



The Corporation of the Town of Milton

Report To: Council

From: Tony D'Alessandro, Director, Transit Services

Glen Cowan, Chief Financial Officer / Treasurer

Date: May 30, 2022

Report No: COMS-003-22

Subject: Milton Transit Service Delivery Contract

Recommendation: THAT Council approve the contract extension to Diversified Transportation - PWTransit Canada for a period of three (3) years, plus a one (1) year option effective July 1, 2023 under the existing terms and conditions, and subject to inflationary and growth-related changes to the costing framework;

THAT the Manger, Purchasing and Risk Management be authorized to execute the contract(s) and the Mayor and Town Clerk be authorized to sign any required paperwork.

EXECUTIVE SUMMARY

- The Town has retained a dedicated, third-party transit service provider since 2010 under a contract that has evolved to include conventional, specialized and Alternative Service Delivery (ASD) programs.
- Diversified Transportation - PWTransit has been able to leverage corporate business lines and cultivate local vendor relationships to acquire staff and competitive pricing for goods and services, mitigating Town impacts (e.g. service technicians, wash bay crews, operators, parts, subcontracted specialty maintenance, etc.).
- In advance of the expiry of the current agreement, staff initiated a comprehensive review and assessment of current service delivery considerations and implications. A number of key factors were evaluated, including:

EXECUTIVE SUMMARY

- Service Contractor Landscape and Comparables
 - Transit Facility Arrangement, Limitations and Future Development
 - Administrative Impacts
 - Long-Term Service Planning
 - Strategic Regional Considerations
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- Transit contract rates, as a function of total operating expenses per annual service hours delivered, remain in line with Greater Golden Horseshoe (GGH) contracted-service comparables over the last five (5) years.
 - A Town-owned transit facility projected to be developed and operational in 2026/27 will drive market competition and appeal from other service providers to bid on a service delivery contract. However, the present lack of an available transit facility remains a significant barrier, affecting contract attractiveness. PWTransit currently leases a facility located at 420 Morobel Drive, which has been retrofitted to accommodate transit service delivery functions.
 - Dedicated staff resources at current levels would have limited workload capacity to undertake a competitive procurement process without lengthy timelines and work plan reprioritization. Staff note that there would be limited economic benefit initiating a procurement process at this time.
 - A contracted service delivery model as implemented in Milton would not hinder any process or evolution towards a regional transit system and/or governance model, as observed in some GTHA jurisdictions with contrasting interregional operating models.
 - Based on this review and assessment, staff recommend executing a contract extension with Diversified Transportation - PWTransit Canada, effective July 1, 2023.
 - Excluding the impact of growth, the contract represents an annual increase to the cost of service of approximately 3.2% on average.
 - Contract cost projections consider changes to the fixed support services and variable cost rates, as well as the projected facility rent, maintenance and fuel requirements (for which final payment are based on actual flow-through cost).

EXECUTIVE SUMMARY

- The Town expects to be better positioned to undertake a competitive procurement process for future transit services following the construction of a new transit operations facility (currently projected for 2026/27).

REPORT

Background

The Town has retained a dedicated, third-party transit service provider since 2010. Guided by recommendations from the 2009-2013 Strategic Plan for Transit Services (COMS-007-09, COMS-033-09), subsequent operational plan (COMS-048-09), Request for Proposal (RFP) process and proposal award (CORS-007-10), the Town executed an initial six (6) year service contract with Diversified Transportation Ltd. - PWTransit Canada (herein referred to as “PWTransit”). The contract with PWTransit is comprised of key service delivery functions and associated responsibilities, including but not limited to:

- Establishing a local transit maintenance and storage facility (located at 420 Morobel Drive, Milton, Ontario);
- Providing operations and on-street supervision;
- Storing, maintaining and servicing Town-owned transit fleet; support-vehicle fleet
- Maintaining supplementary Town-owned assets including, but not limited to:
 - Electronic fareboxes and components
 - Mobile and portable communication equipment
 - Intelligent Transportation Systems (ITS)
 - Onboard Vehicle Surveillance Systems (OBVSS)
 - Mechanical lift equipment
- Managing vehicle and component warranty; inventory;
- Providing vehicle insurance and associated commercial vehicle licensing;
- Implementing a customer service headquarters with phone support;
- Supporting the development of service programming/scheduling and retaining all necessary human resource requirements;
- Implementing occupational health and safety programs (including COVID-19 measures); training programs; and
- Abiding by all regulatory/legislative requirements.

With cross-jurisdictional and multi-modal experience, PWTransit has been able to leverage corporate business lines and cultivate local vendor relationships to acquire staff and competitive pricing for goods and services, mitigating Town impacts (e.g. service



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technicians, wash bay crews, operators, parts, subcontracted specialty maintenance etc.). Additionally, PWTransit has worked effectively with staff throughout the COVID-19 pandemic to adopt health and safety measures, as well as implement service adjustments quickly, in response to changing demand and capacity requirements. PWTransit has kept a positive work environment for employees, ensuring operational policies, protocols and procedures are in place, and updated where necessary, to keep customers and employees as safe as possible upon service recovery.

In 2016, 2018 and 2019, Council approved contract extensions with PWTransit under a restructured operating model to adapt to an evolving service delivery environment and planned service growth (ENG-021-16, CORS-042-18, Res. 049-18, and CORS-055-19). Terms and conditions established in the extensions provided more flexibility and financial transparency of programs. For instance, flow-through cost arrangements have been established for fuel consumption and maintenance activities. Contract scope also included the introduction of dedicated specialized (paratransit) services as well as Alternative Service Deliveries (ASDs), leveraging a Town-procured scheduling platform (CORS-058-20). The current contract term is through June 30, 2023.

This report provides an assessment of the service delivery landscape and local context to recommend direction and approach for continued contracted service operations with PWTransit.

Discussion

Over the past several months, staff have assessed service delivery considerations beyond the contract term. Five (5) key factors were evaluated, including:

1. Service Contractor Landscape and Comparables
2. Transit Operations Facility Arrangement and Limitations
3. Administrative Impacts
4. Long-term Service Planning
5. Strategic Regional Considerations

It should be noted that Council received an update during the Confidential Meeting on May 9, 2022 regarding a proposed land acquisition for the development of a transit operations facility. While further details are pending, the potential for a Town-owned facility underpins the requirement for a service contract extension.

1. Service Contractor Landscape and Comparables

Discussion

A contracted, transit service delivery model has provided a number of benefits to the Town. Based on a review of the literature, the most common benefits of a contracted service delivery model include¹:

- Improved cost-efficiency, oversight
- Leveraged private sector knowledge and resources to start/expand service
- Increased flexibility in how/when services are provided/adjusted
- Minimized direct labour relations

In 2021, Milton Transit delivered approximately 48,000 total service hours with a mixed fleet of 27 buses (COMS-001-22). A scan of the marketplace reveals that there are approximately 4-6 dedicated service providers in Ontario at a scale that could accommodate the vast and diverse components of the current contract scope. It is anticipated that service quantity and forecasted growth would drive market competition and appeal. However, the lack of an available transit facility in Milton remains a significant barrier, affecting contract attractiveness (e.g. difficult acquiring facility space, managing assets appropriately, etc.).

While a majority of transit systems in Ontario are delivered in-house, there are a few contractor-operated systems in the Greater Golden Horseshoe (GGH) that can provide a general indication of service value. An analysis of comparables would also validate fiscal soundness of current contract rates. Table 1 illustrates service rates (defined as “Operating Expenses Per Service Hour”) for two (2) contractor-provided transit systems in the GGH: Barrie Transit and York Region Transit². Data from the Canadian Urban Transit Association (CUTA) Fact Book has been standardized to reflect direct operating costs of service delivery:

- Cost Inclusions:
 - Fuel, maintenance, facility-related costs
- Cost Exclusions:
 - Administrative costs, functions delivered by municipality and/or region

Milton Transit contracted rates, as a function of total operating expenses per annual service hours delivered, remain in line with GGH contracted-service comparables over the last five (5) years, at an average of \$99.26 total cost per service hour. Year-over-year deviations can be attributed to fuel cost fluctuations and other external factors specific to individual agencies.

¹ National Centre for Transit Research (2013). *Analysis of Transit Contracting Models and Proper Incentives for Long Term Success*. University of South Florida.

² Source: 2016, 2017, 2018, 2019, 2020 *Canadian Urban Transit Association (CUTA) Fact Book*. For comparison purposes, data excludes administrative costs borne by the municipality.



Discussion

Table 1 Service Contract Comparables

Milton Transit	2016	2017	2018	2019	2020	Avg Rate
Vehicle Service Hours	36,578	42,232	48,959	50,031	42,617	
Total Operating Expenses	\$ 3,528,628	\$ 4,307,469	\$ 4,631,246	\$ 4,967,882	\$ 4,429,637	
Operating Expenses per Service Hour	\$ 96.47	\$ 102.00	\$ 94.59	\$ 99.30	\$ 103.94	\$ 99.26
% Change	-	6%	-7%	5%	5%	

Barrie Transit	2016	2017	2018	2019	2020	Avg Rate
Vehicle Service Hours	177,470	178,293	179,684	183,156	151,718	
Total Operating Expenses	\$ 17,368,253	\$ 18,165,808	\$ 17,745,416	\$ 17,453,802	\$ 16,637,183	
Operating Expenses per Service Hour	\$ 97.87	\$ 101.89	\$ 98.76	\$ 95.29	\$ 109.66	\$ 100.69
% Change	-	4%	-3%	-4%	15%	

York Region Transit	2016	2017	2018	2019	2020	Avg Rate
Vehicle Service Hours	1,380,979	1,374,243	1,382,597	1,391,996	1,150,630	
Total Operating Expenses	\$ 163,383,411	\$ 167,700,890	\$ 170,557,518	\$ 172,826,819	\$ 147,594,660	
Operating Expenses per Service Hour	\$ 118.31	\$ 122.03	\$ 123.36	\$ 124.16	\$ 128.27	\$ 123.23
% Change	-	3%	1%	1%	3%	

From a contextual perspective, staff reviewed financial comparables with Halton agencies Oakville Transit and Burlington Transit, who both deliver services in-house. As illustrated in Table 2, total transit operating costs per delivered service hour for Milton remain on par with peers.

Table 2 Oakville and Burlington Comparables

Oakville Transit	2016	2017	2018	2019	2020	Avg Rate
Vehicle Service Hours	241,423	261,776	258,969	247,417	164,394	
Total Operating Expenses	\$ 23,406,307	\$ 24,670,114	\$ 25,806,653	\$ 25,265,372	\$ 22,561,889	
Operating Expenses per Service Hour	\$ 96.95	\$ 94.24	\$ 99.65	\$ 102.12	\$ 137.24	\$ 106.04
% Change	-	-3%	6%	2%	34%	

Burlington Transit	2016	2017	2018	2019	2020	Avg Rate
Vehicle Service Hours	170,335	168,187	183,486	183,687	172,862	
Total Operating Expenses	\$ 13,482,098	\$ 14,049,835	\$ 15,856,455	\$ 17,183,563	\$ 17,861,851	
Operating Expenses per Service Hour	\$ 79.15	\$ 83.54	\$ 86.42	\$ 93.55	\$ 103.33	\$ 89.20
% Change	-	6%	3%	8%	10%	

In summary, historical and current contract rates with PWTtransit represent a reasonable value proposition relative to GGH contracted comparables, as well as Halton peer agencies.

2. Transit Operations Facility Arrangement and Limitations

A fully functional, transit operations facility (also known as a transit garage or depot) is integral to the efficient and effective delivery of services by way of providing a safe and secure environment to maintain public-facing assets. The initial service delivery contract included a requirement to secure a transit facility in Milton to store and maintain Town-owned fleet, provide customer service, administration, dispatching and operator facilities.

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PWTransit currently leases a facility located at 420 Morobel Drive, which has been retrofitted to accommodate transit service delivery functions.

Despite site layout limitations (e.g. tight vehicle circulation/maneuverability, no drive through service lane, etc.), PWTransit has managed to meet service objectives and deliver transit services throughout the contract term and associated extensions. Staff are aware of the risk potential associated with a constrained facility and have worked with PWTransit to arrive at short-term solutions. However, forecasted service growth plans in the long term would not be achievable under the current facility arrangement.

A significant project currently in progress is the Transit Garage Facility development. The 2020 and 2022 Capital Budget approved land acquisition, design and construction of a Transit Operations Facility. Staff are finalizing land acquisition opportunities that satisfy program requirements recommended in the Transit Operations Facility Feasibility and Functional Design Study (ENG-022-19). The Town was successful in acquiring funding through ICIP - Public Transit Stream to an upset allocation of \$7,187,583 in combined Federal and Provincial funding to support project costs to deliver substantial completion by March 2027. Upon further developments, staff will provide Council with an update on land acquisition and facility development.

3. Administrative Impacts

The current service contract with PWTransit is highly integrated, with complex terms and conditions, to ensure the Town's transit objectives are achieved in an efficient and cost-effective manner. To date, staff have been able to administer the service contract through many phases of service modification and growth. Given how responsibilities have evolved as previously outlined, dedicated staff resources at current levels would have limited workload capacity to undertake a competitive procurement process, and implement contract transitions, without lengthy timelines and work plan reprioritization. For example, should the Town proceed to consider a competitive bid process for a new service contract post June 30, 2023 (current contract term expiry), associated administrative responsibilities would include, but not be limited to:

- Developing a terms of reference, request for proposals (RFP) and process management, proposal evaluation and award
- Drafting a new service agreement
- Developing a comprehensive contingency/transfer plan to ensure transition does not impact customer-facing services
- Service orientation, asset inspection
- Licensing, insurance and administration
- Acquiring legal support services

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Notwithstanding previously highlighted factors of transit facility limitations and comparable contract rates in the marketplace, staff note that there may be limited economic and service benefit from initiating a procurement process at this time.

4. Long-Term Service Planning

Long-term service planning studies provide guidance and strategic direction for transit growth, service delivery methodology and associated infrastructure. In 2019, Council approved the Milton Transit Service Review and Master Plan Update (ENG-021-19). The Transit Master Plan defined service requirements and established a planning framework for decision-making, including the implementation of ASDs (e.g. on-demand transit). The plan acknowledged that service continues to be delivered through a well-administered contract.

An update to the Transit Master Plan is forecasted for commencement in 2023. This transit study will provide further line-of-sight for transit growth relative to potential trip distribution shifts and impacts due to the COVID-19 pandemic, as well as influences from Milton Education Village (MEV) development. This study will conduct a review, evaluation and assessment of conventional, specialized and on-demand services with respect to service levels, system deficiencies, accessibility, financing controls, fare structure, strategic integration opportunities and future capital/operating growth requirements relative to current and future service areas.

The 2022 Capital Budget also included a feasibility assessment and road map study for the transition to battery electric propulsion systems. This study will review and evaluate transitional components required for transit fleet and facility infrastructure, including, but not limited to:

- Route based modeling to articulate battery-electric load and range requirements/constraints
- Assessment of infrastructure at planned transit facilities and stations
- Evaluation of space, physical structure and electrical grid requirements
- Review of change management and conversion considerations
- Establish framework for engaging with utilities
- Evaluation of Design, Build, Financing, Operations, Maintenance (DBFOM) partnership models
- Assessment of order of magnitude financial considerations and grant opportunities

These studies play a key role in detailing an approach for facility development and future service options, and will serve as critical documents in any future procurement process for

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transit services. In the meantime, it would be strategically advantageous to maintain service contract consistency in the immediate term to prioritize facility development and annual service planning to meet implementation timelines.

5. Strategic Regional Considerations

Regionalization efforts specific to transit operations and governance have yet to materialize in Halton. Nonetheless, strategic investment toward public transit initiatives should continue to recognize long-term benefits and protect local interests. Similar to the recommendations outlined in ENG-028-19 to pursue ICIP funding for a new transit operations facility, the service delivery contract can also be viewed as a mechanism to maintain service stability and support locally-defined transit service levels in Milton.

Notwithstanding the above, staff have also investigated the possible perception that entering into a contract extension would limit efforts for regional coordination of transit services. In fact, a contracted service delivery model as implemented in Milton would not hinder any such process or evolution, as observed in some GTHA jurisdictions with contrasting interregional operating models (e.g. Durham Region with both in-house and contracted transit services). Additionally, termination clauses in the current service delivery contract with PWTransit (and any further contract/extension) provide additional flexibility for the Town, subject to the terms and conditions permissible for contract termination.

Recommended Approach, Direction and Negotiation

Given the highlighted factors and the strategic direction of the Transit Master Plan, discussions were initiated with PWTransit to identify contractual considerations, including:

- Facility lease arrangement at 420 Morobel Drive
- Service contract options beyond June 30, 2023

The lease arrangement at 420 Morobel Drive between PWTransit and the property owner was renewed with a term extension effective July 1, 2023, aligning with the term of the negotiated contract extension. Due to limited transit facility options available, the 2022 budget contemplated and accommodated a potential increase in lease costs.

In order to align a contract term with a potential transit facility build (outlined in ENG-028-19), a three (3) year term extension + one (1) year option was negotiated with PWTransit. The contract extension would follow the current pricing structure, which provides clarity in determining costs relative to service delivery concepts, using a combination of variable, fixed and flow-through rates. Costs during the three-year extension period will therefore reflect changes due to inflation via updates in the fixed amounts with consideration for cost drivers and the Consumer Price Index (CPI). Fleet maintenance costs are represented



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separately and provides a more transparent reflection of the parts and labour costs required to maintain fleet assets in good operating order. Fuel costs and facility lease costs remain flow-through costs based market rates.

All estimated costs associated with the contract extension have been outlined in the Financial Impact section of this report.

Mid-Life Bus Refurbishment

The Town currently budgets for a 12-year bus operating life for asset management and replacement purposes, which includes a forecasted mid-life major component refurbishment/replacement. Through the contract extensions in 2016, 2018 and 2019, it was deemed to be advantageous for PWTransit to coordinate mid-life work on the Town's behalf, recognizing the extensive downtime requirement for such work to occur and the associated potential impact on transit operations. PWTransit staff have been able to manage bus down time during mid-life work relative to current operating level requirements. PWTransit will therefore continue to manage all midlife and major component repairs/replacement on the Town's behalf and as part of the three-year contract extension.

Summary and Staff Recommendation

Based on a review and assessment of factors throughout this report, staff recommend executing a three (3) year extension + one (1) year option with PWTransit effective July 1, 2023.

Financial Impact

The proposed contract extension is effective July 1, 2023 and has no direct financial impact in 2022.

The following table summarizes the estimated operating impact of the contract over the term of the extension based on estimated growth projections, which are subject to Council approval through the annual budget process. It is important to note that several elements of the overall cost will fluctuate based on actual cost incurred (e.g. fleet maintenance, fuel), and the final inflationary pressures for some contract cost in this time period will vary based on actual index rate changes.



The Corporation of the Town of Milton

Financial Impact

		2022	2023	2024	2025	2026 (6 mths)
Estimated Service Hours	Conventional	48,185	57,071	67,559	67,559	33,780
	Custom (Specialized/OnDemand)	15,152	16,635	21,083	24,049	12,024
	Total	63,337	73,706	88,642	91,608	45,804
	Percent Change		16%	20%	3%	
Forecasted Contractual Cost	Conventional rate (1)	2,375,158	2,903,194	3,539,835	3,646,030	1,877,706
	Custom (Specialized/OnDemand) rate (1)	675,492	765,474	999,257	1,174,030	604,600
	Facility (2)	300,340	350,298	371,667	393,037	200,589
	Administration (3)	1,407,489	1,447,774	1,913,296	1,929,227	993,552
	Maintenance (2)	578,998	617,548	838,922	889,352	458,016
	Insurance (2)	274,310	320,600	425,267	467,793	257,286
	Fuel (2)	981,648	894,774	1,108,972	1,170,168	605,881
	Total	6,593,435	7,299,662	9,197,216	9,669,637	4,997,630
	Percent Change		11%	26%	5%	

- (1) Represents variable costs associated with the delivery of service hours
- (2) Represents flow through costs to the Town. Estimated costs provided by PW transit but actuals will fluctuate based on market rates of fuel, actual maintenance required on fleet etc.
- (3) Represents fixed costs associated with service delivery including wash bay, dispatching and supervisory.

The cost of transit service will not necessarily follow a consistent year-over-year change. Besides the impact of growth, there are certain costs such as facility rent that are tied to other contractual obligations of PWTransit as well as requirements for additional dispatch, supervisory and wash bay staff at certain points, reflecting maturity of the service. Excluding the impacts of growth, the contract represents an average increase of approximately 3.2%.

Should this extension be approved by Council, the updated costs and rates that will be effective beginning July 1, 2023 will be utilized in the development of the 2023 Budget.

Respectfully submitted,

Kristene Scott
Commissioner, Community Services

Glen Cowan
Chief Financial Officer / Treasurer



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For questions, please contact: Tony D'Alessandro, MCIP, RPP Phone: Ext. 2548
Director, Transit Services

Attachments
None

Approved by CAO
Andrew M. Siltala
Chief Administrative Officer

Recognition of Traditional Lands

The Town of Milton resides on the Treaty Lands and Territory of the Mississaugas of the Credit First Nation. We also recognize the traditional territory of the Huron-Wendat and Haudenosaunee people. The Town of Milton shares this land and the responsibility for the water, food and resources. We stand as allies with the First Nations as stewards of these lands.