552,380)		(4.8%)	
2010 Program Impacts	\$197,940				
2010 Golden Age Impact	\$(111,560)				
2010 Revenue Adjustments	\$161,515				
2010 Projected Budget	\$30,720,795	\$(1,304,485)	\$247,895	(4.1%)	0.8%

- Community
- People
- Processes
- Finance



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2010 Transit Budget Presentation