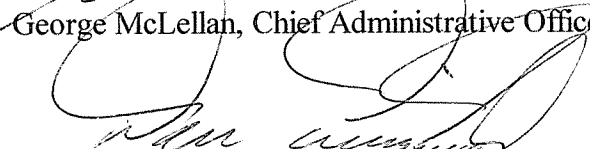


Halifax Regional Council
January 28, 2003

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


George McLellan, Chief Administrative Officer


Dan English, Deputy Chief Administrative Officer

DATE: January 21, 2003

SUBJECT: RFP 02-103, Operating Lease for Seventeen (17) Transit Buses

ORIGIN

As outlined in the 2002/03 Capital Budget, approved March 02, 2002, staff recommended that two capital projects (from fiscal years 2000/01 and 2001/02) for the purchase of buses through debt be closed to reflect staff's intent to secure an operating lease.

On September 17, 2002, Council approved an amendment to the award of RFP 00-077, to increase the number of buses from thirty (30) to thirty-two (32), and to proceed with an RFP for the provider of third-party lease financing for seventeen (17) of the buses. The Halifax Regional Municipality publicly advertised a Request for Proposals on November 13, 2002 for an operating lease for seventeen (17) transit buses.

RECOMMENDATION

1. It is recommended that Council approve a Capital Project for the acquisition of seventeen (17) transit buses which would increase the 2002/03 Capital Budget in the amount of \$7,008,366. Funding for this Capital Project will be provided as detailed in the Budget Implications section of this Report.
2. It is further recommended that the impact on the 2002/03 debt target, pursuant to the Multi-Year Financial Strategy, as outlined in the Budget Implications section of this Report, be remedied by the end of 2003/04.

BACKGROUND

In early 2002, staff from Metro Transit, Fleet Services and Financial Services conducted a preliminary evaluation of the feasibility of an operating lease for transit buses, based on documentation provided from outside parties. The discussion and calculations at the time showed that there was a small difference in cost between purchasing and leasing the buses. The additional cost of leasing was felt to be supported by the fact that an operating lease would allow HRM the flexibility to return buses to the Lessor after five or ten years, based on changing ridership demographics. Information available at the time provided evidence that an operating lease for transit buses could be secured.

As a result and as outlined in the 2002/03 Capital Budget, approved March 02, 2002, staff recommended and Council approved the closure of two capital projects for the purchase of buses through debt, to reflect staff's intent to secure an operating lease. Subsequent to Council's agreement to pursue an operating lease for the buses, Council approved the staff recommendation to use the resulting debt capacity to expand the 2002/03 Capital Program.

On September 17, 2002, Council approved an amendment to the award of RFP 00-077, to increase the number of buses from thirty (30) to thirty (32), and to proceed with an RFP for the provider of third-party lease financing for seventeen (17) of the buses. The Halifax Regional Municipality publicly advertised a Request for Proposals on November 13, 2002 for an operating lease for seventeen (17) transit buses.

DISCUSSION

RFP 02-103 - Operating Lease for Seventeen (17) Transit Buses was publicly advertised on November 13, 2002. Nine firms requested RFP packages; three submitted proposals, as follows:

- Cyberlease Corporation
- GE Canada Leasing Services Company (GE Capital Canada)
- MacPhee Leasing (MacPhee Pontiac Buick GMC Ltd).

The preliminary calculations that supported an operating lease alternative were not borne out through evaluation of the formal submissions. The RFP provided for a mandatory Pass/Fail assessment, based on whether the lease met CICA (Canadian Institute of Chartered Accountants) requirements of an operating lease. None of the proponents fully met the operating lease requirements, in combination with the desired operational flexibility in a cost effective manner. The evaluation of the CICA requirements was performed by HRM staff and validated by HRM auditors at KPMG.

All three proposals were then evaluated to determine the feasibility of entering into a capital lease. From an accounting perspective, a capital lease is similar to debt in the manner in which it is recorded. Since the leasing alternatives represented a greater cost to HRM, this was evaluated against the operational flexibility identified by Metro Transit and Fleet Services. Staff do not feel the premium cost is justified based on the flexibility potentially afforded by the proposed lease solutions.

As a result of the inability to secure an operating lease and the cost/benefit results of the capital lease option, staff have determined that the most cost effective course is to purchase the buses.

BUDGET IMPLICATIONS

The cost to HRM to purchase the seventeen (17) buses is \$7,008,366 (including net HST). This compares favourably to the original estimated purchase price of the buses in the 2000/01 and 2001/02 Capital Projects, which was \$7,256,375.

Funds are available from the 2002/03 Operating Budget for Fiscal Services in the amount of \$400,000 that were originally allocated for lease payments for the seventeen (17) transit buses.

The balance of \$6,608,366 will be required through debt financing, thereby exceeding HRM's debt funding target under the Multi-Year Financial Strategy.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation, except where noted in the budget implications section of this Report with regard to the 2002/03 debt funding target.

The negative impact of this decision on the 2002/03 debt target will be remedied by the end of 2003/04.

ALTERNATIVES

1. HRM could enter into a capital lease with one of the three bidding companies. The premium cost of the capital lease alternatives ranges from approximately \$970,000 to \$1,110,000 over the cost of debt financing as recommended in this Report. None provide operational flexibility at a comparable price. Therefore, as they do not provide an overall benefit to HRM, this alternative is not recommended.

ATTACHMENTS

None.

RFP 02-103, Operating Lease for Seventeen (17) Transit Buses
Council Report

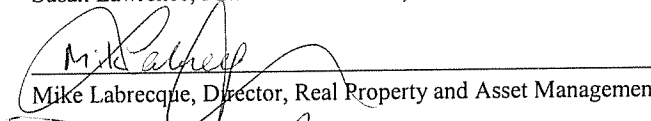
January 28 2003

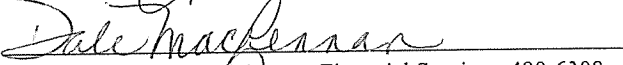
Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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