CHAIR & MEMBERS
VICTORIA REGIONAL TRANSIT COMMISSION
February 18, 2014

#8

SUBJECT: Victoria Regional Transit Commission Transit Fund Balance Strategy

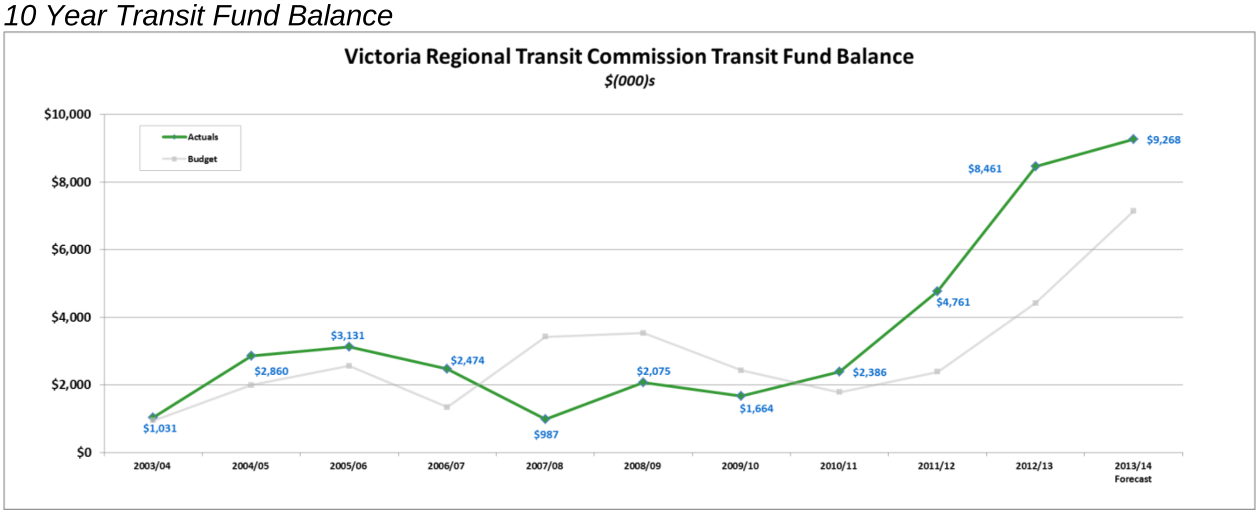
PURPOSE:

The purpose of this report is to provide historical information regarding the Transit Fund balance and to provide options for a reserve strategy. This analysis was requested by members of the Commission at the December 10, 2013 meeting and is submitted for **INFORMATION**.

BACKGROUND:

Over the past ten years, the transit fund balance has varied from a low of $0.9 million in 2007/08 to a forecasted high of $9.3 million in 2013/14. Between 2007/08 and 2009/10, the fund was reduced, reaching its lowest level ($0.9 million) in 2007/08. Since that time, the fund has been restocked. In the last three years, the fund has grown substantially to a forecast year-end total exceeding $9 million due to being under budget on operating expenditures (lease fees, administration, maintenance, operations, fuel) primarily related to labour action and favourable fuel management strategies.

10 Year Transit Fund Balance



GOAL OF THE TRANSIT FUND:

The primary reason for maintaining a Transit Fund is to insure against risks that can affect the obligation of the Commission. Other reasons include:

a) To allow for multi-year revenue strategies;
b) To provide for exception circumstances or unexpected expenses; and
c) To be used to offset expenditure such as capital expenditures.

RISK AND SENSITIVITIES:

When estimating budgets, there is always some uncertainty. These uncertainties are a risk to any budgeting process. Significant budget risks include fuel costs, the cost of labour, and drops in passenger revenue or fuel tax. The table below illustrates the impact of a one per cent change in these expense categories.

Budget Risks and Sensitivities

	1 per cent Change	*Local Share*
Fuel Costs	$112,300	*$76,700*
Labour Contracts	$575,000	*$392,700*
Passenger Revenue	$375,700	*$375,700*
Fuel Tax Revenue - 3.5 cents/litre	$116,500	*$116,500*

Over the past 10 years, the items included in the table above have fluctuated from budget. The table below shows the maximum and average budget variances over this period.

	Maximum Under Budget	Maximum Over Budget	Average Variance (Under)/Over Budget
Fuel Costs	12%	7%	(.5%)
Passenger Revenue	8%	4%	(1%)
Fuel Tax Revenue	3%	5%	(.1%)

The Commission should also be cognitive of the risk of a shut-down of all bus service due to unforeseen events or emergencies where the fund would be obligated to pay its share of fixed costs. The Transit Fund is also exposed to the risk associated with the affordability of major facility expansions which were presented to the Commission on September 10, 2013 in the Three Year Service and Financial Strategy Report.

A significant amount of scrutiny is involved in the annual budgeting process to reduce the above budget risks to a low level.

OPTIONS:

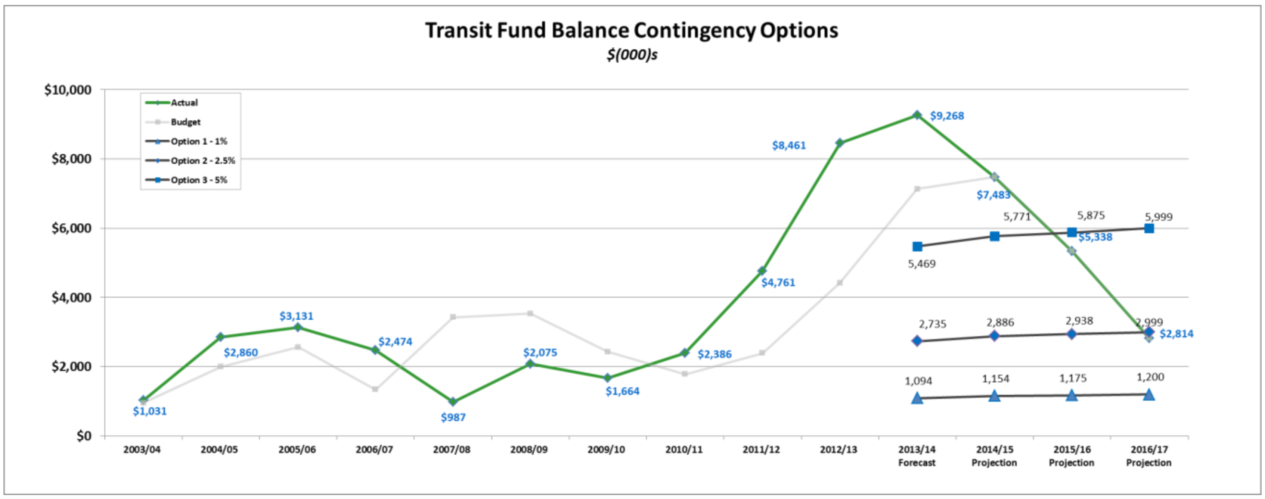
At the Victoria Regional Commission meeting held on December 10, 2013, the Commission agreed to fund the Commission’s share of the Douglas Street Bus Lane project ($1.5 million) and to reduce the impact on local property taxes ($1.17 million) to a three per cent annual increase over the projected 2014/15 to 2016/17 period. Forecasts for the period have taken this obligation into account. The Transit Fund is forecast to be reduced to $7.4 million by the end of 2014/15 with base service levels and budgets established at the last Commission meeting.

In response to the Commission’s request for a historical overview of the Transit Fund balance, four potential Transit Fund balance strategies have been developed:

1. Maintain a balance equal to one per cent of the Commission’s annual operating expense obligations; or
2. Maintain a balance equal to 2.5 per cent of the Commission’s annual operating expense obligations; or

3. Maintain a balance equal to five per cent of the Commission's annual operating expense obligations; or
4. Continue to manage the Transit Fund on a three year basis. The Commission would direct the funds to be used to offset debt (lease fees) associated with future capital projects (e.g. the new operations and maintenance facility and/or rapid transit).

The graph below illustrates the future of the Transit Fund based on options 1, 2 and 3. The illustration ***assumes no further change to fares*** and limits annual property tax increases to three per cent per year. The Transit Fund is forecast to be sufficient to address anticipated obligations in 2014/15 to 2016/17. However, it is recommended that once a Fund target has been established by the Commission that staff prepares a three to five year revenue plan to ensure that the reduction of the Fund does not create a need for abrupt changes to taxation or passenger revenue requirements. It should also be noted that a five per cent contingency of operating expenditures is an industry standard; however, given operating expenditures are cost shared with the Province an acceptable range could be as low as 2.5 per cent, while the one per cent contingency would be lower than recommended.

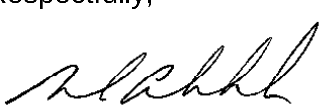


Option 4 continues to manage the Transit Fund over a three year period. The Transit Fund could be targeted to pay down the capital investment, reducing the annual lease fee impact.

RECOMMENDATION:

It is recommended that the Victoria Regional Transit Commission receive the Transit Fund Strategy for **INFORMATION.**

Respectfully,



Manuel Achadinha
President and Chief Executive Officer