

Commuter Service Transfer Cost Impact Rationale

A starting point is required in order to quantify the potential direct cost impacts of transferring St. Albert Transit's commuter system to an external entity. The following key data are the basis for the assumptions that were made to determine a potential cost impact range for the purposes of this report.

In the September 26, 2016 Council Agenda Report entitled "Metropolitan Transit Project", this document was included at attachment 1. A review of the original financial assumptions was made during this phase of the project.

Original Assumptions (2016)

Revised Assumptions (2017)

Fleet

1. 38 of the 58 buses in the system support commuter service
2. Several of the commuter buses provide 'interlined service' on local routes.
3. 5 new buses required to preserve stat quo local service levels and spare ratio
Unchanged

Budget

1. \$12.4M annual operating budget
2. 51% of service hours (and kilometers) are dedicated to commuter service
Unchanged
3. 51% of operating costs associated with commuter service (+/--\$6.2M)
(+/--\$6.1M)
4. 49% of service hours (and kilometers) are dedicated to local service
Unchanged
5. 49% of operating costs associated with local service (+/--\$6.2M)
(+/--\$5.9M)
6. \$4.4M revenue which includes U-Pass revenue of \$1.8M
\$4.04M Fare revenue which includes U-Pass revenue of \$1.9M
7. 70% of ridership and fare media is generated by commuter system (+/--\$3.1M)
67% of ridership and fare media is generated by commuter system (+/--\$2.7M)
8. 30% of ridership and fare media is generated by local system (+/--\$1.3M)
33% of ridership and fare media is generated by local system (+/--\$1.3M)
9. \$3.1M tax supports commuter system
\$3.4M (\$6.1M – \$2.7M)
10. \$4.9M tax supports the local system
\$4.6M (\$5.9M - \$1.3M)

Original calculations of revenue included all revenue sources (transfers from reserves, grants, recovered costs, and advertising revenue). This was estimated at \$4.4M. Fare revenue only equals approximately \$4.04M. Total costs for original assumptions were based on budget for that year, new costs are based on actuals for that year.

Cost Recovery

1. Current system Revenue to cost (R/C) is 0.37
2016 CUTA data is not out yet
2. Commuter service R/C ratio is 0.50
Commuter service R/C ratio is 0.51
3. Local service R/C ratio is 0.21
Local service R/C ratio is 0.22

Administration

1. Internal - unknown potential operating savings
 2. Entity - unknown additional operating costs
 3. Assume the operating savings and costs offsetting for this exercise
 4. Asset valuation of the debt free buses has not been considered in this exercise
- The unknowns identified above previously, remain at this point

Cost Impacts

A. Same service – preserve existing local route service levels and tax levy support - \$600,000

As is indicated in Fleet #3, **5 additional buses** will be required to address the equipment that will be transferred to the commuter system entity that had been 'interlined' and providing local route service in addition to the commuter service.

Estimated debt costs \$280,000 + estimated operating costs \$320,000 = **\$600,000/year**

B. R/C – Preserve equivalent R/C ratio (37%) for local system - \$1.0M

As indicated in the title, this cost impact rationale is based on recognizing that the 'money making' commuter route revenue that props up the R/C ratio for the entire system is being transferred with the commuter system. This results in a very poor R/C ratio for the remaining local route system that would be decidedly lower than most conventional transit systems. In order to remain whole from that perspective, the following theoretical calculation addresses the financial support required to prop up the local system equivalent R/C to 0.37.

- Assumes following local routes metrics
 - Operating costs (budget #5) \$6.2M (\$5.9M)
 - Revenue (budget #8) \$1.3M (\$1.3M)
 - Tax support (budget # 10) \$4.9M (\$4.6M)

Yields R/C ratio $1.3/6.2 = 0.21$ (cost recovery #3)

$$1.3/5.9 = 0.22 \text{ (cost recovery \#3)}$$

In order to regain the R/C of 0.37 the equivalent additional 'revenue' would need to be

0.37 * \$6.2M costs =	\$2.3M (\$2.2M)
Existing real revenue	\$1.3M (\$1.3M)
Financial Support	\$1.0M/year (~\$900K/year)

This exercise and rationale could be the justification for St. Albert to keep an additional \$1M in revenue in the commuter transfer agreement. (ie. Only transfer \$2.1M revenue to the entity instead of the \$3.1). In any regard this speaks to a shortfall of \$1M to St. Albert or the entity.

The shortfall could be slightly or higher than \$1M depending on existing R/C ratio. Or if an average of the last 5 years R/C ratio was taken to show consistent numbers, the ratio might cause this shortfall to fluctuate.

Summary

The estimated cost impacts to St. Albert with the currently conceived commuter service asset and revenue transfer to the Regional Transit Commission could range from \$600,000 to \$1.6M annually.