



Item No. 10.1.2
Halifax Regional Council
August 16, 2011

TO: Mayor Kelly and Members of Halifax Regional Council

Original signed by 

SUBMITTED BY: _____

Richard Butts, Chief Administrative Officer

Original Signed by 

Mike Labrecque, Deputy Chief Administrative Officer, Operations

DATE: July 28, 2011

SUBJECT: March 31, 2011 Operating Surplus Transfer to Ferry Replacement Reserve

ORIGIN

Report dated June 25, 2010, Early Delivery of Transit Vehicles, presented and approved by Halifax Regional Council on July 6, 2010.

RECOMMENDATION

It is recommended that Halifax Regional Council approve the transfer of the March 31, 2011 operating surplus, in the amount of \$2,533,000, to the Ferry Replacement Reserve, Q129 as outlined in the Budget Implications Section of this report.

BACKGROUND

On July 6, 2010 Council approved a report to withdraw \$7,700,000 from the Ferry Replacement Reserve as funding for the purchase of transit vehicles required for the 2011 Canada Winter Games. At that time, within the planned 2011/12 project budget, there was \$7,700,000 planned for Transit Bus Expansion and Bus Replacement. The Ferry Replacement Reserve was to be repaid in the 2011/12 budget by replacing funds normally used as Capital from Operating (as it would no longer be required to fund these projects) as a reserve contribution of \$7.7 million.

DISCUSSION

Due to demands on the project budget this year, the amount budgeted to be returned to the Ferry Replacement Reserve was \$3,850,000, which is half of the original \$7.7M. The remaining balance would be budgeted to be returned to the Reserve during the 2012/13 fiscal year.

As the March 31, 2011 Financial Statements have been approved, and as outlined in the 4th Quarter Report, the 2010/11 Operating Surplus of \$2,533,000 has not been directed to a reserve as yet. It is recommended that this surplus be transferred to the Ferry Replacement Reserve to reduce the original loan amount. In so doing, the balance of the loan from the reserve would be \$1,317,000 which is to be repaid in the 2012/13 budget process utilizing Capital from Operating Funds.

BUDGET IMPLICATIONS

There is no budget implication to the 2011/12 operating or project budget, as this transfer is utilizing 2010/11 surplus funds. This will increase contributions to the reserve.

Budget Summary:

Ferry Replacement Reserve, Q129

Projected Available Balance March 31/12	\$3,693,643
Transfer 10/11 Operating Surplus	<u>\$2,533,000</u>
Revised Projected Balance, March 31/12	\$6,226,643

Loan from Reserve

Original Loan	\$7,700,000
2011/12 Repayment	<u>(\$3,850,000)</u>
	\$3,850,000
Transfer 2010/11 Operating Surplus	<u>(\$2,533,000)</u>
Balance of loan to be repaid in 2012/13	\$ 1,317,000

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, and Project budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation. If approved, this will increase 2011/12 contributions to reserves.

COMMUNITY ENGAGEMENT

Community Engagement is not required.

ALTERNATIVES

Council could choose not to transfer the 2010/11 operating surplus to this reserve, and could utilize other reserves, or leave in the carry forward surplus to be utilized during 2011/12 operating accounts if required. This is not recommended, as funding for projects is increasingly difficult, and by not reducing the Ferry Replacement Loan for the buses now, would require a higher demand from the capital from operating funds and would reduce capital capacity in 2012/13 budget process and could mean deferring capital projects to future years.

ATTACHMENTS

Early Delivery of Transit Vehicles, July 6, 2010 Council Report

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Nancy Harper, Accounting Control & Reporting Manager, Finance 490-3696

Report Approved by: _____
Kathy Smith, Acting Manager Accounting, 490-3656

Financial Approval by: _____
Bruce Fisher, MPA, CMAA, Director of Finance/CFO, 490-6308

Original Signed



PO Box 1749
Halifax, Nova Scotia
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Item No. 10.1.2
Halifax Regional Council
July 6, 2010

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

A handwritten signature in black ink, appearing to read "Dan English".

Dan English, Chief Administrative Officer

A handwritten signature in blue ink, appearing to read "Phil Townsend".

Phil Townsend, Acting Deputy Chief Administrative Officer - Operations

DATE: June 25, 2010

SUBJECT: Early Delivery of Transit Vehicles

ORIGIN

Request for Proposal #09-069 - Forty-Five (45) Sixty-Foot Transit Buses awarded by Halifax Regional Council to Nova Bus on September 29, 2009.

Halifax Regional Municipality's commitment to provide transportation services to the 2011 Canada Winter Games.

RECOMMENDATION

It is recommended that Halifax Regional Council:

1. approve an increase to the 2010-11 project budget in the amount of \$7,700,000 (net HST included), (Project CVD00434 - \$4,000,000 and Project CVD00435 - \$3,700,000
2. approve a reduction of the 2010-11 budget for Project Account CMX01123 - New Conventional Ferry from \$2,000,000 to \$300,000;
3. approve the \$7,700,000 be funded from Ferry Replacement Reserve (Q129) to cover the full cost of the vehicle purchase as per the Budget Implications section of this report.

BACKGROUND

On September 29, 2009, Halifax Regional Council awarded Request for Proposal #09-069 - Forty-Five (45) Sixty-Foot Transit Buses to NovaBus with the vehicles to be delivered over a three year period. The first fifteen vehicles have started to arrive and will to enter service in August as part of Metro Transit's 2010-11 Annual Service Plan and coincidental with the launch of operations at the Ragged Lake Transit Centre.

Transit vehicles must typically be ordered one year in advance of delivery so that the manufacturers can schedule their work. Another two months is typically needed to prepare the vehicles for service. For this reason, it will always be necessary to request capital budget pre-approval in order to launch new services the following year. In a typical case, staff would be requesting pre-approval at this time for the second year of deliveries. This would allow the vehicles to be delivered by July 2011 and enter service in August 2011.

NovaBus has approached Metro Transit with an opportunity to accelerate the delivery of the second round of vehicle deliveries to late December 2010. Manufacturers such as NovaBus have increased their production capacity over the past few years due to the stimulus funding made available for public transit throughout North America. Now that these stimulus programs are ending, there are less transit vehicles being ordered, resulting in production facilities that have excess capacity. The result is an ability to deliver on transit orders in a shorter period of time than normal. To meet this delivery deadline, a firm order must be placed by July 7, 2010.

DISCUSSION

Metro Transit has been working closely with the 2011 Canada Winter Games organizing society to plan the transportation requirements for the Games. Preliminary plans indicate that approximately 26 transit vehicles will be required for Games-specific transportation. This is in addition to the vehicles required to provide Metro Transit's regular daily service. Meeting this additional vehicle requirement will be very challenging for Metro Transit and at present the only strategy has been to delay vehicle retirements and reduce the spare vehicle ratio. There are costs and risks associated with this approach, as maintaining old vehicles as active vehicles will require ongoing maintenance to keep them operational for when they will be required in February, 2011. As well, the spare ratio is maintained at its current level in order to ensure service reliability while allowing for daily servicing and maintenance. Allocating a significant portion of the spares to the Games will likely result in service cancellations for regular customers.

The opportunity to accelerate delivery of next year's vehicles as presented by NovaBus would allow them to be used during the 2011 Canada Winter Games, providing much needed additional fleet capacity to accommodate the transportation of athletes and other Canada Games representatives in February 2011. In conjunction with the use of these vehicles for Canada Games transportation and

their continued contribution to safe, comfortable transportation in HRM, NovaBus has indicated that they may be willing to become a sponsor of the 2011 Canada Winter Games. Based on the 2011-12 Project Budget, this delivery will consist of ten vehicles, five for expansion and five for replacement. After the Canada Winter Games, the vehicles would become part of the conventional fleet, however no new service would be introduced until August 2011, pending 2011-12 budget approval and Regional Council direction through the Annual Service Plan.

There are no additional costs related to the early delivery of these vehicles that would not normally be incurred with any vehicle purchase. The reader will note that the per unit price of these vehicles is higher than originally quoted by NovaBus. Through the pre-production phase of the first vehicle delivery, Metro Transit increased the scope of work. NovaBus has applied the increased cost to the remaining vehicles to be ordered. This increased cost due to the price escalation still falls within Metro Transit's capital budget plan as described in the budget implications section of this report.

BUDGET IMPLICATIONS

Within the planned 2011-12 project budget, there is \$7,700,000 in Project Accounts CVD00434 - Conventional Transit Bus Expansion and CVD00435 - Conventional Bus Replacement. The Ferry Replacement Reserve will be re-paid in the 2011-12 budget by replacing funds normally used as Capital from Operating (as it will no longer be required to fund these projects) as a reserve contribution of \$7.7million.

Budget Summary: Project Account No. CVD00434 - Conventional Transit Bus Expansion

Cumulative Unspent Budget	\$ 44,017
Add: 2011-12 Budget Pre-approval	\$ 4,000,000
Less: Purchase costs for five vehicles	<u>\$ 3,756,060</u>
Balance	\$ 287,957

Project Account No. CVD00435 - Conventional Bus Replacement

Cumulative Unspent Budget	\$ 188,331
Add: 2011-12 Budget Pre-approval	\$ 3,700,000
Less: Purchase costs for five vehicles	<u>\$ 3,756,060</u>
Balance	\$ 132,271

The balance of funds in these two Project Accounts would be used for vehicle fit-up.

Project Account CMX01123 - New Conventional Ferry is funded through the Ferry Replacement Reserve. Reducing the project budget from \$2,000,000 to \$300,000, allows \$1,700,000 to be available for the purchase of buses.

Reserve # Q129 - Ferry Replacement Reserve

Projected March 31/2011 balance	\$ 6,237,306
Add: Funding available from 2010/11 project CMX01123	<u>\$ 1,700,000</u>
Cumulative Unspent Budget	\$ 7,937,306
Less: funding to project CVD00434	(\$ 4,000,000)
Less: funding to project CVD00435	<u>(\$ 3,700,000)</u>
Balance	\$ 237,306

Finance confirms the availability of funding in the Ferry Replacement Reserve, Q129. However, Council should be aware that this usage does not qualify as a legitimate application of funds per the approved business case. If Council approves this usage, then Finance can accommodate the financing through Council's approval.

Operating budget implications related to the 2011 Canada Games Initiative are not dependant on this pre-approval and are budgeted separately as Value in Kind. It is planned that ultimately five of these vehicles will be used as replacement vehicles and five as expansion vehicles. An increase to the 2011-12 Operating Budget related to the five expansion vehicles will be brought forward as part of the 2011-12 Operating Budget and Metro Transit Annual Service Plan. If Regional Council were to not approve operating funds for the expansion vehicles at that time, all ten vehicles would be used as replacements.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating budget, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation. If approved this report will increase the Project Budget from \$157,250,966 to \$165,950,966 and increase reserve withdrawals in 2010/11, by \$7.7 million.

COMMUNITY ENGAGEMENT

There are no Community Engagement implications of this report.

ALTERNATIVES

1. Halifax Regional Council could choose to approve the advanced capital funding but defer delivery of the vehicles until June 2011. There would be no difference in costs incurred but this option would hamper Metro Transit's ability to provide required service for the 2011 Canada Winter Games and maintain reliable delivery of regular service. This alternative is not recommended.
2. Halifax Regional Council could choose to not approve the advanced capital funding and wait for the 2011-12 budget approval process to take place before committing to purchase vehicles. This would hamper Metro Transit's ability to provide required service for the 2011 Canada Winter Games and maintain regular service delivery. Further, waiting until April 2011 to place an order would mean that delivery of the vehicles would not take place until late 2012. This would delay service expansion planned for August 2011 significantly, further increasing the gap between the service provided and the demand on the conventional transit system. This alternative is not recommended.

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/agenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Dave Reage, MCIP, LPP, Coordinator, Project Planning, Metro Transit, 490-5138



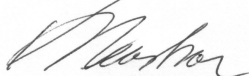
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Financial Approval by:

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