2016/17
Management Discussion and Analysis

Management Discussion and Analysis
Dated: May 31, 2017

The following is management's discussion and analysis of the consolidated financial position and results of operations for BC Transit as of March 31, 2017. This management discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the year ended March 31, 2017 (fiscal 2016/17) included in the 2016/2017 Annual Service Plan Report.

The information provided in the table below is consistent with the presentation in previous years and may be different from the information presented in the audited consolidated financial statements due to the separate disclosure of debt service. Under Canadian public sector accounting standards, costs are allocated by function (operations, maintenance and administration) and include the allocation of debt service. The format of the information presented above is consistent with industry practice and allows for historical and industry benchmarking.

Management Discussion and Analysis
Financial Report
Figures in thousands
As at March 31, 2017

	2011/12 Actual	2012/13 Actual	2013/14* Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2016/17 Budget	2016/17 Variance Year over Year (Un)Favourable	2016/17 Variance to Budget (Un)Favourable
Revenue	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operations	67,847	67,944	69,192	69,182	70,494	74,495	70,584	4,001	3,911
Government transfers									
Provincial	88,065	89,013	95,415	96,211	103,862	104,903	105,665	1,041	(762)
Local government**	75,483	76,312	84,984	88,315	81,433	80,095	103,324	(1,338)	(23,229)
Deferred capital contributions	27,183	28,805	38,746	23,449	30,587	30,150	29,673	(436)	477
Investment and other income	2,947	4,152	5,219	4,030	3,294	3,536	4,821	242	(1,285)
Total Revenues	261,525	266,226	293,556	281,187	289,670	293,179	314,067	3,510	(20,888)
Expenses									
Operations									
Operations (excl. fuel)	114,236	116,269	124,105	124,105	129,048	133,203	136,109	(4,155)	2,906
Fuel	28,416	28,392	30,021	27,969	22,353	20,965	31,976	1,388	11,011
Total operations	142,652	144,661	154,126	152,074	151,401	154,168	168,085	(2,767)	13,917
Maintenance									
Fleet	32,122	33,053	35,824	37,332	38,566	41,859	42,984	(3,293)	1,125
Facilities	7,253	8,206	8,521	9,776	9,476	8,966	9,502	510	536
Total maintenance	39,375	41,259	44,345	47,108	48,042	50,825	52,486	(2,783)	1,661
Administration	22,009	21,735	23,455	24,579	25,981	24,655	26,321	1,326	1,666
Total operating expenses	204,036	207,655	221,926	223,761	225,424	229,648	246,892	(4,224)	17,244
Debt Service									
Interest	10,902	11,045	10,794	10,478	9,478	9,192	10,746	286	1,554
Amortization	47,218	47,739	60,597	46,372	54,835	54,395	56,429	440	2,034
	58,120	58,784	71,391	56,850	64,313	63,587	67,175	726	3,588
Total Expenses	262,156	266,439	293,317	280,611	289,737	293,235	314,067	(3,498)	20,832
Net Income (Loss) from Operations	**(631)**	**(213)**	**239**	**576**	**(67)**	**(56)**	**-**	**12**	**(56)**
Non-Operating Items:									
Vancouver assets									
Amortization expense	(32,654)	(14,769)	(15,010)	(15,187)	(2,494)	-	-	2,494	-
Deferred capital contributions	31,242	14,340	14,581	14,757	2,494	-	-	(2,494)	-
Disposal and impairment of capital assets									
Impairment of capital assets	-	-	-	(4,600)	-	-	-	-	-
Loss on disposal of capital assets	-	(370)	-	(716)	(177)	(1,592)	-	(1,415)	(1,592)
Deferred capital contributions	-	-	-	2,881	-	-	-	-	-
Provincial government transfers	-	-	-	1,985	-	88	-	88	88
Other capital recoveries	11	-	16	450	405	1,645	-	1,240	1,645
Other income/(expense)	-	-	-	39	102	(28)	-	(130)	(28)
Gain (loss) on investments	620	578	699	285	127	10	-	(117)	10
Total Non-Operating Items	(781)	(221)	286	(106)	457	123	-	(334)	123
Annual surplus (deficit)	**(1,412)**	**(434)**	**525**	**470**	**390**	**67**	**-**	**(322)**	**67**
Non-routine loss on transfer of Vancouver assets	**-**	**-**	**-**	**-**	**(65,875)**	-	-	65,875	-
Annual surplus (deficit) after non-routine loss	**(1,412)**	**(434)**	**525**	**470**	**(65,485)**	**67**	**-**	**65,553**	**67**

*Fiscal 2013/14 has been restated due to a correction of an error. For more information please see note 3 to the consolidated financial statements

** Includes Provincial Health Authority and fuel tax funding

Financial Overview

Total revenues for the year ending March 31, 2017 were $293.2 million, an increase of $3.5 million from fiscal 2015/16 and $20.9 million lower than budget. The increase in total revenue from fiscal 2015/16 can be attributed to higher passenger revenues in Victoria with the introduction of day passes and the elimination of transfers effective April 1, 2016. In addition, Regional Transit system passenger revenues also increased over 2015/16.

Total operating expenses (excluding debt service) for the year ending March 31, 2017 were $229.6 million, an increase of $4.2 million over 2015/16 and $17.2 million lower than budget. Cost efficiency, as measured on a cost per hour basis, was favourable to budget by 5.8 per cent and higher than 2015/16 by 1.2 per cent.

The total operating expenses increased over fiscal 2015/16, which can be attributed to the part year service expansions (4,700 service hours) and more service hours provided due to fewer statutory holidays in 2016/17, general inflationary pressures on materials, parts, wages and benefits, and contracted services. Total operating expense were below budget due to fuel savings from lower than budgeted diesel prices, the delivery of lower than anticipated service hours, lower labour and benefit costs, lower than budgeted ERP expenses and timing of Transit Priority Project in Victoria.

Debt service (interest and amortization) for the year ending March 31, 2017, was $63.6 million, a decrease of $0.7 million from fiscal 2015/16. The decrease can be attributed to interest expense relating to retirement of debt and a decrease in amortization expense due to useful life extensions on certain assets. The decrease over budget is due to lower than budgeted interest expense and the timing of completion of capital projects.

Effective May 21, 2015, BC Transit transferred all tangible capital assets under lease in the Greater Vancouver Regional District and related liabilities to the BC Transportation Financing Authority ("BCTFA"). Upon the transfer, BC Transit recognized a reduction in the 2015/16 annual surplus of $65.9 million. The transfer was an extraordinary item within the financial statements and zero proceeds were received. The transaction was non-recurring and had no impact to the ongoing operations or financial assets of BC Transit.

Passenger Trips and Service Hours

Changes in passenger trips are strongly correlated with changes in service hours but are also impacted by other factors including service frequency and reliability, fare changes, investments in public transit (transit exchanges, park & rides and technology) and general economic conditions such as employment, demographics, economic development, fuel prices and population changes. The relationship between passenger trips and service hours is illustrated in the attached chart.

Total passenger trip growth across the province was slightly higher than service hour growth with an overall year-over-year increase of 1.2 per cent and higher than budget by 1.4 per cent. The Victoria Regional Transit System (VRTS) conventional passenger trips remained flat year-over-year and Regional Transit Systems' (RTS) conventional passenger trips increased year-over-year by 2.6 per cent. Total custom/paratransit system passenger trips decreased year-over-year 0.8 per cent due in part to labour action in Kelowna.

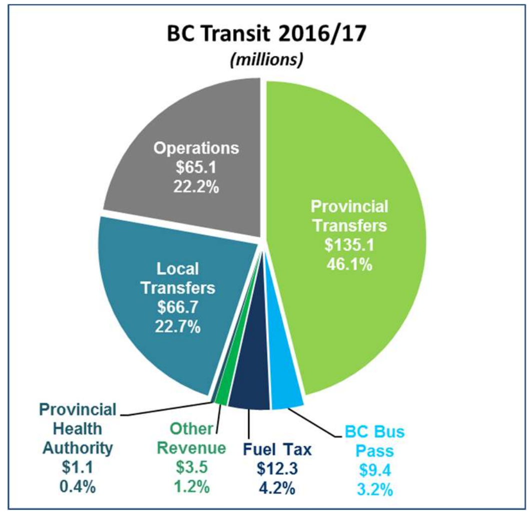
Total service hours delivered increased year-over-year by 16,000 hours or 0.7 per cent. The increase in service hours is due to handyDART service expansions in Victoria, Kelowna and Kamloops and the introduction of Highway 16 transit service between Smithers and Moricetown. In addition, more service hours were provided overall due to fewer statutory holidays than prior year.

Total Revenue

Transit service is primarily funded through two funding parties: the Provincial and Local Governments. Per capita Provincial operating transfers are the highest in Canada and are based on contractual cost share formulae for both operating and capital expenditures.

<u>Operations revenue</u>

Operations revenue (passenger and advertising, including BC Bus Pass) for the year ending March 31, 2017 was $74.5 million, an increase of $4.0 million over 2015/16 and $3.9 million higher than budget. The increase from budget can be attributed to the introduction of the day pass and elimination of transfers in Victoria, leading to significant increases in cash and prepaid pass sales. In Regional Transit systems, Chilliwack, Fraser Valley Express, Nanaimo, Prince George and Whistler had increases year-over-year due to increases in passengers.



Reconciliation to Consolidated Statement of Operations:

Operations revenue = **Operations** + **BC Bus Pass**
Provincial government transfers = **Provincial transfers**
Local government transfers = Local transfers + Provincial Health Authority + Fuel tax
Deferred capital contributions = **Provincial transfers**
Investment and other Income = **Other Revenue**

<u>Provincial</u>

The Provincial operating transfer for the year ending March 31, 2017 was $104.9 million. The increase in Provincial government transfers of $1.0 million from fiscal 2015/16 is attributable to funding for collective agreement increases, in line with the provincial mandate, and funding for service expansions. In 2015/16, the Province committed to three years of fixed annual funding based on the delivery of 2.2 million service hours.

<u>Local Government</u>

Local government transfers were $80.1 million, a decrease of $1.3 million from fiscal 2015/16 and $23.2 million below budget. Local government transfers were lower than budget as a result of operating expenses being below budget by $17.2 million, operations revenue higher than budget by $3.9 million and debt service below budget.

In 2015/16, BC Transit Regulation B.C. Reg.30/91 was amended, establishing the legislated authority for BC Transit to carry an operating reserve. As part of the regulatory change, local government contributions were billed based on budgeted operating expenses. Any unspent local government contributions are held within the operating reserve and treated as deferred revenue. Operating reserves will be expended in future years to offset inflationary increases for current service levels in the respective transit system for which they were contributed.

Deferred Capital Contributions
The amortization of deferred capital contribution revenues was $30.2 million for the year ending March 31, 2017, a decrease of $0.4 million over fiscal 2015/16 and $0.5 million over budget. The decrease over prior year can be attributed to the decrease in amortization expense due to useful life extensions on certain assets. The increase over budget is due to higher than anticipated up front contributions towards capital projects.

Investment and Other Income
Investment and other income for the year ending March 31, 2017 was $3.5 million, an increase of $0.2 million over fiscal 2015/16 and $1.3 million under budget. This balance consists of interest earned on sinking funds, rental income on strategic properties held for long-term transit development being leased in the short-term, commercial revenues associated with a bus lease to the Greater Victoria Harbor Authority, and other miscellaneous income.

The revenue was lower than budget primarily in relation to lower sinking fund investment returns and allocation of interest earned on the operating reserve towards deferred revenue.

Total Operating Expenses

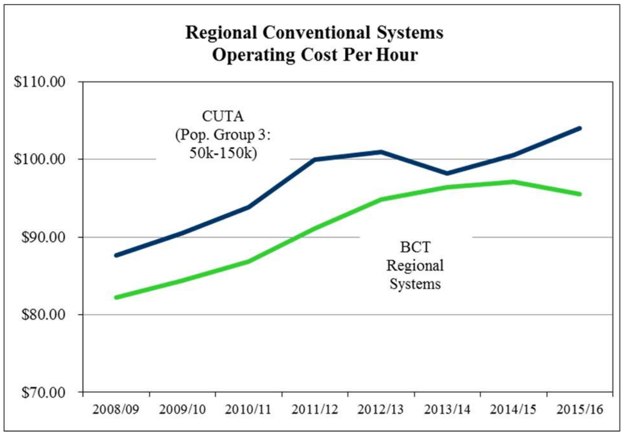
Total operating expenses are defined as the sum of all costs associated with the operation, maintenance and administration of transit service, excluding amortization and interest on debt for capital expenditures. Total operating expenses for the year ending March 31, 2017 were $229.6 million, an increase of $4.2 million over 2015/16 and $17.2 million lower than budget.

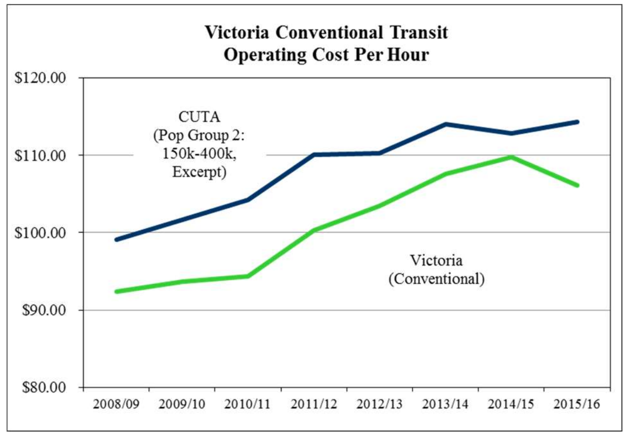
The total operating expense increase over fiscal 2015/16 can be attributed to service expansions of 4,700 service hours and more service hours provided due to fewer statutory holidays in 2016/17, increases in salaries, wages and benefits, general inflationary pressures on parts and materials, and higher insurance costs. These increases were offset against lower fuel prices in 2016/17 compared to 2015/16 and lower project costs for the Enterprise Resource Planning project.

The total operating expense decrease from budget is due to fuel savings from continued lower than budgeted fuel expenses, the delivery of lower than anticipated service hours, lower labour costs due to vacancies and lower benefit costs, lower than budgeted Enterprise Resource Planning project expenses and timing of the transit priority lanes project in Victoria.

Cost efficiency, as measured on a cost per hour basis, was favourable to budget by 5.8 per cent and higher than 2015/16 by 1.2 per cent.

The Canadian Urban Transit Association (CUTA) publishes average operating cost per hour statistics. Based on the most recent information available, BC Transit continues to outperform the average operating cost per hour both in respect of Regional Conventional Transit Systems (populations of 50k- 150k) and Conventional Transit Systems (populations of 150k – 400k).





Operations Expense (excluding fuel)

Operations expenses (excluding fuel) consist of the costs required to operate and manage transit systems and include operator wages and benefits, third party contracted operations and other operational costs. Operations expenses (excluding fuel) for the year ending March 31, 2017 were $133.2 million, $4.2 million over fiscal 2015/16 and $2.9 million lower than budget. Operations expenses increased over fiscal 2015/16 due to more service hours, inflationary pressures on materials, wages and benefits, and insurance costs. Expenses were lower than budget due to lower labour costs resulting from vacancies and fewer service hours provided than budget, lower than budgeted Enterprise Resource Planning project expenses, and timing of Transit Priority Project in Victoria.

Fuel Expense

Fuel expense for the year ending March 31, 2017 was $21.0 million, a decrease of $1.4 million over fiscal 2015/16 and $11.0 million lower than budget. The decrease from fiscal 2015/16 is attributable to lower market rates for diesel fuel and the addition of 35 compressed natural gas buses. For 2016/17, the average diesel fuel price paid was $0.94 per litre, compared to a budget of $1.28 per litre and $0.95 per litre in fiscal 2015/16.

Fuel	2015/16 Actual	2016/17 Actual	2016/17 Budget	Variance Year over Year		Variance to Budget	
					(%)		(%)
Diesel volume (000s litres)	22,698	21,617	24,243	1,082	4.8	2,626	10.8
Diesel price per litre ($)	0.95	0.94	1.28	0.01	1.3	0.34	26.4
Total Diesel cost ($000s)	**21,676**	**20,367**	**31,031**	**1,309**	**6.0**	**10,665**	**34.4**
CNG volume (000s DLE*)	1,806	2,273	2,474	(467)	(25.8)	201	8.1
CNG price per litre ($)	0.37	0.26	0.38	0.11	29.7	0.12	30.9
Total CNG cost ($000s)	**676**	**598**	**945**	**78**	**11.6**	**347**	**36.7**
Total Fuel Cost ($000s)	**22,353**	**20,965**	**31,976**	**1,388**	**6.2**	**11,012**	**34.4**

*DLE - Diesel litre equivalents (000's)

Management obtains favourable fuel pricing by aggregating BC Transit's provincial fuel volumes under a successful fuel procurement process resulting in a volume discount from posted rack rates. Management continues to explore other strategies to manage the cost pressure and volatility associated with fuel prices including strategic procurement partnerships, developing reserves and alternative technologies.

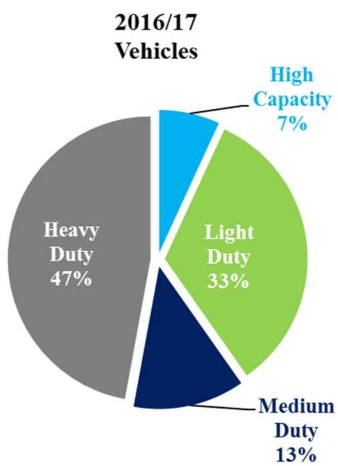
Maintenance Expense

Fleet Maintenance

Fleet maintenance expenses (excluding facilities maintenance) for the year ending March 31, 2017 were $41.9 million, an increase of $3.3 million over fiscal 2015/16 and $1.1 million lower than budget. The increase over fiscal 2015/16 is attributed primarily to inflationary pressures on materials, wages and benefits, increased complexity of the fleet and increased service hours. The favourable variance from budget is primarily attributable to lower than anticipated service hours, lower labour costs due to vacancies, and timing of maintenance activities.

Fleet maintenance expenditures are a function of expansion, inflationary costs, fleet age and fleet diversity. Maintenance costs are incurred for repairs, major component overhauls and mid-life tune-ups. These costs are largely a function of the age of the fleet (increasing costs of parts, labour and outside service providers) and the technological complexity of newer vehicles including increasingly stringent environmental standards. Maintenance costs are also impacted by exchange rates, higher shipping costs, diminishing options in the supply chain network and base commodity costs. Most parts originate from American or European suppliers. BC Transit's fleet replacement and expansion capital plan will in part mitigate some of these cost pressures in future years.

As at March 31, 2017, BC Transit had 1,006 buses in service (not including contingency vehicles). The fleet is comprised of 69 high capacity buses, 474 heavy duty buses, 127 medium duty buses and 336 light duty buses.



At the time of this report:

- High capacity buses have an amortized life of 20 years;
- Heavy duty buses have an amortized life of 13 or 20 years;
- Medium duty buses have an amortized life of 10 or 17 years; and,
- Light duty buses have an amortized life of 5 years.

Heavy duty buses purchased in 2009 or later are amortized over a 13 year period and medium duty buses purchased after 2014 are amortized over a 10 year period. This useful life is consistent with the industry standard.

The fleet replacement plan indicates that 50 per cent of the fleet will require replacement over the next five years. Maintenance costs for older fleets increase significantly as they near the end of their useful lives. However, depending on the costs of major capital investment, life cycle analysis can indicate it is still economical to maintain these vehicles rather than replace them outright and incur write-offs and accelerated debt service charges. Environmental performance and passenger comfort requirements have also created a more diverse transit fleet, contributing to higher parts costs and resource demands.

To best manage and maintain the fleet, management has developed a Long Range Maintenance Plan (LRMP). The LRMP includes analysis of the existing and planned future fleet, maintenance requirements, capacity, labour constraints and funding requirements. Future fleet maintenance will be conducted under the LRMP to ensure the most efficient and effective use of assets. It is a maintenance program that is proactive rather than reactive in nature. Asset componentization continues to be management's approach to managing vehicle assets as component-based capitalization and amortization more accurately reflect the useful life of the LRMP expenditures.

<u>Facilities Maintenance</u>
Facilities maintenance expenses for the year ending March 31, 2017 were $9.0 million, a decrease of $0.5 million over fiscal 2015/16 and $0.5 million lower than budget. The decrease from fiscal 2015/16 can be attributed to staffing realignment. The favourable variance from budget is primarily attributable to lower than budget property lease expense and rapid transit facility maintenance costs in Kelowna.

Many of BC Transit's operations and maintenance facilities are near the end of their useful lives, and require increasing repairs and modifications to meet the physical requirements of current and expanding service levels. In addition, a number of facilities are operating at or beyond their designed capacity and, as such, limit the expansion of services. Growth and expansion of the fleet will continue to put additional pressure on existing facilities.

Strategic planning initiatives are underway with a number of local partners in order to respond to capacity issues identified in the Transit Future Plans and draft a Facilities Master Plan. These plans identify bus parking, maintenance and storage requirements, provide options for maximizing the capacity and efficiency of existing facilities and identify recommendations for the construction of future infrastructure requirements.

Replacement or expansion of an operations and maintenance facility is often a challenge for local government partners who are balancing competing asset investment requirements. Additional funding opportunities were made available during the 2016/17 year through the Public Transit Infrastructure Fund (“PTIF”). Five new operations and maintenance facilities were identified for funding and the planning, consultation and development of new operating and maintenance facilities is underway in each respective community. These new facilities will also consider infrastructure to support future CNG bus deployment.

Administration Expense

Total administrative expenses for the year ending March 31, 2017 were $24.7 million, a decrease of $1.3 million over fiscal 2015/16 and $1.7 million lower than budget. The decrease from fiscal 2015/16 can be attributed to lower Enterprise Resource Planning project costs. Costs were lower than budget due to vacancies, lower Enterprise Resource Planning project costs, and lower consulting and travel expenses.

Administrative costs include supporting shared services for all transit systems. BC Transit provides a wide range of management services that benefit all of transit systems throughout the province. The shared services model:

- Pools expertise and capacity in areas such as planning, financial management and reporting;
- Provides an opportunity to lower costs through bulk purchases of supplies and assets, such as fuel, inventory and buses;
- Provides efficiencies in contract management for third party contract management companies; and
- Manages the distribution of provincial and local government funding.

Administrative costs face on-going pressures, many of which include increasing requirements for technology support and services. Other cost drivers are regulatory, including compliance with increasing environmental, procurement, accounting and legal standards. BC Transit's cost efficiency benchmarks continue to rank better than national averages, primarily due to the shared services business model.

BC Transit will continue to leverage the strength of the shared services model and achieve greater operational, capital and financial efficiencies as it continues to experience significant demand for both public transit and shared services expertise.

Debt Service

Debt service (interest and amortization) for the year ending March 31, 2017 was $63.6 million, a decrease of $0.7 million from fiscal 2015/16 and $3.6 million lower than budget. The decrease from fiscal 2015/16 can be attributed to a decrease in interest expense relating to retirement of debt and a decrease in amortization expense due to useful life extensions on certain assets. The favourable variance from budget can be attributed to $2.0 million of lower than expected amortization expense due to the timing of completion of capital projects and $1.6 million of lower than expected interest costs as a result of management’s strategy to utilize the company’s cash position to fund tangible capital asset additions and defer the immediate need for fiscal agency loans.

Non-Operating Items

Other expenses and recoveries for the year ending March 31, 2017 resulted in a recovery of $0.1 million, a decrease in net recovery of $0.3 million over fiscal 2015/16. Capital losses and impairments were sustained during fiscal 2016/17 primarily as a result of three transit vehicles lost in a fire that originated at a neighbouring facility.

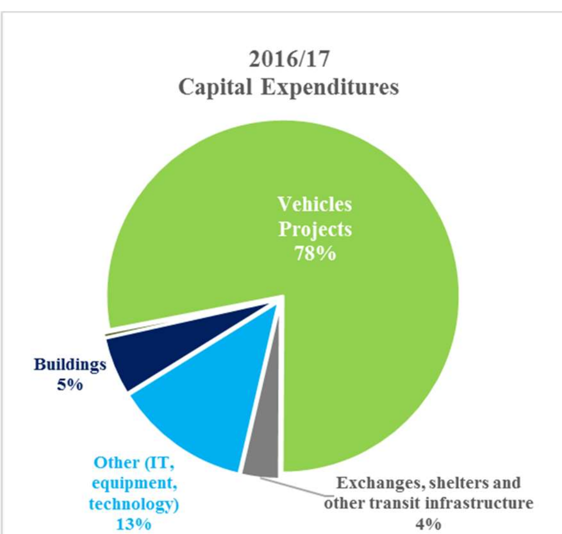
Capital Expenditures

The capital program and its related financing is a major driver on the Consolidated Statement of Financial Position. Under traditional funding arrangements, the Province provides deferred capital contributions based on cost sharing percentages identified in contribution agreements and the local government's share is recovered by way of lease fees over the useful life of the related asset. The Minister of Finance, as BC Transit's fiscal agent, arranges financing for capital purchases at BC Transit's request.

In 2016/17, additional funding opportunities were made available through a three-year contribution agreement with the Federal and Provincial Governments ("PTIF funding"). The funding from this agreement will be used toward the acquisition and construction of transit infrastructure, buses and technologies. These assets will enhance the efficiency, convenience, safety and security of BC Transit and allow for future expansion opportunities. Planning, consultation and development of these projects initiated in fiscal 2016/17.

2016/17 capital expenditures focused primarily on the acquisition of buses, the ongoing refurbishment of existing buses, including interior and exterior refits, and the planned replacement of key bus components, including transmissions, engines and differentials. Significant expenditures were also incurred towards the ongoing upgrade of BC Transit's Enterprise Resource Planning system, the early stages of the facility seismic upgrades in Victoria, and the initial phases of programs to implement 'smart' technology on buses.

The following illustrates the categories of capital project expenditures in fiscal 2016/17 (in thousands of dollars):



	($)
Vehicles Projects	31,783
Other (IT, equipment, technology)	5,100
Buildings	2,185
Exchanges, shelters and other transit infrastructure	1,435
Land	171
Total Capital Expenditures	**40,674**

Consolidated Statement of Financial Position

Changes in the Consolidated Statement of Financial Position for the year ending March 31, 2017 are listed below:

AS OF MARCH 31, $ (000)'s	2016/17	2015/16	Variance Year over Year		Explanation of Change
	($)	($)	($)	(%)	
FINANCIAL ASSETS					
Cash and cash equivalents	39,663	47,481	(7,818)	(16.5)	See Consolidated Statement of Cash Flows.
Accounts receivable:					
Provincial and federal capital grants	11,774	1,289	10,485	813.4	Capital grants previously received in advance, now received subsequent to purchase.
Local government	17,187	15,081	2,106	14.0	Increase relates to timing of payments.
Trade and other	15,407	5,324	10,083	189.4	Increase relates to timing of March 2017 Provincial Operating Grant.
Debt sinking funds	94,001	90,993	3,008	3.3	Increase relates to sinking fund installments made less redemptions.
	178,032	160,168	17,864	11.2	
LIABILITIES					
Accounts payable and accrued liabilities	25,611	28,582	(2,971)	(10.4)	Decrease relates to timing of payments.
Provincial funding payable	-	2,177	(2,177)	(100.0)	No Provincial funding is payable at year-end.
Deferred revenue and contributions	55,211	35,096	20,115	57.3	Increase in the deferred service funding contributions resulting primarily from lower than budgeted fuel costs.
Deferred capital contributions	196,737	202,858	(6,121)	(3.0)	Decrease relates to recognition of revenue greater than contributions received towards tangible capital assets in the fiscal year.
Debt	180,006	186,346	(6,340)	(3.4)	Decrease relates to 2016/17 debt repayment.
Employee future benefits	19,457	18,254	1,203	6.6	Increase in current benefit cost.
	477,022	473,313	3,709	0.8	
NET DEBT	(298,990)	(313,145)	14,155	4.5	
NON FINANCIAL ASSETS					
Tangible capital assets	298,748	314,157	(15,409)	(4.9)	Decrease relates to amortization expense greater than 2016/17 capital additions.
Inventories	9,334	8,739	595	6.8	Consistent with comparative year.
Prepaid expenses	2,347	3,302	(955)	(28.9)	Decrease relates to utilization of a parts credit with a major supplier.
Prepaid lease payments	4,807	5,223	(416)	(8.0)	Consistent with comparative year.
	315,236	331,421	(16,185)	(4.9)	
ACCUMULATED SURPLUS					
Accumulated operating surplus	7,919	7,852	67	0.9	Increase relates to 2016/17 annual surplus.
Accumulated remeasurement gains	8,327	10,424	(2,097)	(20.1)	Decrease relates to unrealized mark-to-market loss on sinking funds.
	16,246	18,276	(2,030)	(11.1)	

Liquidity and Capital Resources

Cash Flows and Liquidity

The net change in cash and cash equivalents in the year was a decrease of $7.8 million (2016 – increase of $9.4 million). Net cash outflow for tangible capital assets was $15.0 million (2016 – $6.0 million) being the difference between cash used to acquire tangible capital assets and the deferred capital contributions received. The increase relates to timing of receipt of capital contributions.

Throughout the year ending March 31, 2017, BC Transit utilized its cash position to fund the net cash outflow for tangible capital asset additions. This deferred the requirement for fiscal agency loans. A total of $6.4 million (2016 - $25.6 million) of debt was repaid in the year.

BC Transit has adequate financial resources for 2017/18 between working capital, operating and capital grants, and forecasted new fiscal agency loans in 2017/18 to proceed with its service plan. Management is expecting to acquire new fiscal agency loans in 2017/18 to fund its capital plan and to replenish its cash position.

Debt

Total debt outstanding as at March 31, 2017 is $180.0 million (March 31, 2016 - $186.3 million). Under the *British Columbia Transit Act*, BC Transit is subject to a $500.0 million borrowing limit. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. Debt has a weighted average interest rate of 5.06 per cent, maturing at various dates to 2040 and amortized from eight to thirty years.

Investments in sinking funds, including interest earned, will be used to repay the related debt at maturity. Sinking fund balances at March 31, 2017 were $94.0 million (March 31, 2016 - $91.0 million).

Working Capital Changes

The net decrease in working capital for the year ending March 31, 2017 was $6.0 million (2016 – increase of $9.3 million). The significant changes in working capital for the year ending March 31, 2017 can be attributed to an increase in accounts receivable of $22.7 million, decreases to accounts payable and provincial funding payable of $5.2 million. This was partially offset by an increase in deferred revenue and contributions of $20.8 million. Accounts receivable increased due to changes to contribution agreements which now only allow for payment subsequent to restrictions being met. The increase in deferred revenue and contributions is primarily attributable to the continued growth of the municipal operating reserve as a result of contributions in excess of actual budgeted operating expenditures due to the low cost of fuel. The decreases to accounts payable and provincial funding payable are related to the timing of payment transmissions.

Accumulated Surplus

Accumulated surplus as at March 31, 2017 was $16.2 million, a decrease of $2.0 million over fiscal 2015/16. The decrease in the accumulated surplus primarily relates to $2.1 million of unrealized mark-to-market losses on debt sinking funds due to changes in market interest rates. The overall portfolio of debt sinking funds remains in an accumulated gain position of $8.3 million. The British Columbia Investment Management Corporation (bcIMC) provides BC Transit with investment management services, which consist of mandatory sinking funds administered by the debt management branch (DMB). Sinking Fund investments consist of installments which will be used to repay debt upon maturity. These installments are invested in financial assets which have a duration similar to the underlying debt. Due to the longer term nature of the Sinking Fund investments they are exposed to unrealized fair value movements caused by market conditions. As the Sinking Fund investments are held to maturity, it is anticipated that any unrealized gain or loss over the term of the debt will be reversed by the maturity date.

The Ministry of Finance manages pooled funds through the Central Deposit Program that are eligible investments for BC Transit's cash equivalents, and that meet BC Transit's investment objectives and risk management standards.