



Hamilton

INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	September 23, 2020
SUBJECT/REPORT NO:	Financial Impact of Declining Transit Revenues (PW20061) (City Wide) Outstanding Business List
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Nancy Purser (905) 546-2424 Ext. 1876 Jason VanderHeide (905) 546-2424 Ext. 1858
SUBMITTED BY:	Debbie Dalle Vedove Director, Transit Public Works Department
SIGNATURE:	

COUNCIL DIRECTION

That staff be directed to provide a report to the General Issues Committee that summarizes the financial impact of declining transit revenues, and a list of options available to Council to temporarily offset the loss in 2021.

INFORMATION

The COVID-19 pandemic has shown the important role transit plays during times of uncertainty. Through these initial months transit continues to provide stable service that helps society function. Many essential workers, such as healthcare providers, food industry workers and grocery clerks rely on transit and the rest of the community, as a whole, benefits from the essential services these workers provide. As the Province has carefully reopened, the demand for transit service increased to a level that has surpassed our original estimates. By August we were experiencing a return to 51% of 2019 ridership levels when only 35% was originally anticipated during the earlier stages of the pandemic.

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All indications point to the COVID-19 pandemic continuing into 2021 with an optimistic view of a vaccine being available in the summer. Therefore, restrictions will continue to remain in place with respect to how many people are permitted to gather and how many are allowed in a social bubble. While elementary and secondary schools will be returning to in person learning at the start of the fall school term on augmented schedules, Colleges and Universities are opting for primarily distance learning. At the time of writing this report restrictions impacting tourism, concerts, festivals and professional sports remain in effect. Should alternative delivery of education, working from home, and Public Health restrictions remain in place into 2021, they will have an impact on 2021 ridership.

Revenues and Ridership

Council has supported investment in transit through the 10 Year Local Transit Strategy, and over the first 4 years of the plan more than 123,000 service hours have been added. These investments have attracted new riders to the HSR, with revenue and ridership surpassing budgeted levels for 2019 and the beginning of 2020 prior to the shut down due to COVID-19.

The implementation of year 4 of the 10 Year Local Transit Strategy resulted in ridership and revenue surpassing budget expectations at the end of 2019, a trend that continued through the first two months of 2020 until COVID-19 restrictions began.

Ridership							
	2019 Actual	2020 Budget	2020 Actual	Variance to Actual	Variance to Budget	Cumulative % Ridership Change to 2019	Cumulative % Ridership Change to Budget
January	1,888,982	1,912,154	2,006,497	117,515	94,343	6.2%	4.9%
February	1,707,381	1,755,850	1,832,095	124,714	76,245	6.7%	4.7%
Revenues							
	2019 Actual	2020 Budget	2020 Actual	Variance to Actual	Variance to Budget	Cumulative % Revenue Change to 2019	Cumulative % Revenue Change to Budget
January	\$ 3,740,006	\$ 3,975,850	\$ 4,083,719	\$343,713	\$107,869	9.2%	2.7%
February	\$ 3,573,204	\$ 3,713,500	\$ 4,029,950	\$456,746	\$316,450	10.9%	5.5%

When the Provincial Government announced a state of emergency on March 12, 2020 and gave stay at home orders, transit trips were limited to essential travel only, and transit ridership declined by 70%. Safety measures were implemented during this stage of the pandemic to assist in slowing the spread of the virus. These safety measures included increasing the frequency of cleaning the interior of the buses and accommodating physical distancing needs by limiting the number of customers on board the bus as well as requiring customers to board through the rear doors of the bus, which resulted in the pause in fare collection.

The Provincial Government announced that the Province would be entering Stage 2 of the Reopening Ontario Plan on June 19, 2020. On June 22, 2020, limitations on the number of customers on the bus were relaxed, capacity was increased, face covering became a requirement for customers using transit services, bio-shields for the protection of Operators were completed, and by July 1, 2020 fare collection resumed. Initial estimates in early June suggested that a return of 35% of 2019 ridership could occur during the summer months, however, with the Province's reopening plans moving forward, returning ridership resulted in 43% of early summer 2019 ridership.

With the transition to Stage 3 of the Province's Reopening Ontario Plan, ridership increased to 48% and revenue reached 55% of 2019 levels in July, and August was trending towards achieving 51% of 2019 ridership and 60% of 2019 revenue. At the time of this report August numbers were not available. A further increase in demand is anticipated to occur when elementary and secondary school students return to classes in the fall, however, demand may not continue to return at the same representative rate compared to Fall 2019 as it has during the summer months, because post-secondary educational institutions are operating mostly online and many workers continue to work from home.

As has been the case for conventional transit, demand for specialized transit (DARTS) has been impacted by COVID-19. With travel limited to essential trips only, shelter in place orders, and day programs being suspended, subscription and overall trips on specialized transit fell to 10% of normal levels during the early stages of the pandemic. While demand for specialized trips has returned to 30% of normal levels, it is anticipated that DARTS ridership will remain low over the coming months as many of the programs attended by customers who travel using the service are currently not operating or are operating at a reduced capacity. At the time of this report it is projected that DARTS will deliver only 37% of the 885,000 trips forecasted in the 2020 budget. Unlike conventional transit, reduced demand for specialized transit would result in a favourable variance at year's end because service is subsidized less through fare revenues and more through Municipal funding which is paid for on a per trip basis.

The impacts COVID-19 has had on conventional transit revenues, ridership for both conventional and specialized transit, and the financial position of the City of Hamilton in 2020 are discussed further in the Safe Restart Agreement funding section of this report.

As we look forward to the coming months, 2021, and the years ahead, there continues to be great uncertainty as to the effects the COVID-19 pandemic will have on transit revenue and both conventional and specialized transit ridership. Amongst the uncertainties are a second wave of the pandemic occurring this fall, no vaccine being available soon, continuation of alternative delivery of education, continuation of working from home, and Public Health restrictions remaining in place into 2021. Each of these potential scenarios will have an impact on 2021 ridership for both transit service types.

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The following chart summarizes the potential impacts on 2021 conventional ridership and revenue forecasting low, medium and high scenarios. All scenarios have assumed that a vaccine is not available and that work from home (WFH) practices where practical remain in effect for a lot of businesses.

2021 Potential Budget Variance				
Scenario	Ridership	%	Revenue	%
1. Low	(10,085,272)	(45.61%)	(\$20,517,875)	(43.49%)
Assumptions: No vaccine, 55% return in ridership Jan-Aug, 65% Sep-Dec, Year 5 implemented, Work From Home remains high, University/College remains virtual for winter and returns to 2019 enrolment levels for 2021/2022 academic year. Physical distancing measures in place.				
2. Medium	(9,043,724)	(40.90%)	(\$15,639,715)	(33.15%)
Assumptions: No vaccine, 55% return in ridership Jan-Aug, 65% Sep-Dec, Year 5 implemented, Work From Home remains high, University/College return in winter with reduced ridership and enrolment and returns to 2019 enrolment levels for 2021/2022 academic year. Physical distancing measures prevent full standing loads.				
3. High	(7,537,833)	(34.09%)	(\$12,060,280)	(25.56%)
Assumptions: No vaccine, 65% return in ridership Jan-Aug, 75% Sep-Dec, Year 5 implemented, Work From Home remains high, University/College return in winter with reduced ridership and enrolment and returns to 2019 enrolment levels for 2021/2022 academic year. Physical distancing measures prevent full standing loads.				

The following chart summarizes the potential impacts on 2021 specialized transit ridership. The scenario compares a 2021 Maintenance budget with same number of trips being forecasted as was the case in 2020 against a potential delivery of only 68% of the forecasted trips by year's end. Like conventional transit the scenario has assumed that a vaccine is not available, that work from home (WFH) practices where practical remain in effect for a lot of businesses, and day programming is limited.

2021 Potential Budget Variance			
Budget Year	Ridership	Cost/Trip	Municipal Funding
2021 Maintenance Budget	885,000	\$27.59	\$24,413,130
2021 Potential Ridership	605,593	\$31.07	\$18,814,387
Variance	(279,407)	\$3.48	(\$5,598,743)

Options to Offset Potential Revenue Shortfall

As we progress through 2020 and into 2021, and more information becomes available, a stepped approach using options from various funding sources could be utilized to offset any HSR revenue shortfalls that occur.

1. Safe Restart Agreement Funding
2. Vehicle Replacement Reserve Funding
3. Provincial Gas Tax Reserve Funding
4. Service Adjustments

1. Safe Restart Agreement Funding

On July 27, 2020, the Ontario Government announced an Historic Agreement to Support Municipalities and Transit, known as the Safe Restart Agreement. The Ontario government, in partnership with the federal government, is providing up to \$4 billion in urgently needed one-time assistance to Ontario's 444 municipalities. This funding is intended to help municipalities continue to effectively deliver critical public services, such as public transit, as the Province continues down the path of renewal, growth and economic recovery.

Through the Safe Restart Agreement with the federal government, \$695 million will help municipalities address operating pressures related to the COVID-19 pandemic through the first round of emergency funding and over \$660 million will support transit systems.

The City of Hamilton's share of the Phase 1 allocation is just over \$17.2 million for transit relief. Staff believe that the announcement, combined with other mitigation measures taken by the City and outstanding funding allocations still to be made, will assist in eliminating Transit's 2020 forecast deficit which is currently estimated at \$13.9 million per report FSC20069.

Phase 1 is intended to provide immediate relief from both revenue and expense pressures related to COVID-19. This Phase applies to pressures incurred between April 1, 2020 and September 30, 2020. The estimated COVID-19 related revenue and expenditure pressures for transit for the period being funded is \$19 million.

To date the Province has been silent on how Specialized Transit Service will be treated under this agreement and whether it will form part of the Phase 1 and/or Phase 2 eligible costs for transit relief. As the cost for specialized transit is funded from the Municipality on a per trip basis, and at the time of this report the number of trips forecasted to year end for 2020 is only 37% of the budgeted 885,000 trips, staff are estimating a \$10.6 million favourable variance to budget for DARTS service at year end.

A potential favourable variance of \$5.6 million could occur in 2021 if DARTS were to deliver 68% of trips forecasted in a 2021 Maintenance budget. The savings from DARTS in both 2020 and 2021 could help to offset shortfalls from HSR.

In order to be eligible for Phase 2, a funding transfer payment agreement will be required, and to be eligible for these funds to be released, the City is required to sign an acknowledgement of the conditions of the program. The provincial government has indicated that Phase 2 funding allocations will be structured to achieve ridership growth and transit sustainability. While there will be Phase 2 allocations coming forward, the specific allocations remain unknown. The Ministry of Transportation will consult with municipalities in the Fall.

The phased funding announcement only addresses pressures to the end of the provincial fiscal year on March 31, 2021. To date, there has been no formal communication with respect to Federal and Provincial funding support beyond March 31, 2021 related to municipal COVID-19 financial pressures.

Details on the requirements of the Transit funding were shared in Appendix “A” of the Federal and Provincial Government Funding Announcement Update Report (FCS20071), presented at the September 9, 2020 General Issues Committee.

2. Vehicle Replacement Reserve Funding

The Province has recommended approval of the projects put forward for Investing in Canada Infrastructure Program (ICIP), formerly known as PTIF phase 2. Included amongst the submitted projects is the Revenue Vehicle Replacement project which will provide funding from Provincial and Federal levels of government of \$0.73 of every dollar required to purchase replacement buses over the next five years. Transit maintains a Vehicle Replacement Reserve and currently places \$10.4 million into the reserve annually to allow for the purchase of replacement vehicles on a 12-year cycle. If approved through the ICIP program funding, replacement buses will be purchased in each year for the next five years at only \$.27 of every dollar. ICIP funding could provide a one-time opportunity to leverage excess funds within the reserve to offset HSR revenue shortfalls for 2021, should the Safe Restart Agreement not be extended for April – December 2021. Funding from the ICIP program will also ensure that the reserve remains sustainable for the long term. Several announcements related to ICIP Public Transit projects have been made in other communities in recent weeks. At the time of writing, staff have not received any indication about the status or timing for any announcement of City of Hamilton projects.

3. Provincial Gas Tax Reserve Funding

Advocacy has occurred requesting the province to maintain the 2019/2020 funding allocation of the Provincial Gas Tax (PGT) for the 2020/2021 allocation. The PGT allocation formula is based on 70% ridership and 30% population. Once the stay at home order was issued, trips taken on all modes of transportation immediately reduced, leaving transit agencies with less ridership and the government with less fuel tax revenue. This could create short term impacts for the program.

Transit maintains a reserve for PGT, the reserve was created due to timing of receipt of the funding and the actual implementation of previous service enhancements. The 2020 projected ending balance is \$19.1 million. Approximately \$10.9 million is drawn annually from the reserve to fund a portion of the HSR operating expenditures. Since future PGT funding is unknown, the sustainability of the reserve is uncertain. Assuming status quo funding levels, funds could be utilized from the PGT reserve to offset a portion of the potential 2021 revenue loss should the funding from the Safe Restart Agreement and Vehicle Replacement Reserve not be enough.

4. Service Adjustments

The last potential option to offset revenue shortfalls would be service adjustments, however, this option should only be considered if all other options have been exhausted and with caution due to the impacts it would have on transit sustainability and the City's recovery.

Given that pre-COVID revenue and ridership were exceeding budgeted expectations for early 2020, current revenue and ridership data is better than was originally anticipated, and public health recommendations for physical distancing remain in place, any adjustments to the current service levels and vehicles in operation may lead to high instances of overcrowding, a significant increase in reported pass-bys and result in an unreliable transit system.

Physical distancing and mass transit are complete opposite concepts. Mass transit is about moving large numbers of people at the same time, whereas physical distancing dictates that only a few people be permitted on a bus at any one time. At the height of the pandemic, the number of customers on board the buses was reduced to 10 on a 40' bus and 15 on a 60' bus, which led to a significant increase in reported pass-bys. On June 22, 2020 the limit on customer loads increased to 2/3 to maintain physical distancing, wearing a face covering became mandatory and reported pass-bys went down based on the customer demand at the time. On September 6, 2020, capacity was increased again to the equivalent of a 100% seated load which means 30 customers on a 40' bus and 50 customers on a 60' bus. The incremental increase in capacity throughout the pandemic has addressed the travelling needs of returning customers as

businesses and services have reopened and will continue to support these needs through Phase 3, and the start of the school year for elementary and secondary school students who will be returning to using transit services.

Investment in transit and the addition of 123,000 hours provided through years 1 to 4 of 10 Year Local Transit Strategy has been targeted to address deficiencies in the system, align the service to the updated Council approved service standards, accommodate ongoing population growth and improving service on the BLAST lines to achieve modal split targets outlined in the Transportation Master Plan.

HSR continues to focus on customer safety and reliability during these uncertain times in order to retain customers and encourage others to use transit. Transit service plays a vital role in the City's economy and reducing transit service levels will impact HSR's ability to gain back ridership lost during the pandemic as well as supporting the City's recovery plans and future economic growth plans. Should service adjustments be considered to address any remaining shortfall in revenues, momentum achieved through transit investments in the first 4 years of the 10 Year Local Transit Strategy will be stalled and long-term negative impacts to service sustainability and ridership are likely to result. All service adjustments would be reviewed using the Council approved service standards, with the additional lens that considers the public health recommendation for physical distancing and safeguards against reductions that create a greater hardship for residents who are already struggling from the effects of the pandemic.

Long Term Benefits of Continued Transit Investment

1. Maintenance and Storage Facility

The requirement for an additional facility was identified with the development of the 10 Year Local Transit Strategy. The facility at 2200 Upper James Street has a storage capacity of 200 buses. With HSR now operating 267 buses; this facility is now operating well beyond its design capacity with 67 buses being stored outside resulting in challenges to effectively and efficiently maintain and operate transit services. The second Maintenance and Storage Facility has been recommended for ICIP funding by the Province. This project is shovel ready. The construction of the second maintenance and storage facility will help revive the economy by creating new jobs, it will also alleviate the pressure at the current facility and enable HSR to begin planning for the transition of the fleet to battery electric vehicles. The design of the new facility allows for space provisions to enable future conversion to store and maintain a fleet of 100 electric buses.

2. Transportation Master Plan

The Transportation Master Plan (TMP) updated in 2015 has a target of 12% modal split for Transit to be achieved by 2031, at which time the City's population is expected to reach 660,000. Transit's current modal split based on the 2016 Transportation Tomorrow Survey is 7%. Key objectives of the Transportation Master Plan include improving environmental sustainability, reducing dependence on single-occupant vehicles, promoting improved options for walking, cycling and transit, maintaining and improving the efficiency of trips related to the movement of goods and servicing of employment areas while supporting the City's growth

APPENDICES AND SCHEDULES ATTACHED

N/A