Agenda - Executive Policy Committee – March 20, 2008

OPERATING BUDGET REVIEW

Item No. 1 Rapid Transit Task Force Recommendation - Establishment of Reserve Fund for building a Rapid Transit System
File TT-8

COUNCIL DECISION:

On February 21, 2007, Council concurred in the recommendation of the Executive Policy Committee and adopted the following:

1. That, subject to provision being made in the 2008 Operating Budget for a $5.5 million transfer, a Transit Infrastructure Reserve be established for the purpose of accumulating sufficient funds and subsequently expending on future costs incurred on account of public transit infrastructure, including the construction of the dedicated busways contemplated in the Rapid Transit Task Force report, as well as other rapid transit corridors contemplated in the future.

2. That the establishment of a Reserve Fund for building a Rapid Transit System be referred to the 2008 Operating Budget process for further review.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

RE: **Rapid Transit Task Force Recommendation –**
City's Financial Contribution for a Rapid Transit System

FOR SUBMISSION TO: **Executive Policy Committee**

ORIGINAL REPORT SIGNED BY: **Dave Wardrop, Director of Transit**

REPORT DATE: **February 2, 2007**

RECOMMENDATIONS:

1. **Subject to provision being made in the 2008 Operating Budget for a $5.5 million transfer, a Transit Infrastructure Reserve be established for the purpose of accumulating sufficient funds and subsequently expending on future costs incurred on account of public transit infrastructure, including the construction of the dedicated busways contemplated in the Rapid Transit Task Force report, as well as other rapid transit corridors contemplated in the future; and**
2. **This be referred to the 2008 Operating Budget process for further review.**

Report Summary

Key Issues:

- One of the conclusions drawn by the Rapid Transit Task Force ("RTTF") was that a bus-based rapid transit system making use of dedicated busways represented the best option for rapid transit in the City of Winnipeg.
- Regardless of which rapid transit solution is pursued, a significant capital investment is required to construct the necessary infrastructure.
- The RTTF report made the assumption that construction of a bus-based rapid transit system would require a funding arrangement with the Federal and Provincial governments in an equal partnership. As such, the City would be required to fund one-third of the cost.
- Based on this partnership assumption, the RTTF recommended first rapid transit stages, recent cost estimates and providing for nominal inflation, the City would need $100 million for its one-third portion.
- For overall cost to Winnipeg Transit, the lowest cost option would be to fund this through a reserve.
- The reserve alternative also avoids displacing other capital projects in order to comply with Council practices regarding tax-supported external borrowing and cash to capital caps.

- One drawback of this alternative is that it will take 15 years to accumulate $100 million. However, with the dedicated busway staging discussed, it allows for scalability with lesser amounts available.
- The other drawback is the impact on the operating budget to fund the annual contribution to be made to the reserve. Significant increases in transit fares and/or tax-support funding would likely be necessary.
- It is worthwhile that investigation of public-private partnership opportunities for the construction of rapid transit corridors be explored. This could be achieved through examination of the project by the City's P3 (public-private partnership) committee.

Implications of the Recommendation(s):

General Implications
(X) None

( ) For the organization overall and/or for other departments

( ) For the community and/or organizations external to the City

( ) Involves a multi-year contract

Comment(s):

Policy Implications
(X) No

( ) Yes

Comment(s):

Regulatory Implications
(X) None

( ) Eliminates or reduces regulatory impact

( ) Proposes regulatory impact

Comment(s):

Environmental Implications
(X) No

( ) Yes

Comment(s):

Human Resources Implications
(X) No

( ) Yes

Comment(s):

Financial Implications
( ) Within approved current and/or capital budget

(X) Current and/or capital budget adjustment required

Comment(s): As contemplated, annual contributions of $5.5 million would be necessary for 15 years to accumulate the $100 million required. The City has not made provision for this in the operating budget.

Report

REASON FOR THE REPORT:

At it's meeting of September 6, 2006, Executive Policy Committee referred the matter of the Rapid Transit Task Force Report recommendation to establish funding for building rapid transit to the Administration for analysis and recommendations, including the impact of the ($5.5 M) funding on the present Five Year Capital Forecast.

HISTORY:

On September 29th, 2004, Council adopted a recommendation of Executive Policy Committee to reallocate $43 million of the Canadian Strategic Infrastructure Fund agreement from the Bus Rapid Transit ("BRT") project to community recreation and leisure facility projects, to allocate $7.5 million of the BRT funding to transit modernization initiatives, to pursue funding for transit modernization from other sources (including the Green Municipal Funds Program), and to establish a Rapid Transit Task Force to recommend a long-term rapid transit plan for the City.

In October 2004, the Mayor appointed the Rapid Transit Task Force, with Councillor Wyatt as Chair and Councillors Pagtakhan and Gerbasi as members. In addition, a six-person Advisory Council of citizens was appointed to support the Rapid Transit Task Force in its work.

The Rapid Transit Task Force officially commenced its work on December 15th, 2004 with approval of its work plan by EPC Secretariat and Council approval of its project budget. The Task Force was to submit its report to Executive Policy Committee by June 30th, 2005.

In July 2005, Council granted a 90-day extension to this deadline. The Task Force completed its final report in September 2005.

On October 19th, 2005, Executive Policy Committee received the final report of the Rapid Transit Task Force and recommended to Council:

1. That the "*Rapid Transit Task Force – Made in Winnipeg Rapid Transit Solution – Final Report"* dated September 2005, be received as information.
2. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.
3. That the Administration review the report of the Rapid Transit Task Force and report back to Executive Policy Committee on analysis of options and advice with respect to:
    - Implementation of the Report's recommendations;
    - A priority list of short-term improvements that can be undertaken in 2006- 2007;
    - Timelines for potential implementation;
    - Costs of options being recommended;
    - Funding options for potential project costs.

On October 26th, 2005, Council adopted the October 19th, 2005 recommendations of Executive Policy Committee with respect to the final report of the Rapid Transit Task Force.

On February 8th, 2006, Executive Policy Committee concurred in the recommendations contained in the administrative report entitled *"Rapid Transit Task Force Recommendations – Implementation Plan of Transit Improvements"* and recommended adoption of same by Council.

On February 22nd, 2006, Council adopted the recommendations contained in that administrative report.

On July 26, 2006, Council ruled automatic referral of the following motion to Executive Policy Committee:

> Moved by Councillor Benham,
> Seconded by Councillor Wyatt,
>
> Whereas on October 19, 2005, City Council adopted the Rapid Transit Task Force Report;

And whereas the report recommended City Council establish a reserve for building rapid transit and that $5.5 million be added to the reserve each year;

And whereas that was not done in 2006;

Therefore be it resolved that City Council now indicate its strong support for setting aside $5.5 million for Bus Rapid Transit in the 2007 and subsequent capital budgets.

On September 6, 2006, Executive Policy Committee referred the matter of the Rapid Transit Task Force Report recommendation to establish funding for building rapid transit to the Administration for analysis and recommendations, including the impact of the ($5.5 M) funding on the present Five Year Capital Forecast.

On November 29, 2006, Executive Policy Committee recommended that an extension of time of 60 days be granted for the Administration to report back on this item.

DISCUSSION:

Recommended Rapid Transit Solution

The Rapid Transit Task Force ("RTTF") was established by Council to recommend a "Made in Winnipeg" rapid transit solution for the City of Winnipeg. Following extensive public consultation, research and examination of existing information available, a number of recommendations to improve upon the existing public transit system were made by the RTTF. One of the conclusions drawn by the RTTF was that a bus-based rapid transit system making use of dedicated busways represented the best option for rapid transit in the City of Winnipeg.

Regardless of which rapid transit solution is pursued, a significant capital investment is required to construct the necessary infrastructure. In its report, the RTTF identified two phases to implement dedicated busways:

Phase I

- Southwestern, along Pembina Highway, Letellier Line and CN Main Line, operating on a dedicated busway between Bison Drive and Queen Elizabeth Way and on mixed traffic roadways between Killarney Avenue and Bison Drive;
- Eastern, Stage I, operating on a dedicated busway and on mixed traffic roadways between Grey Street and the Downtown and on mixed traffic roadways between Rougeau Avenue and Grey Street.

Phase II

- Eastern, Stage II, along the Pine Falls Line and CN Main Line, operating on a dedicated busway between Plessis Road and Grey Street.

Both of these phases also included significant on-street improvements in the Quality Corridors identified by the RTTF. The costs and the related financing of these are not considered in this report, having already been discussed in the report *Rapid Transit Task Force Recommendations – Implementation Plan of Transit Improvements,* approved by Council on February 22, 2006. That report was prepared by the administration to propose an implementation plan for the recommendations made by the RTTF.

As it specifically relates to busway implementation, a different staging was recommended in that report, in the following order of priority:

- Southwestern Stage I, Jubilee Avenue to Queen Elizabeth Way
- Eastern Stage I, Crossroads Station/Kildonan Place to Downtown
- Southwestern Stage II, Bison Drive to Jubilee Avenue
- Eastern Stage II, Plessis Road to Crossroads Station/Kildonan Place

The rationale for this considers a staging that generates the greatest benefits (in terms of passenger travel time savings and operational efficiency) as the investments are made.

In this respect, it is important to phase the inner stages of the busways first. There are two major reasons for this:

1. Almost all passenger trips on the rapid transit service will travel over the inner portion of the busways while travelling to/from downtown. Only those passengers travelling to/from the outer areas will benefit from the outer stages of the busways. Per kilometre of busway, therefore, the inner stages provide the greatest aggregate savings in passenger travel time.

2. The inner stages of the busways will bypass higher levels of on-street traffic congestion than will the outer ones. Furthermore, the rapid transit route network will result in more routes converging on the inner stages of the busways and, as a consequence, a higher number of buses will operate on the inner stages than on the outer ones. This combination of effects (speed improvements and bus volumes) will result in high aggregate transit operational efficiencies on the inner stages of the busways.

Financing Framework

The RTTF report made the assumption that construction of a bus-based rapid transit system would require a funding arrangement with the Federal and Provincial

governments in an equal partnership. As such, the City would be required to fund one-third of the cost. A number of existing grant programs based on this model were identified and described in the RTTF report. Various forms of Federal/Provincial programs like these are made available on a regular, albeit unpredictable, basis, depending, of course, on senior government priorities and spending availability. Presently, public transit and the environment seem to be senior government priorities, with both governments recently demonstrating the financial ability to act on these priorities in a significant way. As such, it is important that the City has the ability to lever funding opportunities on short notice.

For an investment the size of the four stages discussed earlier, the City likely has four options:

- Internal capital financing
- External capital financing
- Reserve financing
- Public-private partnership

The RTTF report specifically identified and discussed five alternatives under which the City could provide for its share:

- City of Winnipeg Annual Capital Budget ("pay-as-you-go")
- Bank debt
- Operating lease
- Serial debt
- Bullet (sinking fund) debt

Appendix I presents a table that evaluates each of these alternatives.

Component Costs

An engineering consultant has recently completed and reported on two engagements for the City:

- Southwestern Transit Corridor – Stage 1 Preliminary Design Report
- Eastern Transit Corridor – Functional Design Report

This is the culmination of work that was in progress at the time of Council's decision to reallocate $43 million of the Canadian Strategic Infrastructure Fund agreement from the BRT project to community recreation and leisure facility projects.

As part of these engagements, cost estimates were to be developed by the engineering consultant for each of the first phases that would comprise the proposed bus-based rapid transit system. These are noted in the second column in the table below.

Under a reserve or internal financing scenario, it will very likely take a number of years for the City to sufficiently accumulate the funding necessary. As such, in considering

this, provision should be made for inflation. Assuming the 2007 base cost projected by the engineering consultant increases by two percent annually thereafter, by the time (in 2022) the City has sufficient funding to fulfill its one-third portion, it will need close to $100 million, based on the projected costs noted in the third column of the following table:

phase	ESTIMATED cost (IN PROJECTED 2007 DOLLARS)	ESTIMATED COST (IN PROJECTED 2022 DOLLARS
Southwestern, Stage I	$63 M	$87M
Eastern, Stage I	$61 M	$84M
Southwestern, Stage II	$67 M	$90M
Eastern, Stage II	$28 M	$39M

When considering these estimates, it is important to consider:

- As projected by the engineering consultant in it's reports, these costs are based on 2005 dollars inflated by 15% to convert the estimates to 2007 dollars (including provision for growing construction cost rates).
- While 2% annual increases in the cost of construction over the next 15 years might be reasonable, the short-term increases in construction costs far exceed this.
- They do not include a provision for necessary land acquisitions, which will be in the millions of dollars. While this is partially due to the nature of real estate negotiations, it also reflects the fact that only with final design for each of these corridors will the exact need for property be determined.
- Specifically as it relates to the Eastern Corridor, a Council decision would eventually be required on a preferred alignment – there are a number of options available regarding the corridor path. The cost estimates assume the least expensive alternative.

Financing Observations

For overall cost, the lowest cost option to Winnipeg Transit would be to fund through a reserve. Annual contributions of $5.5 million would be made out of the Transit operating budget such that, when combined with interest to be earned (assumed to be 2.5%) on the funds, $100 million would be available in 15 years (compared to 19 years under the next lowest cost alternative - cash to capital Capital Budget annual authorizations).

The reserve alternative also avoids displacing other capital projects in order to comply with Council practices regarding tax-supported external borrowing and cash to capital caps. The City already has a number of competing capital project priorities; the decisions to be made concerning a number of capital projects are difficult already. Simply put, using cash to capital for the purposes discussed in this report would result in the deferral or cancellation of some projects already established in the Five Year Capital Forecast. Totalling $100 million over 19 years, this represents an amount that would have a significant impact on the current Five Year Capital Forecast.

One drawback of the reserve alternative is that it will take 15 years to accumulate $100 million. However, with the dedicated busway staging discussed earlier, it allows for scalability with lesser amounts available. That is to say, should opportunities be made available sooner than 15 years, the City would very likely have sufficient funds in the reserve to pursue at least one of the stages as follows:

phase	year of sufficient city funding availability
Southwestern, Stage I	2011
Eastern, Stage I	2015
Southwestern, Stage II	2020
Eastern, Stage II	2022

The other drawback is the impact on the operating budget to fund the annual contribution to be made to the reserve. Significant increases in transit fares and/or tax-supported funding would likely be necessary. Such an impact should be referred to the 2008 Operating Budget process for discussion.

Pursuing this option does not mean that the City cannot consider doing so under a public-private partnership. Under such a scenario, the City still requires funding to participate and the reserve would satisfy this requirement. It is worthwhile that further investigation of public-private partnership opportunities be explored.

Financial Impact Statement **Date:** February 2, 2007

Project Name: Rapid Transit Task Force Recommendation - City's Financial Contribution for a Rapid Transit System

	2007	2008	2009	2010	2011
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ 5,500,000	$ 5,500,000	$ 5,500,000	$ 5,500,000
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ 5,500,000	$ 5,500,000	$ 5,500,000	$ 5,500,000
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ 5,500,000	$ 5,500,000	$ 5,500,000	$ 5,500,000

Additional Comments: As contemplated by this report, annual contributions of $5.5 million would be necessary for 15 years to accumulate the $100 million required. The City has not made provision for this in the operating budget. As the recommendation is being referred to the 2008 Operating Budget process, there is no financial impact in 2007.

Original Signed by Paul D. Olafson
Manager of Finance & Administration

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:
N/A

External Consultation With:
N/A

THIS REPORT SUBMITTED BY:

Department: Transit
Division: Finance and Administration
Prepared by: Paul Olafson, CA
File No.

Appendix I

Analysis of Financing Options for Proposed City's Portion
of First Stages of a Bus-based Rapid Transit System

Financing form	financing instrument	Advantages	disadvantages
Internal Capital Financing	Cash to capital (Equity in Capital Assets)	• lower complete term cost (no interest)	• "fixed" 19 year accumulation • subject to financing cap
External Capital Financing	Bank debt	• arrangeable on short notice	• more expensive over term (interest component) • tax-supported external borrowing
	Operating lease		
	Serial debt		
	Bullet (sinking fund) debt		
Reserve Financing	Transit Infrastructure Reserve (new reserve)	• lowest cost alternative for Winnipeg Transit • no impact on borrowing caps • flexibility in funding contributions	• tax-supported budget pressures • "fixed" 15 year accumulation
Public-private Partnership		• risk management (time and cost) • lever expertise • potential opportunity for increased efficiencies	• financing option more expensive • control of construction not direct • risk of undesirable corners being cut to meet budgets