SUBJECT: Transit funding sustainability

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-23-18

Wards Affected: All

File Numbers: 460-01

Date to Committee: July 9, 2018

Date to Council: July 16, 2018

Recommendation:

Direct the Director of Finance to amend the federal gas tax allocation to 75% roadways and 25% transit; and

Direct the Director of Finance to implement the proposed financing strategy as contained within report F-23-18, Transit Funding Sustainability; and

Approve the amended Vehicle Replacement Funding Policy, attached as Appendix C.

Purpose:

The purpose of this report is to provide Council with funding alternatives for transit. Transit in the city is essentially composed of two services conventional, and handi-van. Conventional transit represents the core service, providing service to a greater proportion of the population where concentrated efforts are made to grow ridership. Handi-van is a specialized service, offered to people with disabilities to assist in their transportation needs.

A City that Moves

- Increased Transportation Flows and Connectivity

Background and Discussion:

Transit is and will continue to be an essential service offered by the city. The service plays a vital role in the city's strategic plan to assist in shaping the landscape of the city through accessible public transportation that is convenient, timely and green. The

Strategic Plan sets out initiatives that support the growth of public transportation, and moreover, the recent adoption of the Official Plan will also set a standard for growth. Both these documents provide an outlook on the future of our city's public transportation system. However, further work is to be done in regards to how and when that growth will be achieved. The next step being undertaken is to embark on the Transit Plan in conjunction with the overall Transportation Master Plan. These plans will inform how transit will grow over the next several years to position ourselves for the future. In order to be prepared for the future growth in Transit, it is important that we address existing Transit issues which are impacting current sustainability of the capital program.

Over the last several budget cycles, it became apparent that funding available to the Transit program was not keeping pace with the capital needs. In previous years, the transit capital program was self-funded, relying on transit-specific funding for the renewal, replacement and expansion of Transit assets and anticipated that transit-specific annual senior government allocations would fully support transit along with revenues from ridership growth.

Transit assets include fleet, facilities, technology and ancillary equipment. The following is a summary of transit-specific funding that is currently or has been in the past available to Transit.

Provincial Gas Tax: The Provincial Gas Tax (PGTX) allocation to the City of Burlington began in 2004. The parameter around the use of this funding is for capital or operating expenditures that promote increased ridership. The 2018 allocation received was $2.26 million, of which $1.07 million was used to support transit operating expenditures and the remainder ($1.19 million) for transit capital expenditures.

Federal Gas Tax: The Federal Gas Tax (FGT) allocation to the City of Burlington began in 2005. At that time, eligible infrastructure categories were Roadways and Transit. At the start of the FGT program in 2005 and 2006, roadways received 100% of the gas tax allocation. In 2007, the allocation was split 80% roadways/ 20% transit. In 2008, the split was amended to 70% roadways/ 30% transit as a result of a transit services review and transit cost requirements. The last amendment occurred in 2012 in order to advance the city's shave-and-pave program, reverting the FGT split back to 80% roadways/ 20% transit, where it remains today. For the 2018 budget, the city allocation received was $5.6 million, split between roadways 80% ($4.48 million) and transit, 20% ($1.12 million).

Other Senior Government Funding: Over the past years, transit has been fortunate to receive additional dedicated infrastructure funding. In most instances, the funding program was used towards the purchase of expansion and/or replacement buses. A few examples of such programs were the Ontario

Bus Replacement program (2006-2010), Investing in Ontario (2008), Stimulus Funding (2009) and Public Transit Infrastructure Funds (PTIF).

However, fast forward to present day, it has created two issues. First, it allowed the purchase of multiple buses in a given year but did not give consideration to the fact that these buses will come due for replacement at the same point in time in the future. Second, it was not a predictable funding source for the continued replacement of buses. As such, we are in a position where we have a number of buses coming due for replacement in the same period with no sizeable funding to match. Recently, the federal government announced the *Investing in Canada* infrastructure plan in which the city has received a transit allocation. Guidelines regarding the use of funds will be provided. However, it is anticipated it will primarily be focused on the expansion of transit assets. As such, this funding allocation has not been included in the transit funding model presented within this report.

Currently, the transit capital program (conventional and handi-van) is projecting a minor funding deficit in 2019 as there is not enough funding for the quantum of assets needing attention. The deficit continues over the ten-year period and is projected to be $14.3 million by 2028, as shown in Appendix A.

Strategy/process

The focus of this report will be to review funding sustainability over the next ten years to closely reflect the ten year capital budget program and only deals with the replacement and/ or renewal of the current inventory of transit assets. Transit is currently in the process of completing a Transit Plan (TP) and the expectation is that the TP will speak to how transit will grow. To include assumptions on growth in this model would be premature in advance of the work to be done for the TP.

Staff evaluated the funding sources discussed above with the overall need of transit assets. Table A shows the replacement value of all transit assets that are currently funded by the transit program.

Table A: Transit Inventory

Transit Assets	Replacement Value ($M)
Conventional Buses (59 buses)	$32.6
Handi-Van Buses (13 buses)	$2.5
Transit Facilities	$17.4
Transit Equipment	$4.0
Transit Shelters	$4.1
TOTAL	**$60.6**

From the table, translating the replacement value over the average useful life of the assets, the annual need equates to approximately $4.2 million. Comparing this to an average annual funding of $2.3 million, results in a transit annual average infrastructure gap of $1.9 million. As mentioned earlier, the one-time funding received through senior government infrastructure programs has created large spikes in our needs which exasperate the gap in certain years. Unless the city receives significant increases to the annual PGTX and FGT allotment or another sustainable funding source geared towards transit is introduced, this negative trend will continue to grow.

Staff are bringing forward a strategy that starts to address the unfunded transit renewal needs over the next couple of years which will reduce the infrastructure deficit over the ten-year period. The strategy aims to align the intent of the funding to the appropriate assets being renewed and create consistency among asset categories. Staff recommend the following strategy:

> **Transit Assets:** Transit assets which do not directly support growth in ridership be funded through tax-supported capital financing. This means transit-related information technology (IT) projects and renewal of transit facilities be financed by tax supported funding. Over the next ten-year period the forecast is $1.9 million for Transit IT and $1.5 million for facilities renewal.
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> Also, handi-van vehicles and related equipment will be funded through the corporate vehicle depreciation reserve fund (VDRF). The corporate VDRF is funded through an annual provision from the operating budget. Staff recommend that the 2019 budget increase the annual provision to the VDRF by $270,000 to closely reflect the annual renewal requirements of handi-van vehicles. Staff will be re-directing savings in annual debt charges towards the provision to address infrastructure renewal without impacting the tax base. Appendix C, is the city's

corporate Vehicle Replacement Funding Policy amended to reflect the addition of transit handi-vans.

Federal Gas Tax: Staff recommend an amendment to the Federal Gas Tax split from 80% roadways / 20% transit to 75% roadways/ 25% transit. This will allocate a further $280,000 to the transit program annually ($2.8 million over ten years). The FGT split has not been amended in the last seven (7) years and the renewal need in Transit is immediate. As the Transit Plan is completed, the split will be re-evaluated to determine if this allocation is the most appropriate or if a greater change is warranted.

Provincial Gas Tax: Over the last several years, the amount transferred to the operating budget has been steadily increasing from approximately $250,000 in 2004 to $1.077 million in 2018. The main reason behind the increased allocation to the operating budget has been low transit fare revenues. The PGTX allocation has been, in effect, subsidizing transit operations while concurrently eroding the amount of PGTX available to transit capital assets. Staff recommend the allocation to the operating budget be capped at $1 million to prevent further erosion to the capital program. Capping the allocation to the operating budget to $1 million impacts the tax base by $77K or 0.05% and provides more predictable investment to both the operating and capital budget. Any future increases to the city's existing PGTX allocation will be allocated to the capital budget while maintaining the $1 million operating allocation.

The above strategy is reflected in Appendix B and shifts the funding deficit to the year 2021 and reduces the deficit over a ten year period from $14.3 million to $3.0 million. Furthermore, conventional buses and related equipment will be the only transit assets being funded with transit specific funding, which better aligns the intent of the funding with the assets that support ridership. This translates into an average annual need of approximately $3.2 million, compared to an average annual funding of $2.7 million, shrinking the funding gap to $500,000. The program still shows a deficit as there are 52 conventional buses forecasted to be replaced in the 10 year window, representing 95% of the entire conventional fleet.

It is important to note, the above changes represent a starting point to make transit sustainable in the short term. Staff anticipates that further changes will need to take place as there are multiple factors impacting the current and future sustainability of transit, which are listed as follows;

- **Growth assumptions:** The pace and quantum of expansion for conventional fleet or increases to service level is the largest driver of capital costs and operating impacts. Each conventional bus costs approximately $580,000 with an estimated cost of $320,000 (operating costs, including capital renewal) per year.

- **Useful Life:** Changes to the average useful life of conventional buses impacts the pace at which we are replacing the fleet. The useful life of conventional buses is currently modeled at 12 years. Staff continually assess bus replacement based on their condition and take every opportunity to extend the life of the asset. Note that extending the useful life by 1 year to 13 years reduces the deficit by $1.7 million in the same ten year time period.
- **Senior Government programs**: Provide additional funding to the capital program which can improve sustainability if they are long term programs.

Many of the above factors will be clarified as part of the Transit Plan; as such staff is not prepared to recommend further changes at this time to those provided within this report until the TP is completed.

Financial Matters:

The proposed transit funding strategy has several implications to the city's overall ten-year capital program. The strategy outlined within this report is about addressing transit's immediate need and shifting resources to allocate them in the most efficient manner.

The amendment to the Federal Gas Tax split impacts the roadways program by $2.8 million over ten years and the transition of some transit assets to be tax-supported has an impact to the facilities and IT programs. With the introduction of the first re-allocation of the hospital levy in 2019 of $1.7 million, this provides opportunity to allocate additional funding within the capital program to mitigate the tax-supported funding impact to those asset categories.

Staff have reviewed the corporate VDRF with the inclusion of handi-van vehicles and with the additional provision, there is no impact to the sustainability of the corporate VDRF over the next ten years.

Asset Management

The 2016 Asset Management Plan and corresponding financing strategy was brought forward to Committee in 2017. The AMP included all city assets and addressed the overall renewal need and funding available at a high level view across all city assets. Staff committed to provide a comprehensive update to the AMP every five (5) years. As part of the next update staff will be evaluating the infrastructure need and gaps at the asset category level in order to more efficiently allocate infrastructure funding between asset categories based on need.

Overall, the asset management plan over a sixty-year period is funded with periods of deficits within that time period. As we refine the plan for the next update and get a greater understanding of the needs at an asset category level, it will allow us to re-allocate renewal funding as needed while keeping the overall asset management strategy on target.

The following is a summary of the infrastructure funding included in the asset management financing plan;

- Dedicated Infrastructure levy of 1.25% (up to 2022), reducing to 1% (2023-2033) and further reducing to 0.5% (2034 and beyond)
- re-purposing the hospital levy in phases beginning in 2019 ($1.7 million)
- 0.2% levy beginning in 2020 to address the renewal needs of a growing asset inventory

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Connections:

The asset management financing plan represents an important document for the City of Burlington in maintaining the condition of our assets in a fiscally responsible manner. The short term sustainability strategy presented within this report fits within the spectrum of the long term asset management and develops a foundation for further alignment with the Transit Plan and the overall Strategic Plan.

Conclusion:

The strategy provided within this report is one step towards a longer term goal in making the transit capital program sustainable. It better aligns the transit senior government funding with the appropriate assets, creating consistency in how other assets are funded. The funding changes recommended within this report provide progress and practicality while allowing the Transit Plan to be completed, as well as not creating significant impacts to other asset categories. It focuses resources towards the transit's core conventional service supporting ridership growth. The TP is an integral component and will build upon the recommendations in this report and inform future updates to the model.

Respectfully submitted,

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Appendices:

A. Transit Funding Model

B. Transit Funding Model – Proposed Strategy

C. Vehicle Replacement Funding Policy

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.