Subject: OC Transpo's Non-Fare Revenue Strategy

File Number: ACS2025-SCER-0001

Report to Transit Committee on 12 June 2025

Submitted on June 3, 2025 by Renée Amilcar, General Manager, Transit Services Department

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Ward: Citywide

Objet : Stratégie en matière de recettes non tarifaires d'OC Transpo

Dossier : ACS2025-SCER-0001

Rapport au Comité du transport en commun

le 12 juin 2025

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REPORT RECOMMENDATION

That the Transit Committee receive this report for information.

RECOMMANDATION DU RAPPORT

Que le Comité du transport en commun reçoive ce rapport pour information.

EXECUTIVE SUMMARY

The City currently has a contract with Pattison Outdoor for advertising on buses, in O-Train stations and the Transitway. This contract generated $1.95 million in non-fare revenue in 2024. The City also has an agreement with Branded Cities that includes digital and printed transit shelter advertising. The contract, including access to space in-kind, generated $2.5 million in revenue in 2024.

At its meeting of February 9, 2023, the Transit Commission directed staff to bring back a report on opportunities and challenges to attract sponsorship of free transit service: Staff delivered its report in October 2023 and, in October 2024, engaged an external consultant (S&G Stratégie) to conduct a detailed peer and market analysis and develop a multi-year Non-Fare Revenue Strategy to guide the department's efforts.

At its meeting of December 11, 2024, Council carried the following motion:

> *BE IT RESOLVED that Council direct staff to bring a report to the Commission by Q2 2025, illustrating a plan to increase revenues associated with rentals, retail leases, advertising and sponsorships by 10% in 2025 and another 10% in 2026.*

Based on analysis and consultation with S&G Stratégie to develop a Non-Fare Revenue Strategy, the following revenue streams have been prioritized for implementation over the next five years:

Priority 1

- Advertising and sponsorship RFP, and digitization
- Improved bus shelter advertising program and digitization
- Expansion of billboard advertising
- Vending and pouring rights
- Retail program expansion – temporary and permanent retail

Priority 2

- Parcel delivery and luggage lockers
- OC Transpo facility rental program
- Review of rates and expansion of Bus Charter Program

Priority 3

- Park & Ride lot rental program
- Merchandizing

With advice from S&G Stratégie, staff have developed a detailed work plan to guide the implementation of the Non-Fare Revenue Strategy over the next five years. While the strategy acts as a guiding document, staff will seek to leverage new opportunities to expedite revenue generation wherever possible.

Despite making best efforts, staff do not anticipate being able to meet Council's direction to increase non-fare revenues by 10 per cent in 2025 and 2026. The Non-Fare Revenue Strategy does, however, identify significant opportunities to increase revenues beyond these amounts within the next five years. As detailed in the strategy, the establishment of a dedicated team within Transit Services and the launch of a Request for Proposal process to sign a more advantageous advertising contract are identified as key first steps. Staff are recommending implementing this Non-Fare Revenue Strategy with the goal of developing a sustainable and consistent revenue stream between 2025 and 2029.

BACKGROUND

Non-fare revenue represents a small portion of total revenue for all North American transit agencies, including OC Transpo. It is generated in large part from advertising development and sales on bus, station and shelter assets, which represent a longstanding and consistent source of revenue. In 2024, advertising accounted for approximately 2.5 per cent of total revenues.

OC Transpo has a current agreement with Pattison Outdoor for bus and station assets which dates to 2012, with amendments to pursue new opportunities related the opening of O-Train Line 1, to adjust to the impacts of the COVID-19 pandemic, and recently, to derive new revenues from the launch of the O-Train Lines 2 and 4. A 2019 agreement with Branded Cities sees a similarly consistent stream of revenue from sales of bus shelter advertising. OC Transpo engages in other agreements and programs which derive a small percentage of total non-fare revenue or produce in-kind benefits for customers.

At its meeting of February 9, 2023, the Transit Commission carried the following motion directing staff to bring back a report on opportunities and challenges to attract sponsorship of free transit service:

BE IT RESOLVED that, the General Manager prioritize ways to augment sponsorship opportunities with outside entities, enter into an agreement if feasible and report back to the Transit Commission by October 2023 on what progress has been made, how other jurisdictions attract sponsorships to offer free transit and challenges encountered to attract new sponsorships.

On October 12, 2023, staff provided Transit Commission with a report entitled Sponsorship of Transit Services (ACS2023-TSD-SCER-0019), which summarized recent progress on sponsorship and partnership activities that derive revenue and/or in-kind benefits to OC Transpo.

In October 2024, staff began developing a plan to increase non-fare revenue over the next five years. The resulting strategy provides a framework that prioritizes opportunities, guides implementation, and projects incremental increases in revenue. OC Transpo's Non-Fare Revenue Strategy is part of the City of Ottawa's Service Review Program and aligns with the City's goal of putting transit on a sustainable financial footing. The Non-Fare Revenue Strategy also aligns with OC Transpo's Five-Year Roadmap's pillars of *Our Finances* and *Our Customers*, as it aims to increase revenues while improving the customer experience.

At its meeting of December 11, 2024, Council carried the following motion:

BE IT RESOLVED that Council direct staff to bring a report to the Commission by Q2 2025, illustrating a plan to increase revenues associated with rentals, retail leases, advertising and sponsorships by 10% in 2025 and another 10% in 2026.

This report outlines a five-year non-fare revenue strategy to incrementally increase revenues in an achievable and sustainable manner.

DISCUSSION

Advertising represents a large majority of non-fare revenue generated by OC Transpo. The City currently has a contract with Pattison Outdoor for advertising on buses, in O-Train stations and the Transitway. The contract follows an industry-standard structure, whereby the contractor provides the City with a prescribed Minimum Annual Guarantee, or a percentage of gross advertising sales, whichever is the greater sum. The contract also provides the City with a percentage of advertising space in-kind to use for the promotion of OC Transpo and other City of Ottawa services.

The contract generated $1.95 million in revenue in 2024, as well as providing the City with valuable in-kind advertising to support the City's marketing efforts. A new long-term contract for these assets will be sought through a competitive Request for Proposal (RFP) process, which is expected to be completed in 2026.

The City also has an agreement with Branded Cities that includes digital and printed transit shelter advertising. The contract carries a similar structure to the Pattison Outdoor contract, including access to space in-kind, and generated $2.5 million in revenue in 2024, as well as in-kind space on static and digital shelters.

OC Transpo also generates a small percentage of revenue and in-kind benefits from retail leasing in Line 1 stations, bus charters, user fees from Bikesecure shelters, a licensing agreement with TELUS Communications providing free Wi-Fi and underground cellular connectivity in Line 1 stations, and Mothers Against Drunk Driving (MADD) Ottawa and Area's sponsorship of New Year's Eve free transit.

In October 2024, OC Transpo engaged S&G Stratégie to provide expert advice on the development of a non-fare revenue strategy. The primary goal of the strategy is to increase OC Transpo's non-fare revenue over the next five years by expanding to new revenue streams and maximizing existing ones, resulting in an expanded, self-sustaining program. As a secondary goal, the strategy seeks to enhance the customer experience by pursuing revenue streams that benefit our customers while maintaining or improving safety, security, wayfinding, and OC Transpo's brand. The work with S&G Stratégie consisted of:

- Situational analysis of current revenue streams
- Industry benchmarking
- Analysis of strengths, weaknesses, opportunities and threats
- Assessment and prioritization of non-fare revenue opportunities
- Revenue projections
- Governance structure requirements and implementation plan

<u>Key insights from benchmarking</u>

Staff are continuously engaged in various benchmarking activities to better understand the transit non-fare revenue sector and situate OC Transpo within the industry. Staff participate in a Non-Fare Revenue Working Group comprised of North American and international transit agencies and participate in committees within the Ontario Public Transit Association and the Canadian Urban Transit Association (CUTA) to further develop knowledge and contacts in marketing, sponsorships, and advertising. Staff have also engaged with international peers as part of the Community of Metros (COMET) benchmarking group, as well as industry experts and companies that hold strategic expertise in transit non-fare revenue.

In fall 2024, staff began a focused benchmarking exercise through structured meetings and workshops with comparator agencies, including TransLink in Vancouver, Calgary Transit, the Toronto Transit Commission (TTC), the Chicago Transit Authority (CTA), la Société de transport de Montréal (STM)/Transgesco, Capitale Mobilité/RTC (Quebec City), and Metrolinx (GTHA). The group also included advertising partners and local media agencies. Through this work, the following key insights were gained into non-fare revenue generation within a public transit environment:

- Advertising represents approximately 80 per cent of non-fare revenues of most agencies consulted, up to as much as 90 per cent.
    - Best practices in advertising contracts include a 10-year contract term, bundling of assets where appropriate, and a focus on digitization.
    - The value of certain transit advertising assets can be greater when they are available to the public over exclusively transit ridership (i.e. exterior bus advertising).
- A dedicated team of three to five people is most common among the transit agencies consulted. They rely on external expertise and vendors for capital expenditures and day-to-day operations.
- Permanent and temporary retail, vending, and brand activations are the most common activities to further monetize stations beyond advertising.
    - EV charging, delivery lockers, chartered transit services, and non-commercial space rental were other opportunities identified.
- Free ride programs, which involve corporate subsidization of fares in exchange for naming rights, brand visibility and other advertising benefits, represent the most common type of service sponsorship among benchmarked agencies but are often not lucrative. Naming rights agreements, despite being more lucrative, can be complex to establish and maintain, can potentially complicate wayfinding, and require a long-term commitment. Agencies have found solutions that rely on

selling shorter-term term advertising “dominations” to offer similar brand visibility while avoiding the challenges of a longer-term sponsorship agreement.

- Agencies commonly rely on their advertising partner to carry out sponsorship agreements, activations and other partnerships within the scope of their advertising contract.
- Several non-fare revenue activities, including filming rentals and merchandising, are being done in other cities, but operate at a very low net yield or cost-recovery basis.

Key insights from strengths, opportunities, weaknesses and threats (SWOT) assessment

Strengths

OC Transpo is engaged in a variety of non-fare revenue activities when measured against its comparators, with a breadth of internal expertise. The department currently maintains two industry-standard advertising contracts that offer stable and consistent minimum annually guaranteed revenue from its partners. Currently, there is policy direction from Council and good inter-departmental collaboration within the City that supports the pursuit of expanded commercial opportunities, which is not the case in all jurisdictions consulted.

Weaknesses

Despite these strengths, there is currently no dedicated team to consistently oversee and prioritize non-fare revenue activities across the department, which presents a barrier to expanding non-fare revenues. The structure of the agreement with the City’s third-party rail maintainer adds a layer of complexity, which can add time and costs to the expansion and operation of non-fare revenue assets on the O-Train system.

Opportunities

Opportunities exist to add digital advertising assets to stations, most notably in the busiest O-Train stations and on transit assets downtown, where there are fewer out-of-home advertising options. Digitization of advertising spaces will also result in new revenues from passive, programmatic advertising sales for regional and national campaigns that are not achievable from traditional static advertising spaces. A future long-term contract for the advertising rights to bus and O-Train station/vehicle assets, along with the ongoing expansion of the O-Train system, presents an opportunity to see new capital investment and realize new revenues. The continued stabilization of rail service and launch of new O-Train extensions can also improve brand perception and increase the value of non-fare revenue opportunities.

Threats

The attractiveness of OC Transpo as an advertising partner depends, in part, on the strength and perception of OC Transpo's own brand. Service reliability and ridership changes can inhibit advertising, sponsorship and other non-fare revenue opportunities. Service interruptions, in particular, can create challenges in delivering campaigns and meeting contractual commitments. Reputational setbacks can deter potential advertisers or partners and reduce audiences for advertising.

An analysis of the Ottawa context demonstrates that it remains a secondary market for advertisers behind larger cities like Toronto, Montreal and Vancouver. Local, regional and wider economic uncertainty can also reduce non-fare revenue opportunities, as the effects of reduced advertising and marketing budgets are felt more acutely in Ottawa as a secondary market.

<u>Opportunity assessment</u>

Staff analyzed more than 20 business opportunities for non-fare revenue generation, including an assessment of their feasibility and revenue potential for OC Transpo and the Ottawa market. This included benchmarking with comparator transit agencies, consultation with departmental and City stakeholders, and market research with advertising partners and media agencies. Criteria for prioritizing opportunities included:

- **Financial impact**: including incremental revenue potential (or cost savings), required investments from the City, and resources required to maintain the initiative once launched.
- **Operational considerations**: the length of time required to implement, the nature of external vendor support, internal competencies required, dependence on ridership and transit service performance, and risks to safety and wayfinding.
- **Stakeholder alignment**: level of effort to achieve consensus, political support, impact on brand, customer experience, and overall social acceptability.

Through this work, the following revenue streams have been prioritized for implementation over the next five years:

Priority 1

- Advertising and sponsorship RFP and digitization: Staff will conduct a competitive procurement process to renew the City’s advertising contract for buses, O-Train stations and vehicles. The goal will be for the eventual contract to include sponsorship and experiential advertising sales.
- Improved bus shelter advertising program and digitization: Staff will engage actively with Branded Cities with the goal of accelerating digitization to generate additional revenue.
- Expansion of billboard advertising: In collaboration with other City departments, staff will scope out new locations for digital billboard advertising on transit properties.
- Vending and pouring rights: Staff will pilot vending machines in Line 1 stations leveraging the City's broader procurement processes and agreements, with the goal of continued expansion over five years.
- Retail program expansion – temporary and permanent retail: As the O-Train system expands, there are plans to add new retail locations at select stations. Staff will also pursue temporary retail opportunities and pop-ups in stations.

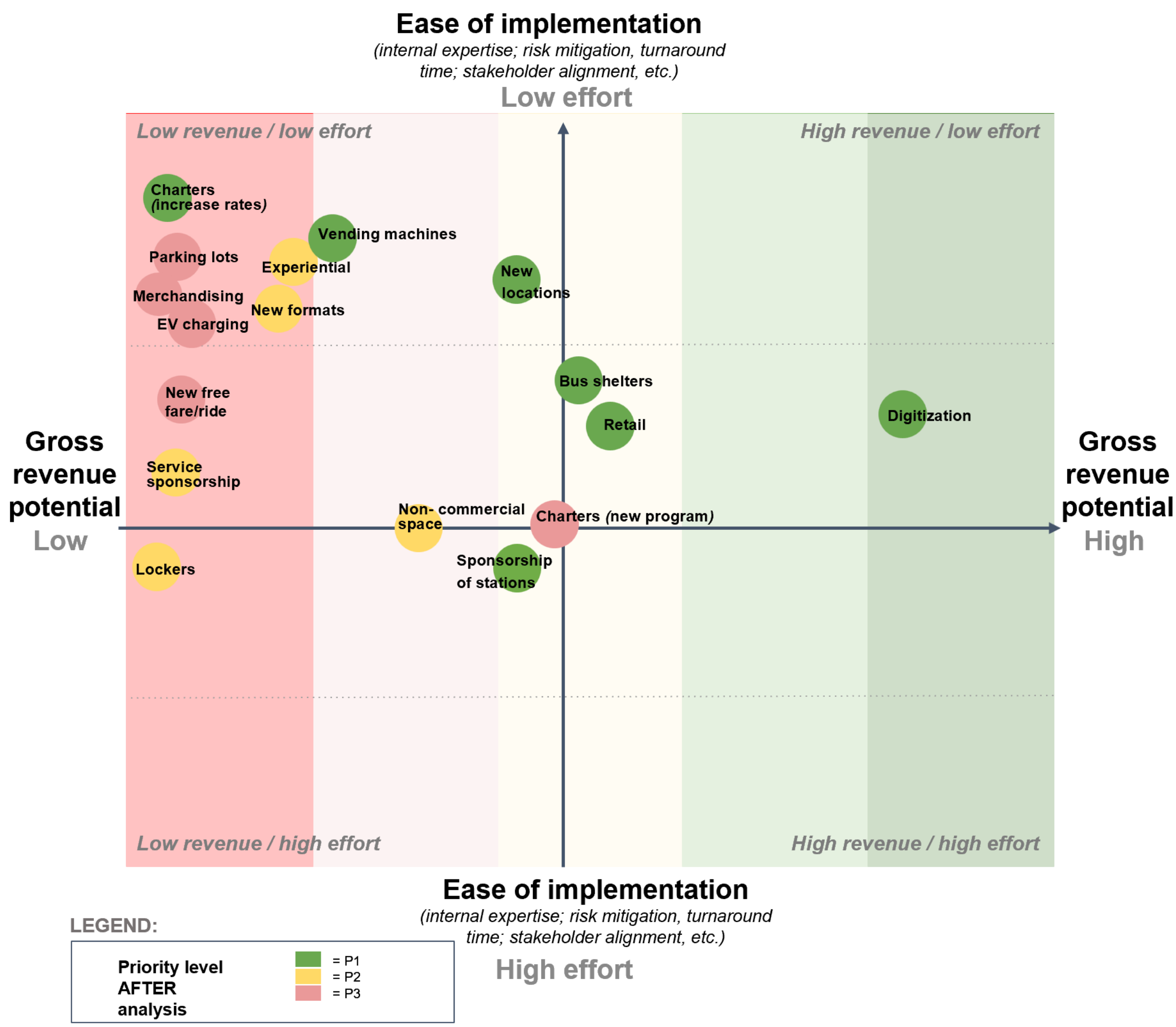
Priority 2

- Parcel delivery and luggage lockers: Staff will assess piloting the use of lockers as a last-mile partner for third-party delivery services, as well as the potential for luggage lockers at stations.
- OC Transpo facility rental program: Staff will look for opportunities to monetize non-commercial spaces on transit properties.
- Review of rates and expansion of Bus Charter Program: Rates for OC Transpo’s Bus Charter Program will be reviewed to ensure appropriate cost recovery. As the OC Transpo fleet stabilizes, staff will assess whether the charter program would be recommended to expand as a revenue opportunity.

Priority 3

- Park & Ride lot rental program: Staff will continue to look for opportunities to leverage Park & Ride lots at times when they aren’t being fully used by customers. We have in the past accommodated farmers' markets and other local events. Outside of OC Transpo's Non-Fare Revenue Strategy, the City's Strategic Initiatives Department is exploring broader revenue generation and development opportunities for select Park & Ride lots.

- Merchandizing: Staff will conduct an RFP for a vendor to launch and maintain an online store to sell branded OC Transpo merchandise, gifts and collectibles as has been done successfully in many other cities.



<u>Incremental revenue projections</u>

By 2029, staff anticipate that OC Transpo could add approximately $2.3 million in annual non-fare revenues from the opportunities assessed, which would bring the total to approximately $6.8 million per year in non-fare revenue generation. This would be an increase of approximately 50 per cent compared with 2024 annual revenues. Most new revenue will come from digitization of advertising, and to a lesser extent through the expansion of permanent retail and vending as the O-Train network grows.

Revenue projections in the strategy are conservative and based on a thorough analysis of a variety of data and research, including documentation and interviews provided by transit agencies and media partners, and internal documentation and insights provided by OC Transpo and City staff pertaining to current programs and agreements. The projections are subject to future negotiation of contracts, market conditions including wider economic circumstances, transit service levels and performance, and predicated on continued support from departmental staff and City of Ottawa shared services.

Opportunity	Incremental revenue expectation ranges				
	2025	2026	2027	2028	2029
Advertising & sponsorship	<$100K	<$100K	$100-250K	$500-1M	$1M-2M
Retail & space rental	Nil	<$100K	$100-250K	$250K-$500K	$500K-$1M
Other opportunities	Nil	<$100K	<$100K	$100K-250K	$100K-250K
Projected new revenue	**$53,000**	**$113,000**	**$464,000**	**$1,151,000**	**$2,283,000**

While revenues generated from non-fare activities are relatively small compared to the transit operating budget, they will remain a consistent source of revenue that can be reinvested in the transit system, contribute to offsetting potential fare increases, provide OC Transpo and the City of Ottawa with highly valuable in-kind advertising space, and moreover, provide other benefits for transit customers and OC Transpo.

New digital screens and advertising installations will showcase products, services and events to our customers, as well as provide another way for OC Transpo and the City of Ottawa to inform residents about services. Retail spaces and vending provide shopping and convenience amenities for customers as well as safety benefits from passive surveillance. Sponsorships and experiential brand activations can also animate the rider experience and result in fun promotions for riders. On a broader level, these activities animate the overall transit experience and raise OC Transpo's profile in the community, as well as with local stakeholders and businesses.

Creation of a dedicated team

Using existing funding sources, a small in-house team will be established to lead OC Transpo's Non-Fare Revenue Strategy with a strong mandate and clear accountability for expanding and maintaining non-fare revenue activities and returns over the next five years. The team will have consolidated departmental oversight and will champion non-fare revenue activities inside and outside of the organization. The team will further build internal expertise, which will improve financial returns from existing and future contracts. There is currently no team at OC Transpo whose sole responsibility is to oversee and pursue new non-fare revenue activities. A dedicated team will ensure that an expanded program will be successful over the next five years, and ensure OC Transpo has the necessary agility to respond to new opportunities for revenue as they arise.

When factoring in compensation, it's projected that the team will generate net revenues of approximately $6.5 million by 2029, achieving the strategy's goal of a self-sustaining team from new revenues generated

The OC Transpo team will work in collaboration with other staff from across the City who support revenue-generation activities that involve transit assets. For some revenue opportunities, City staff will continue to lead agreements, and the OC Transpo team will ensure that transit assets are considered as part of the overall contracts. For example, OC Transpo plans to use snack vending and pouring rights agreements negotiated and maintained by Recreation, Cultural and Facilities Services, to expand those vending services to transit stations in the future. OC Transpo will also continue to rely on City shared services in the areas of procurement, legal and real estate to expand and operate the non-fare revenue program.

With advice from S&G Stratégie, staff have developed a detailed work plan to guide the implementation of the non-fare revenue strategy over the next five years. While the strategy acts as a guiding document, staff will seek to leverage new opportunities to expedite revenue generation wherever possible. As implementation of the strategy progresses, staff will incorporate lessons learned to inform future phases and prioritize non-fare revenue opportunities beyond 2029.

FINANCIAL IMPLICATIONS

Incremental non-fare revenue increases will be included in Transit's future years budget submissions for Council consideration and approval.

LEGAL IMPLICATIONS

There are no legal impediments to receiving this report for information.

ACCESSIBILITY IMPACTS

OC Transpo adheres to the City of Ottawa's Municipal Accessibility Plan (COMAP) and the 2024-26 Accessibility Plan fulfils OC Transpo's federal obligations under the Accessible Canada Act (ACA, 2019), as services operate interprovincially. Staff will ensure that any applicable accessibility legislation, standards and guidelines are adhered to during the execution of the projects and initiatives identified in this report. Staff will continue to engage people with disabilities and accessibility stakeholders to ensure that their perspectives are considered and incorporated, and to promote inclusion.

RISK MANAGEMENT IMPLICATIONS

Fare revenue has been lower than budgeted during and after the pandemic due to lower ridership, resulting in challenges to fund public transit in Ottawa; this issue has affected transit agencies across North America. Lower ridership directly affects potential interest from advertisers and sponsors, negatively affecting non-fare revenues.

TERM OF COUNCIL PRIORITIES

The 2023-2026 Term of Council Priorities include:

- A city that is more connected with reliable, safe and accessible mobility options.
- A city that is green and resilient.

DISPOSITION

Transit Services will report non-fare revenues through the annual budget process.