

**Report to  
Rapport au:**

**Transit Commission  
Commission du transport en commun  
16 September 2020 / 16 septembre 2020**

**and Council  
et au Conseil  
23 September 2020 / 23 septembre 2020**

**Submitted on September 4, 2020  
Soumis le 4 septembre 2020**

**Submitted by  
Soumis par:  
Wendy Stephanson, Chief Financial Officer, Finance Services Department / Cheffe  
des finances, Direction générale des services des finances**

**Contact Person  
Personne ressource:  
Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance Services  
Department / Trésorière municipale adjointe, Finances municipales, Direction  
générale des services des finances  
613-580-2424, ext. / poste 21312, Isabelle.Jasmin@ottawa.ca**

**Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE      File Number: ACS2020-FSD-FIN-0020**

**SUBJECT: 2020 TRANSIT OPERATING AND CAPITAL BUDGET Q2 STATUS  
REPORT AND COVID-19 FINANCIAL MITIGATION STRATEGIES**

**OBJET: RAPPORT D'ÉTAPE DU DEUXIÈME TRIMESTRE DE 2020 SUR LES  
BUDGETS DE FONCTIONNEMENT ET D'IMMOBILISATIONS DU  
TRANSPORT EN COMMUN ET STRATÉGIES D'ATTENUATION  
FINANCIÈRES LIÉES À LA COVID-19**

## **REPORT RECOMMENDATIONS**

- 1. That the Transit Commission receive the 2020 Transit Operating and Capital Budget Q2 Status Report and COVID-19 Financial Mitigation Strategies; and**
- 2. That the Transit Commission recommend Council approve the following:**
  - a. That the Chief Financial Officer submit a report to the Ministry of Transportation outlining the City of Ottawa’s use of the Municipal Transit Funding - Phase 1 funds and a forecast of eligible expenditures to March 31, 2021; and, seeking additional funding under Phase 2 of the Safe Restart funding program – Transit Stream;**
  - b. That the following capital funds from capital projects be deferred to 2021 or later, as detailed in Document 4, and the following be returned to source:**
    - i. Transit Capital Reserves \$20,380,000**
    - ii. Federal Gas Tax \$10,400,000**
    - iii. Transit Debt \$1,000,000**

## **RECOMMANDATIONS DU RAPPORT**

- 1. Que la Commission du transport en commun prenne connaissance du rapport d'étape du deuxième trimestre de 2020 relatif aux budgets de fonctionnement et d'immobilisations du transport en commun et des stratégies d'atténuation financières liées à la COVID-19; et**
- 2. Que la Commission du transport en commun recommande au Conseil d'approuver :**
  - a. que la cheffe des finances dépose un rapport au ministère des Transports décrivant comment la Ville d'Ottawa met à profit le financement consacré au transport en commun – financement de la Phase 1 et les prévisions relatives aux dépenses admissibles jusqu'au 31 mars 2021 et demandant des fonds supplémentaires en vertu de la phase 2 du Cadre de relance sécuritaire - Volet Transport en commun;**
  - b. que les fonds d'immobilisations suivants relatifs aux projets d'immobilisations, soient reportés à 2021 ou plus tard, comme**

**l'explique le document 4, et que les montants suivants soient remis à leur source de financement :**

- i. Fonds de réserve pour les immobilisations du transport en commun : 20 380 000 \$**
- ii. Fonds de la taxe sur l'essence fédéral : 10 400 000 \$**
- iii. Dette liée au transport en commun : 1 000 000 \$**

## **BACKGROUND**

The COVID-19 pandemic has resulted in many changes, affecting government priorities and funding, human needs and behaviors, and the world's economic condition. In response, the City's operations needed to change significantly, in a short period of time, with required facility closures, program cancellations and modification of services provided. More recently, attention has turned to the safe resumption of some services in modified ways to meet evolving restrictions on social gathering and physical distancing. Employees' work environments have also had to be modified such that employees have been redeployed to other services or are working from home.

The City of Ottawa has taken extraordinary and necessary measures to support its residents, including the most vulnerable, through this unprecedented public health and economic challenge. The response to the COVID-19 pandemic are expected to continue to result in significant financial pressures for the remainder of 2020, as well as the next several years.

Given these unique circumstances the City is facing in response to the COVID-19 pandemic, staff have provided Council with numerous verbal updates of the current and projected financial implications related to the 2020 Budget specific to this event.

Quarterly operating and capital status reports are prepared as part of the reporting framework approved by Council. Operating reports present actual year-to-date revenues and expenditures against the amounts previously budgeted for the corresponding period. The year-end forecasts are also presented in the second quarter reports. Capital reports provide a listing of:

- Capital projects and programs
- Authorized expenditure budgets
- Actual expenditures and commitments incurred to date
- Remaining amount to be spent

The purpose of this report is to present the June 30 year-to-date operating and capital results for Transit Tax Supported Programs as well as providing a year-end forecast. A significant portion of the 2020 Q2 results and forecast to the end of the year includes the additional costs and revenue shortfalls due to COVID-19. Therefore, included in this report is an analysis of the revised forecast COVID-19 deficits in 2020 for Transit and the recommended financial strategies to address these anticipated deficits.

Document 1 provides operating budget detail on year-to-date results for the various service areas and forecasts for 2020.

Document 2 provides compensation information showing the actual salary, benefits and overtime costs incurred by departments and branches for the first six months versus the full year budgets.

Document 3 provides a detailed listing of the status of capital projects.

Document 4 provides a list of the capital projects recommended for deferral to 2021 or later, to return funding for these projects to source and provide sufficient cash reserves to address any COVID-19 deficits that cannot be offset by other sources in 2020, and to provide some flexibility in 2021.

## **DISCUSSION**

### **June 30 Year-To-Date Results / Year-end Forecast**

The year-to-date budget figures are prepared on a “calendarized” basis. Departments allocate their annual budgets on a monthly or quarterly basis based primarily on experience.

A high-level summary of the year-to-date net operating results and net year-end forecast for OC Transpo is summarized below in Table 1, followed by a discussion on significant budget variances:

Document 1 provides additional details on the June 30 position and the year-end forecast for each service area based on best estimates available at this point of time.

**Table 1: June 30 Operating Results / Year-end Forecast (in thousands of dollars)**

	<b>2020 Q2 Net Surplus / (Deficit)</b>	<b>2020 Forecast Surplus / (Deficit)</b>
Conventional & Para Transpo Operations	(6,320)	(16,620)
Revenues	(44,745)	(43,072)
<b>Total</b>	<b>(51,065)</b>	<b>(59,722)</b>

### **Highlights of June 30 YTD Results**

The 2020 Q2 operating results shown in Table 1 indicate a deficit of \$51.065 million, of which \$44.2 million is the result of COVID-19.

The expenditure variance is due to higher than budgeted insurance costs, staffing costs for service reliability as a result of LRT performance related issues and COVID-19 costs, such as enhanced cleaning for buses and trains, protective equipment and other materials. These costs were partially offset by lower compensation due to vacant positions, lower fuel consumption and reduced Presto commission fees.

The revenue shortfall is primarily due to the significant drop in ridership since the beginning of the pandemic in March.

### **2020 Year-end Forecast**

The end-of-year forecast is a deficit of \$59.7 million, of which \$47.3 million is the projected COVID-19 impact and \$12.4 million is due to non-COVID-19 pressures.

### **Non-COVID-19 Deficit**

The forecast non-COVID-19 deficit of \$12.4 million is primarily due to the higher insurance claim cost, higher staffing and operating costs to address service reliability, addition of R1 and S1 buses, offset by lower compensation due to vacant positions, lower fuel prices and RTG performance deductions. The revenue deficit is also impacted as a result of the fare freeze, as decided by Council, and in which staff was directed to seek recovery from RTG.

## Forecast COVID-19 Deficit for Transit

The forecast COVID-19 deficit for Transit is \$123.7 million but is offset by \$1.5 million in government funding to help pay for the cost of enhanced cleaning for buses and \$76.4 million in Phase 1 funding from the Safe Restart Fund, which is described in greater detail in the Financial Mitigations section of this report.

The forecast 2020 COVID-19 deficit of \$123.7 million for Transit, breaks down as follows:

- **Revenue reductions of \$117.5 million:** Lost revenues for Transit are estimated at \$117.5 million in 2020. This analysis assumes that fare collection continues, and ridership increases from July to December with the completed installation of operator shields to allow for front door boarding and full fare collection. Although the situation continues to evolve, based on the information available, fare revenue from transit customers is tentatively assumed at approximately 15 per cent to 25 per cent of budgeted levels (or a 75 per cent to 85 per cent reduction to gross revenue) for June, July and August. Fare revenue for September to December has been cautiously assumed at 30 per cent of budgeted values. In addition, disruption to the spring education semester and changes to move to an online learning model for the summer and fall education semesters, less ridership is anticipated for universities and colleges, which will also result in significant reductions to revenues under the University / College Transit Pass (U-Pass) agreements, which normally brings in \$37 million annually.
- **Plus additional costs of \$17.1 million:** Forecast additional contractor, material, supplies and staff costs due to COVID-19 are primarily for cleaning and disinfecting trains and buses, including a special chemical applied to bus interiors to repel the virus, protective equipment, cloth masks, sanitizers, and bio-shields installed in buses, in order to allow for front boarding.
- **Less cost savings of \$10.9 million:** Due to the decline in ridership, OC Transpo has saved some operating costs primarily for Para Transpo contracted services, fuel consumption, tires, reduction in Presto commission fees and some reductions in discretionary spending.

## Q2 Compensation Results

Document 2 provides compensation information showing the actual costs incurred by service areas related to salaries, benefits and overtime costs for Q2 versus the full year

budget. Overall, total actual compensation costs for the second quarter were 55 per cent of the full year 2020 compensation budget; this was mainly attributable to wages that were offset by capital recovery, and COVID-19.

Actual overtime costs as a percent of the annual budget is 85 per cent spent; this was mainly the result of staff costs for bus and facility cleaning due to COVID-19.

### **Budget Adjustments and Transfers**

During the second quarter of 2020, there were no budget adjustments or transfers made either through the delegated authority given to the Chief Financial Officer nor through Council approved reports.

### **Capital Projects and Programs**

Document 3 provides a list of all active transit capital projects. The list identifies the lead service area and financial status including the approved budget versus actual results and anticipated completion date. The total for capital works-in-progress is \$650 million of which \$115 million is uncommitted to date.

### **2020 COVID-19 Financial Mitigation Strategies for OC Transpo**

The City has experienced significant revenue losses resulting from the COVID-19 pandemic response and business closures. COVID-19 has highlighted how vulnerable the City is, in terms of revenues generated outside the property tax base. The City is dependent on user fee revenues as well as other miscellaneous revenues to balance the budget.

The *Municipal Act* does not allow Ontario cities to debt finance operating deficits, so the City must find ways to close the gap within existing funding sources. To assist with the review and analysis of the financial mitigation strategies, staff developed guiding principles to support the analysis and overall strategies. Staff applied a measured and practical approach to eliminating the deficit using three guiding principles to prioritize areas where the City can reduce costs and close the gap.

The first guiding principle – One-Time Solutions

- Implementing one-time solutions that address immediate financial pressures and do not have long-term impacts on the City's financial sustainability.
- One-time solutions are best for one-time problems and do not impact the City's financial sustainability future years.

- Provide flexibility and a right sized response to the City's immediate problem without long lasting effects.

The second guiding principle – Balanced Approach

- Using a balanced approach that ensures the delivery of statutory and mandatory services citywide and considers the Term of Council priorities.
- It recognizes that some of the mitigation strategies are over a longer period of time as the City cannot deal with them immediately.
- The principle also provides the flexibility to implement the mitigations with a view in terms of what is known about provincial and federal assistance.
- Staff are reviewing the Corporate Strategic Plan including revisiting each term of council priority to see what is still feasible in the new COVID-19 reality.

The third and last guiding principle – Transformational

- Implementing transformational changes to improve how the City offers services now and, in the future.
- COVID-19 has changed how the City does business creating a need to assess what future service delivery looks like.
- Provides a view into the City's service delivery to year end and into 2021, which will inform the 2021 budget and future service offerings.

Using the guiding principles above, staff have explored a variety of possible mitigating strategies to address the significant forecasted deficit for OC Transpo.

### **Transit Fare Revenue**

The most significant financial pressure related to transit services due to COVID-19 has been the substantial reduction in revenue from customers' fares. The continued collection of fares since the start of the pandemic has mitigated this pressure and has contributed to the funding of delivering this critical service.

### **2020 Capital Project Deferrals**

Over the month of July and part of August, staff conducted a review of the planned 2020 capital projects. With an eye to risk, level of service and coordination, staff undertook a prudent review of the 2020 capital program to identify candidates for deferral.

A total of 19 projects have been identified with total transit tax reserves funding of \$20.4 million that can be returned to source. These are projects that have not started, nor tendered or have any dependency on other projects. The City will defer into 2021 some of our planned expenditures on transit equipment and system replacement and facility refurbishment. Planning and design of these projects will continue so that work can resume when funding is available. This will not delay the construction of the Stage 2 extensions of the O-Train system.

The funds from the capital project deferrals, will help to address any funding gaps in 2020 if the funding from the Safe Restart Agreement is not sufficient to cover all the costs and pressures due to COVID-19 in 2020 and provide flexibility to fund gaps in 2021. A list of deferred capital projects is outlined in Document 4.

### **Federal Economic Safe Restart Program**

On July 16, 2020 the federal government announced they will provide \$19 billion to the provinces and territories to help fund a "safe restart" of the Canadian economy.

On July 20, 2020, as part of the Federal-Provincial Safe Restart Agreement, the Ontario Government announced that it had secured up to \$4 billion in federal emergency assistance to provide Ontario's 444 municipalities with the support they need to respond to COVID-19. It includes up to \$2 billion to support municipal operating pressures, and up to \$2 billion to support municipal transit agencies.

On August 12, 2020 the City received confirmation of its allocation and that the funding will be allocated in two phases for two main streams: Municipal Operating Pressures Stream and the Transit Stream. A two-phased approach provides some flexibility to address pressures, including any ongoing or increased impacts from a second wave of COVID-19. This report describes the Transit Stream. The Municipal Operating Pressures Stream is described in greater detail in the 2020 Tax and Rate Q2 Operating and Capital Budget Status Report and COVID-19 Financial Mitigation Strategies Report.

Under Phase 1 of the Transit Stream, the City will receive funding of \$74,980,842 to support COVID-19 municipal transit pressures covering the period of April 1, 2020 to September 30, 2020, which represents 92 per cent of the transit pressures to the end of September. The Recipient is required to report back to the Province, using a template to be provided by the Ministry of Transportation, by October 30, 2020 with details on the use of the Phase 1 funds and a forecast of eligible expenditures to March 31, 2021.

Financial pressures that are eligible for reimbursement under this program include both financial pressures associated with the need to continue to operate with reduced revenue and new or additional expenses resulting from COVID-19.

Phase 1 funding of \$74.98 million is less than the City's forecast transit pressures of \$123.7 million to the end of December 2020. Estimated pressures to the end of March 31, 2021 have not been developed yet; but will be, as part of the application for additional funding through Phase 2. The report back to the Province at the end of October will support the need for additional funding in advance of Phase 2 reporting and confirmation of the additional funding amount is to be provided by December 31, 2020.

### **RURAL IMPLICATIONS**

There are no rural implications associated with this report.

### **CONSULTATION**

Not applicable.

### **COMMENTS BY THE WARD COUNCILLOR(S)**

Not applicable.

### **ADVISORY COMMITTEE(S) COMMENTS**

Not applicable.

### **LEGAL IMPLICATIONS**

There are no legal impediments to implementing the recommendations in this report.

### **RISK MANAGEMENT IMPLICATIONS**

There are no risk impediments to implementing the recommendations in this report.

### **FINANCIAL IMPLICATIONS**

The financial implications are outlined in this report.

### **ACCESSIBILITY IMPACTS**

There are no accessibility impact implications to implementing the recommendations in this report.

## **TERM OF COUNCIL PRIORITIES**

This report supports the City's on-going commitment to financial sustainability and transparency.

## **SUPPORTING DOCUMENTATION**

Document 1 – Operating Results June 30, 2020 and 2020 Forecast

Document 2 – 2020 Q2 Compensation Summary

Document 3 – 2020 Capital Works-in-Progress

Document 4 – Transit 2020 Deferred Capital Projects

## **DISPOSITION**

Upon approval of this report, Finance will process the necessary adjustments and submit the report and application for Safe Restart Phase 2 funding to the Province within the required deadlines.