

**METRO VANCOUVER REGIONAL DISTRICT  
FINANCE AND INTERGOVERNMENT COMMITTEE**

**REGULAR MEETING**

**Friday, April 20, 2018**

**1:00 p.m.**

**28<sup>th</sup> Floor Committee Room, 4730 Kingsway, Burnaby, British Columbia**

**A G E N D A<sup>1</sup>**

**1. ADOPTION OF THE AGENDA**

**1.1 April 20, 2018 Regular Meeting Agenda**

That the Finance and Intergovernment Committee adopt the agenda for its regular meeting scheduled for April 20, 2018, as circulated.

**2. ADOPTION OF THE MINUTES**

**2.1 March 16, 2018 Regular Meeting Minutes**

That the Finance and Intergovernment Committee adopt the minutes of its regular meeting held March 16, 2018, as circulated.

**3. DELEGATIONS**

**4. INVITED PRESENTATIONS**

**5. REPORTS FROM COMMITTEE OR STAFF**

**5.1 2017 Greater Vancouver Regional Fund Semi-Annual Reports**

*Designated Speaker: Sarah Buckle, Director, Enterprise Risk and Sustainability, TransLink and Jeevan Tiwana, Manager, Capital Assets and Government Funding, TransLink*

That the MVRD Board receive for information the report prepared by TransLink titled "Report on Federal Gas Tax Funding received from the Greater Vancouver Regional Fund (GVRF)" as attached to the report dated April 4, 2018, titled "2017 Greater Vancouver Regional Fund Semi-Annual Reports".

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<sup>1</sup> Note: Recommendation is shown under each item, where applicable.

**5.2 Operating, Statutory and Discretionary Reserves Policy**

*Designated Speaker: Phil Trotzuk, Chief Financial Officer, General Manager, Financial Services*

That the MVRD/GVWD/GVS&DD/MVHC Board approve the Operating, Statutory and Discretionary Reserves Policy as presented in the attached report, dated March 28, 2018, titled "Operating, Statutory and Discretionary Reserves Policy."

**6. INFORMATION ITEMS**

**6.1 2018 Finance and Intergovernment Committee Work Plan**

**7. OTHER BUSINESS**

**8. BUSINESS ARISING FROM DELEGATIONS**

**9. RESOLUTION TO CLOSE MEETING**

*Note: The Committee must state by resolution the basis under section 90 of the Community Charter on which the meeting is being closed. If a member wishes to add an item, the basis must be included below.*

That the Finance and Intergovernment Committee close its regular meeting scheduled for April 20, 2018 pursuant to the *Community Charter* provisions, Section 90 (1) (k) as follows:

"90 (1) A part of the meeting may be closed to the public if the subject matter being considered relates to or is one or more of the following:

- (k) negotiations and related discussions respecting the proposed provision of a regional district service that are at their preliminary stages and that, in the view of the board or committee, could reasonably be expected to harm the interests of the regional district if they were held in public."

**10. ADJOURNMENT/CONCLUSION**

That the Finance and Intergovernment Committee adjourn/conclude its regular meeting of April 20, 2018.

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Membership:

Louie, Raymond (C) – Vancouver

Moore, Greg (VC) – Port Coquitlam

Brodie, Malcolm – Richmond

Clay, Mike – Port Moody

Corrigan, Derek – Burnaby

Deal, Heather – Vancouver

Mussatto, Darrell – North Vancouver City

Steele, Barbara - Surrey

Stewart, Richard – Coquitlam

Walton, Richard – North Vancouver District

**METRO VANCOUVER REGIONAL DISTRICT  
FINANCE AND INTERGOVERNMENT COMMITTEE**

Minutes of the Regular Meeting of the Metro Vancouver Regional District (MVRD) Finance and Intergovernment Committee held at 9:03 a.m. on Friday, March 16, 2018 in the 28<sup>th</sup> Floor Committee Room, 4730 Kingsway, Burnaby, British Columbia.

**MEMBERS PRESENT:**

Chair, Councillor Raymond Louie, Vancouver  
 Vice Chair, Mayor Greg Moore, Port Coquitlam (arrived at 9:05 a.m.)  
 Mayor Malcolm Brodie, Richmond  
 Mayor Mike Clay, Port Moody  
 Mayor Derek Corrigan, Burnaby  
 Councillor Heather Deal, Vancouver (arrived at 9:05 a.m.)  
 Mayor Darrell Mussatto, North Vancouver City  
 Mayor Richard Stewart, Coquitlam  
 Mayor Richard Walton, North Vancouver District

**MEMBERS ABSENT:**

Councillor Barbara Steele, Surrey

**STAFF PRESENT:**

Carol Mason, Chief Administrative Officer  
 Janis Knaupp, Legislative Services Coordinator, Board and Information Services

**1. ADOPTION OF THE AGENDA**

**1.1 March 16, 2018 Meeting Agenda**

**It was MOVED and SECONDED**

That the Finance and Intergovernment Committee adopt the agenda for its meeting scheduled for March 16, 2018 as circulated.

**CARRIED**

**2. ADOPTION OF THE MINUTES**

**2.1 February 14, 2018 Regular Meeting Minutes**

**It was MOVED and SECONDED**

That the Finance and Intergovernment Committee adopt the minutes of its regular meeting held February 14, 2018 as circulated.

**CARRIED**

**3. DELEGATIONS**

No items presented.

**4. INVITED PRESENTATIONS**

No items presented.

**5. REPORTS FROM COMMITTEE OR STAFF**

**5.1 TransLink Application for Scope Change to Approved October 2017 Application for Federal Gas Tax Funding from the Greater Vancouver Regional Fund**

Report dated March 5, 2018 from Raymond Kan, Senior Regional Planner, Parks, Planning and Environment, seeking MVRD Board approval of TransLink's request for a scope change to the 2019 conventional 40-foot hybrid bus expansion under Metro Vancouver's *Federal Gas Tax Fund Expenditures Policy*.

**It was MOVED and SECONDED**

That the MVRD Board approve a scope change to TransLink's 2017 application for Federal Gas Tax funding from the Greater Vancouver Regional Fund, replacing seven 40-foot hybrid buses to be purchased in 2019 with five 60-foot hybrid buses, as described in the report dated March 5, 2018, titled "TransLink Application for Scope Change to Approved October 2017 Application for Federal Gas Tax Funding from the Greater Vancouver Regional Fund".

**CARRIED**

9:05 a.m. Vice Chair Moore and Councillor Deal arrived at the meeting.

**5.2 Public Engagement Policy**

Report dated March 7, 2018 from Vanessa Anthony, Program Manager, Public Involvement, Water Services, Megan Gerrys, Corporate Projects Coordinator, Legal and Legislative Services, and Andrea Winkler, Program Manager, Public Involvement, Liquid Waste Services, seeking MVRD, GVS&DD, GVWD, and MVHC Board approval of Metro Vancouver's *Public Engagement Policy*.

Members were provided with a presentation on the proposed Metro Vancouver *Public Engagement Policy* highlighting regional public engagement activities, best practices, purpose, guiding principles, role of the Board, and staff resources.

Presentation material titled "Engagement Policy" is retained with the March 16, 2018 Finance and Intergovernment Committee agenda.

**It was MOVED and SECONDED**

That the MVRD/GVS&DD/GVWD/MVHC Board approve the Public Engagement Policy as presented in the report dated March 7, 2018, titled "Public Engagement Policy."

**CARRIED**

**6. INFORMATION ITEMS**

**It was MOVED and SECONDED**

That the Intergovernment and Finance Committee receive for information the following Information Item:

6.1 2018 Finance and Intergovernment Committee Work Plan

**CARRIED**

**7. OTHER BUSINESS**

No items presented.

**8. BUSINESS ARISING FROM DELEGATIONS**

No items presented.

**9. RESOLUTION TO CLOSE MEETING**

**It was MOVED and SECONDED**

That the Finance and Intergovernment Committee close its regular meeting scheduled for March 16, 2018 pursuant to the *Community Charter* provisions, Section 90 (1) (c), (e), (g) and (k) as follows:

“90 (1) A part of the meeting may be closed to the public if the subject matter being considered relates to or is one or more of the following:

- (c) labour relations or other employee relations;
- (e) the acquisition, disposition or expropriation of land or improvements, if the board or committee considers that disclosure could reasonably be expected to harm the interests of the regional district;
- (g) litigation or potential litigation affecting the regional district; and
- (k) negotiations and related discussions respecting the proposed provision of a regional district service that are at their preliminary stages and that, in the view of the board or committee, could reasonably be expected to harm the interests of the regional district if they were held in public.”

**CARRIED**

**10. ADJOURNMENT/CONCLUSION**

**It was MOVED and SECONDED**

That the Finance and Intergovernment Committee adjourn its meeting of March 16, 2018.

**CARRIED**

(Time: 9:15 a.m.)

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Janis Knaupp,  
Legislative Services Coordinator

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Raymond Louie, Chair

24835069 FINAL

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To: Finance and Intergovernment Committee

From: Raymond Kan, Senior Regional Planner, Parks, Planning and Environment

Date: April 4, 2018 Meeting Date: April 20, 2018

Subject: **2017 Greater Vancouver Regional Fund Semi-Annual Reports**

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### **RECOMMENDATION**

That the MVRD Board receive for information the report prepared by TransLink titled “Report on Federal Gas Tax Funding received from the Greater Vancouver Regional Fund (GVRF)” as attached to the report dated April 4, 2018, titled “2017 Greater Vancouver Regional Fund Semi-Annual Reports”.

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### **PURPOSE**

To present for information to the MVRD Board TransLink’s status report on active projects funded by federal gas tax funds through the Greater Vancouver Regional Fund (GVRF).

### **BACKGROUND**

In accordance with the *Federal Gas Tax Fund Expenditures Policy (GVRF Policy)* adopted by the MVRD Board in 2016, TransLink is required to provide to the MVRD Board semi-annual reports on projects funded through the GVRF. At a minimum, the reports must include updated project-level information on variances to budget and total cost, expenditures to date, project schedule, risk assessment, project progress, and alignment with the GVRF evaluation criteria. At its October 27, 2017 meeting, the MVRD Board expressed a desire to receive more detailed information in future reports that would specifically include information describing the progress of approved acquisitions, whether they had proceeded as intended, and whether projects were successful in demonstrating alignment with the evaluation criteria articulated in the GVRF Policy.

### **2017 GVRF SEMI-ANNUAL REPORTS**

TransLink’s second GVRF report is attached in partial fulfillment of the MVRD Board’s *GVRF Policy*. The report contains cumulative information on active projects funded through the GVRF as of June 30, 2017 and December 31, 2017 (TransLink is submitting a compilation of two semi-annual reports for 2017).<sup>1</sup> The MVRD Board’s desire for more detailed information on project progress was communicated to TransLink, and in response, the TransLink report includes a section describing the progress of approved projects (i.e. substantial completion, already in-service, procurement contract has been signed, etc.).

As of June 30, 2017, there were 30 active projects funded by the GVRF, with a total budget of \$810.2 million. As of December 31, 2017, there were 37 active projects funded by the GVRF, with a total budget of \$966.6 million and approved GVRF funding of \$815.7 million.

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<sup>1</sup> Even though a project may have been implemented, it may remain on the active project list to reflect outstanding charges to be paid off prior to project close-out.

The regional transportation authority reports that it has delivered the majority of GVRF-funded projects with favourable cost and schedule performances. However, four projects are experiencing significant delays.

- **Metrotown – Trolley Overhead Rectifier Replacement** – the updated forecast in-service date is October 2019 versus the original in-service date of December 2017; the delay is caused by a scope change resulting in delays to the procurement process. TransLink expects minimal service risks as one of the two new rectifier stations will be in service in September 2018.
- **2016 Conventional Bus Replacement (40 40' buses)** – the updated forecast in-service date is September 2019 versus the original in-service date of April 2017; the delay is caused by sequencing the procurement over multiple years and a scope change from diesel to CNG and hybrid propulsions. The MVRD Board approved TransLink's request for the scope change in 2017.
- **2017 Conventional Bus Replacement (52 60' buses)** – the updated forecast in-service date is April 2019 versus the original in-service date of April 2018; the delay is caused by a scope change from diesel to hybrid propulsion. The MVRD Board approved TransLink's request for the scope change in 2017.
- **2018 Conventional Bus Replacement (17 40' buses)** – the updated forecast in-service date is March 2019 versus the original in-service date of November 2018; the delay is caused by a scope change from diesel to CNG propulsion. The MVRD Board approved TransLink's request for the scope change in 2017.

For the three bus projects, their delayed implementation means continued deployment of aging (primarily diesel) buses, resulting in continued diesel particulate emissions, and potentially higher rate of equipment and service reliability issues. TransLink commits to ensuring that the older buses are being maintained well with diesel particulate filters. TransLink will continue to monitor the implementation of these and other GVRF projects and report to the MVRD Board through the semi-annual reports.

In terms of an overall risk assessment, TransLink identified foreign exchange rate, unavailability of the GM chassis for Community Shuttles and HandyDART vehicles, backlog of bus orders at the bus manufacturers, and a change to the livery (branding decals) of the new B-Line buses (although TransLink now believes the original expectation for a five-month delay has been significantly mitigated as the livery has already been presented to the bus vendor) as known risks affecting the active projects.

Finally, the TransLink report provides a section characterizing the alignment between the approved projects and the evaluation criteria. TransLink should consider presenting performance data, as they become available, about the approved projects in future reports.

#### **ALTERNATIVES**

This is an information report. No alternatives are presented.

## **FINANCIAL IMPLICATIONS**

There are no financial implications.

## **SUMMARY / CONCLUSION**

TransLink has submitted a GVRF report containing historical information on active projects funded in part with federal gas tax funds through the Greater Vancouver Regional Fund as at June 30, 2017 and December 31, 2017. As per TransLink's report, the regional transportation authority has been successful in delivering the majority of GVRF-funded projects on or ahead of schedule and incurring favourable cost variances. However, four projects (the Metrotown trolley overhead rectifier and three bus replacement projects) are experiencing delays due primarily to bus manufacturer backlogs.

In terms of an overall risk assessment, TransLink identified foreign exchange rate, unavailability of the GM chassis for Community Shuttles and HandyDART vehicles, backlog of bus orders at the bus manufacturers, and a change to the livery of the new b-Line buses, as known risks affecting the active projects.

### **Attachment:** *(Doc #24916018)*

Report on Federal Gas Tax Funding received from the Greater Vancouver Regional Fund (GVRF), dated March 16, 2018

24918959



To: Carol Mason, Chief Administrative Officer, Metro Vancouver

From: Rob Malli, Chief Financial Officer and Executive Vice President, Finance and Corporate Services, TransLink

Date: March 16, 2018

**Subject: Report on Federal Gas Tax Funding received from the Greater Vancouver Regional Fund (GVRF)**

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**PURPOSE**

The "Federal Gas Tax Fund Expenditures Policy", approved by the Board of Directors of the Greater Vancouver Regional District (Metro Vancouver) on May 27, 2016, requires TransLink to report to Metro Vancouver on active projects that have received funding from the Greater Vancouver Regional Fund (GVRF) through the Federal Gas Tax Fund (FGTF) program.

The report frequency is semi-annual and has the following reporting objectives:

- A. Project budget to actual cost variances;
- B. Project expenditures to date;
- C. Current project schedule;
- D. Overall risk assessment;
- E. Project progress; and
- F. Alignment with Evaluation Criteria.

This report will provide historical information on active projects with GVRF funding as at June 30, 2017 and December 31, 2017.

**BACKGROUND**

Since the FGTF program began in 2005, TransLink has received \$1,164.7 million in funding to expand and modernise the transit network. Interest earned on funds received, which must be used for approved GVRF projects, totalled \$33.8 million at December 31, 2017. Also, there was \$149.2 million in unapproved GVRF funds available for TransLink to apply for as at December 31, 2017.

**Delivering the 10-Year Vision**

The 10-Year Vision for Metro Vancouver Transit and Transportation, adopted by the Mayors' Council and TransLink Board in 2014, assumes the GVRF funding will continue to support investments in transit throughout Metro Vancouver. To support the 10-Year Vision, TransLink's 2017-2026 Investment Plan approved in July 2017 (2017 Investment Plan) forecasts \$977 million<sup>1</sup> in capital contributions from the GVRF. The 2017 Investment Plan assumes GVRF funding to support bus fleet expansion and modernization projects, SkyTrain rehabilitation and other transit infrastructure improvements. As the 10-Year Vision is implemented through

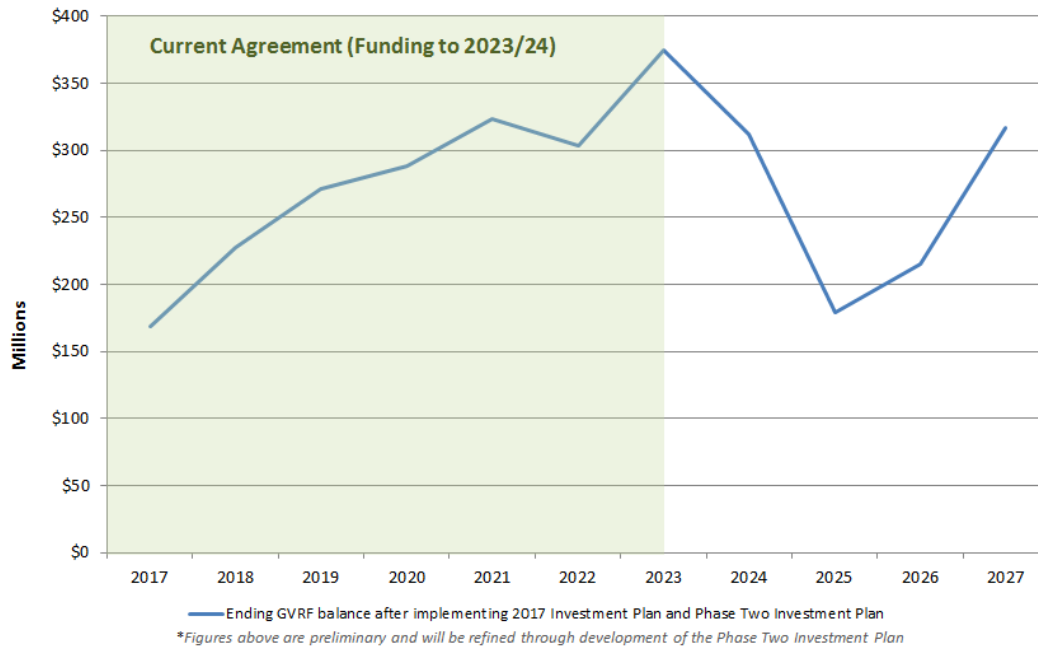
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<sup>1</sup> Forecasted amount assumes the FGTF program is renewed in 2024.

subsequent investment plans, it is expected that the GVRF will continue to be a major source of funding for fleet and other investments.

TransLink expects to fully obligate GVRF funding to support the 10-Year Vision through implementation of the 2017 Investment Plan, the estimated Phase 2 Investment Plan and subsequent investment plans. Figure 1 below shows the projected GVRF balance for the next 10 years after implementing the 2017 Investment Plan and the estimated Phase 2 Investment Plan, with the assumption that the FGTF program will be renewed in 2024. The development of subsequent investment plans will continue to support the 10-Year Vision and maximize the utilization of GVRF funding.

Figure 1 – Estimated GVRF balance for the next 10 years



Future usage is anticipated to include:

- Continued procurement for bus expansion and modernization;
- Rehabilitation of SkyTrain cars;
- Bus procurement based on the Low Carbon Fleet Strategy;
- New bus depot to support bus fleet expansion and the Low Carbon Fleet Strategy; and
- Other transit infrastructure improvements.

## Active Projects

As of June 30, 2017, there were 30 active projects funded by the GVRF, with a total budget of \$810.2 million and approved GVRF funding of \$670.3 million. As of December 31, 2017, there were 37 active projects funded by the GVRF, with a total budget of \$966.6 million and approved GVRF funding of \$815.7 million. Table 1 is a summary of the total project costs and funding as at June 30, 2017 and December 31, 2017.

**Table 1: Active Project Summary**

*in \$ millions*

	<b>Budget</b>	<b>Final Forecast Cost</b>	<b>Variance<sup>1</sup></b>
	<b>As at 30/6/2017</b>	<b>As at 30/6/2017</b>	<b>As at 30/6/2017</b>
<b>Total Project Costs</b>	\$810.209	\$798.452	\$11.757
<b>Ineligible Costs under GVRF Funding<sup>2</sup></b>	(139.883)	(132,778)	(7.105)
<b>Eligible GVRF Funding</b>	670.326	665.674	4.652

*in \$ millions*

	<b>Budget</b>	<b>Final Forecast Cost</b>	<b>Variance<sup>1</sup></b>
	<b>As at 31/12/2017</b>	<b>As at 31/12/2017</b>	<b>As at 31/12/2017</b>
<b>Total Project Costs</b>	\$966.598	\$955.261	\$11.337
<b>Ineligible Costs under GVRF Funding<sup>2</sup></b>	(150.912)	(150.400)	(0.512)
<b>Eligible GVRF Funding</b>	815.686	804.861	10.825

1. Variance from total project approved budget vs. Final Forecast Cost at June 30, 2017 and December 31, 2017.

2. Ineligible costs represent mainly expenditures incurred by TransLink that are not eligible to be claimed under GVRF such as internal labor charge, overhead, internal training and maintenance costs.

Table 2a provides a detailed breakdown of active projects with GVRF funding, including budget, Final Forecast Cost (FFC) and expenditures-to-date as of June 30, 2017. Table 2b provides the budget, FFC, expenditures-to-date and estimated project schedule as of December 31, 2017.

Table 2a – List of active projects with GVRF funding as of June 30, 2017

Active Projects With GVRF Funding (Dollar amounts in millions)	Budget	Expenditures to June 30, 2017	FFC	Forecast to Budget Variance \$	Approved Funding (Note 1)	Funding used up to June 30, 2017
Metrotown - Trolley Overhead Rectifier Replacement	5.765	0.315	5.793	(0.028)	4.725	0.286
2016 Conventional Bus Replacement - 40'	55.654	25.989	56.483	(0.829)	53.464	24.011
2016 Conventional Bus Replacement - 60'	33.296	31.599	32.966	0.330	25.360	25.360
Expo Line Propulsion Power System Upgrade	57.135	57.020	57.020	0.115	42.000	42.000
Surrey Transit Centre - CNG Facility Retrofit	15.000	6.487	14.916	0.084	4.000	2.754
Automated Train Control Equipment Replacement	5.100	2.270	4.989	0.111	4.500	2.222
2nd SeaBus Replacement	21.183	20.035	20.535	0.648	19.697	19.234
Hamilton Transit Centre	135.367	134.825	134.825	0.542	84.978	84.978
2016 Community Shuttle Vehicle Replacement	3.892	0.919	3.687	0.205	3.560	0.160
2017 Community Shuttle Vehicle Replacement	4.210	0.021	4.024	0.186	3.500	0.016
2017 HandyDART Vehicle Replacement	4.900	-	4.900	-	5.013	-
2017 Conventional Bus Replacement	96.900	-	96.800	0.100	86.700	-
SkyTrain Mark I Vehicle Refurbishment	37.294	16.216	30.838	6.456	24.360	10.157
Defective Community Shuttle Vehicles Replacement	9.600	9.451	9.495	0.105	9.350	8.940
2015 Conventional Bus Replacement	57.100	55.369	56.086	1.014	54.800	52.870
2015 Community Shuttle Vehicle Replacement	4.699	3.755	4.347	0.352	4.674	2.509
2013 HandyDART Vehicles	3.822	3.595	3.595	0.227	3.535	3.535
2015 HandyDART Vehicles	7.550	6.749	6.750	0.800	5.370	5.370
2014 Community Shuttles	7.800	7.400	7.400	0.400	7.310	7.310
2014 Conventional Bus	25.400	24.884	24.884	0.516	24.391	24.391
2014 HandyDART Vehicles	8.000	7.577	7.577	0.423	7.523	7.523
2018 HandyDART vehicle Replacement	6.000	-	6.000	-	5.605	-
2018 Conventional Bus Replacement	68.750	-	68.750	-	60.800	-
2018 Community Shuttle Vehicle Replacement	3.700	-	3.700	-	3.830	-
2018 40' Conventional Bus Purchases - Expansion	94.500	-	94.500	-	85.584	-
2018 60' Conventional Bus Purchases - Expansion	17.000	-	17.000	-	17.316	-
Equipment for Deferred Retirement Program	4.797	-	4.797	-	6.120	-
Electric Battery Bus Purchases - Pilot	10.000	-	10.000	-	6.892	-
2018 HandyDART Vehicle Purchases - Expansion	2.795	-	2.795	-	2.193	-
2018 Community Shuttle Vehicle Purchases - Expansion	3.000	-	3.000	-	3.175	-
<b>Total</b>	<b>810.209</b>	<b>414.476</b>	<b>798.452</b>	<b>11.757</b>	<b>670.326</b>	<b>323.627</b>

Note (1): Approved funding includes interests allocated to active project

Note (2): Current project schedule and project progress is reflected in Table 2b based on data as of December 31, 2017

Table 2b – List of active projects with GVRF funding as of December 31, 2017

Active Projects With GVRF Funding (Dollar amounts in millions)	Budget	Expenditures to Dec 31, 2017	FFC	Forecast to Budget Variance \$	Approved Funding (Note 1)	Funding used up to Dec 31, 2017	Forecast In-service Date	Actual In-service Date	Delay in months (approx.)	Substantially Completed (Note 2)
Metrotown - Trolley Overhead Rectifier Replacement	5.765	0.365	5.773	(0.008)	4.725	0.350	December 2017	October 2019	22	
2016 Conventional Bus Replacement - 40'	61.434	26.258	61.427	0.007	57.264	24.964	April 2017	September 2019	28	
2016 Conventional Bus Replacement - 60'	33.296	31.702	33.207	0.089	25.360	25.360	April 2017	May 2017	1	Yes
Expo Line Propulsion Power System Upgrade	57.135	57.120	57.120	0.015	42.000	42.000	January 2016	June 2016	5	Yes
Surrey Transit Centre - CNG Facility Retrofit	16.300	12.664	16.211	0.089	4.000	4.000	October 2017	January 2018	3	
Automated Train Control Equipment Replacement	5.100	3.184	4.742	0.358	4.500	3.095	August 2017	November 2017	3	Yes
2nd SeaBus Replacement	21.183	20.045	20.045	1.138	19.697	19.234	December 2014	December 2014	0	Yes
Hamilton Transit Centre	135.367	134.870	134.870	0.497	84.978	84.978	September 2016	September 2016	0	Yes
2016 Community Shuttle Vehicle Replacement	3.892	3.108	3.529	0.363	3.560	2.926	October 2017	October 2017	-1	Yes
2017 Community Shuttle Vehicle Replacement	4.210	3.344	3.897	0.313	3.500	3.137	November 2017	November 2017	0	Yes
2017 HandyDART Vehicle Replacement	4.900	1.662	4.840	0.060	5.013	-	March 2018	March 2018	0	
2017 Conventional Bus Replacement	115.750	-	115.770	(0.020)	105.985	-	April 2018	April 2019	11	
SkyTrain Mark 1 Vehicle Refurbishment	37.294	17.866	32.320	4.974	24.360	10.958	October 2020	April 2020	-6	
Defective Community Shuttle Vehicles Replacement	9.600	9.460	9.460	0.140	9.350	9.350	December 2016	November 2016	-1	Yes
2015 Conventional Bus Replacement	55.861	55.477	55.517	0.344	54.800	53.761	March 2017	January 2017	-3	Yes
2015 Community Shuttle Vehicle Replacement	3.879	3.799	3.852	0.027	4.674	3.516	September 2017	May 2017	-4	Yes
2013 HandyDART Vehicle	3.822	3.600	3.600	0.222	3.535	3.535	December 2015	February 2015	-11	Yes
2015 HandyDART Vehicle	7.550	6.758	6.758	0.792	5.370	5.370	July 2017	August 2016	-11	Yes
2014 Community Shuttles	7.800	7.405	7.405	0.395	7.310	7.310	April 2016	March 2015	-13	Yes
2014 Conventional Bus	25.400	24.889	24.889	0.511	24.391	24.391	March 2016	February 2015	-13	Yes
2014 HandyDART Vehicle	8.000	7.582	7.582	0.418	7.523	7.523	May 2016	April 2015	-13	Yes
2018 HandyDART Vehicle Replacement	5.620	-	5.514	0.106	5.605	-	October 2018	October 2018	0	
2018 Conventional Bus Replacement	70.000	-	69.700	0.300	61.925	-	November 2018	March 2019	4	
2018 Community Shuttle Vehicle Replacement	4.100	-	4.100	-	3.830	-	December 2018	December 2018	0	
2018 40' Conventional Bus Purchases - Expansion	94.500	0.008	94.500	-	85.584	-	January 2019	January 2019	0	
2018 60' Conventional Bus Purchases - Expansion	17.000	-	17.000	-	17.316	-	March 2019	March 2019	0	
Equipment for Deferred Retirement Program	3.150	0.213	3.150	-	6.120	-	April 2018	April 2018	0	
Electric Battery Bus Purchases - Pilot	10.000	0.013	9.793	0.207	6.892	0.010	December 2018	December 2018	0	
2018 HandyDART Vehicle Purchases - Expansion	1.900	-	1.900	-	2.193	-	September 2018	September 2018	0	
2018 Community Shuttle Vehicle Purchases - Expansion	2.240	-	2.240	-	3.175	-	January 2019	December 2018	-1	
2019 Conventional Bus Expansion - double decker	6.300	-	6.300	-	5.670	-	December 2019		0	
2019 Conventional Bus Expansion - 40' hybrid	8.100	-	8.100	-	7.290	-	December 2019		0	
2019 Conventional Bus Expansion - 60' hybrid	67.600	-	67.600	-	60.840	-	December 2019		0	
2019 HandyDART Vehicle Purchase - Expansion	1.500	-	1.500	-	1.350	-	November 2019		0	
2019 Double Decker Bus Purchase - Replacement	33.300	-	33.300	-	30.000	-	December 2019		0	
2019 HandyDART Vehicle Purchase - Replacement	5.750	-	5.750	-	5.200	-	November 2019		0	
2019 Community Shuttle Purchase - Replacement	12.000	-	12.000	-	10.800	-	November 2019		0	
<b>Total</b>	<b>966.598</b>	<b>431.392</b>	<b>955.261</b>	<b>11.337</b>	<b>815.686</b>	<b>335.770</b>				

Note (1): Approved funding includes interests allocated to active project

Note (2): Projects that are substantially complete have been implemented or are in-service, but remain active to reflect outstanding charges, and/or holdback to be addressed prior to project close-out.

## **A. Project Budget to Actual Costs Variance**

The majority of projects have favorable variances compared to budget. See table 2a and 2b for detailed list of active projects and breakdown of variances from current forecast and approved budget. Below is a discussion of the projects with variances between budgeted and FFC greater than \$1 million as of December 31, 2017:

**SkyTrain Mark I Vehicle Refurbishment** – This project is showing a positive variance of \$5 million as at December 31, 2017 between the budgeted cost and the FFC. This is mainly attributable to the current forecasted cost of materials required for the refurbishment being less than the budgeted amount. Due to the forecasted cost reduction, there is a positive variance of \$3 million between the funding allocated to this project and the total forecasted funding as of December 31, 2017. TransLink will continue to monitor these variances as the project progresses. If at the completion of the project a positive variance remains, any unspent funds will be netted against future applications for GVRF.

**2nd SeaBus Replacement** – This vessel is in operations. The positive variance of \$1.1 million as at December 31, 2017 is mainly because there is non-critical work remaining to be completed. The cost for this work is currently not included in the forecast as the work has not been scheduled yet. TransLink expects this work to be completed by early 2019 when there will be another SeaBus vessel in operations so as to avoid service disruption.

Please refer to Table 2a and 2b for the detailed breakdown of other project variances.

## **B. Project Expenditures to Date**

Total project costs were \$414.5 million and \$431.4 million respectively as of June 30, 2017 and December 31, 2017, with \$323.6 million and \$335.8 million in funding coming from the GVRF. Below is a summary of the total project and funding spent as of June 30, 2017 and December 31, 2017:

*in \$ millions*

	<b>Expenditures to date as of</b>	
	<b>June 30, 2017</b>	<b>December 31, 2017</b>
Total Project Costs	\$414.476	\$431.392
Ineligible Costs under GVRF Funding <sup>1</sup>	(90.849)	(95.622)
Expenditure of GVRF Funding	323.627	335.770

1. Ineligible costs represent expenditures incurred by TransLink that are not eligible to be claimed under GVRF such as internal labor charge, overhead, internal training and maintenance costs.

### C. Current Project Schedule

Table 2b shows an estimate for each project schedule based on current forecast in-service dates as at December 31, 2017 and the approximate delay in months when compared to original forecast in-service dates. Schedule delays can be caused by numerous reasons, such as delay in equipment delivery from vendors or project complexity. Below is a schedule summary for all active projects as at December 31, 2017:

<b>Project Schedule Summary</b>	<b>Number of Projects</b>	<b>FFC (\$ millions)</b>	<b>FFC % of Total Cost</b>
Delay greater than 3 months	4	\$252.7	27
On or ahead of schedule	18	326.1	34
Substantially completed	15	376.5	39
	37	\$955.3	100%

Table 3 – List of active projects with schedule delays greater than 3 months:

<b>Project</b>	<b>Delay in Months</b>	<b>FFC (\$ millions)</b>	<b>Reason for Delay</b>
Metrotown - Trolley Overhead Rectifier Replacement	22	5.8	Delay in project schedule of approximately 2 years due to the original project plan scope being revised. The original plan was to replace each of the three rectifier units with similar design models which were found to be obsolete during the tender process. Therefore, the scope was revised to replace two of the stations with larger capacity and modern design specifications which have resulted in delays to the procurement process.
2016 Conventional Bus Replacement - 40'	28	61.4	The project was originally planned to purchase 85 40-foot buses in 2016, using Year 8 GVRF funding. However, due to prioritization of other projects for GVRF, it was decided that 40 of the 85 buses will be deferred to 2018 by using Year 10 funding, which was approved by Metro Vancouver in October 2016. Also, the project scope was amended to change the 40 buses propulsion engines from diesel to CNG and hybrid, thus impacting the project schedule.
2017 Conventional Bus Replacement	11	32.9	Delay in the project schedule was due to the project scope being amended to change the propulsion engines of 52 buses from diesel to hybrid, thus impacting the project schedule.
2018 Conventional Bus Replacement	4	69.7	Delay in the project schedule was due to the project scope being amended to change the propulsion engines of 17 buses from diesel to CNG, thus impacting the project schedule.

#### **D. Overall Risk Assessment**

TransLink follows standard project management practices and provides an internal oversight structure for each capital project, including projects utilizing GVRF funding. The higher the project's risk profile (measured as a function of risk, business value, size and complexity), the greater the degree of rigour that is applied to its governance model.

Specific project risks are identified prior to project initiation and listed in the project risk register. Monthly reports on risks and issues are provided to TransLink's Project Management Office (PMO). In addition, projects with increased complexity and/or elevated risk profile would also have a specific project steering committee assigned.

Below is a list of known risks and actions taken to date for active projects receiving GVRF funding:

<b>RISK TITLE</b>	<b>RISK DESCRIPTION (EVENT)</b>	<b>CAUSE OF RISK</b>
Foreign Exchange rate	Deterioration of the Canadian/US Dollar exchange rate may cause vehicle pricing to exceed project budget	Currency conversion volatility between \$USD and \$CDN
Vehicle Manufacturer (Chassis) Delay	Unavailability of the GM chassis may delay delivery of new vehicles until the new order model year (2018)	GM G-van chassis has recently only been available to order for 5 months of the year
Vehicle Delivery Delay (Vendor)	Possible delay in bus deliveries to TransLink due to backlog of orders at the bus manufacturers	Recent increases in senior government funding for public transit projects across Canada cause many suppliers to experience larger demands on vehicle orders
Schedule Delay – Change of bus livery	Changing the livery of 60-foot articulated buses to exclusive B-line may delay deliveries to early 2019	Deployment of uniform 60-footer B-Line fleet; this requires changes in bus paint scheme

As at December 31, 2017, there are no other known factors that would significantly impact the ability of any active project to reach completion according to planned schedules and within budget.



## E. Project Progress

Table 4 provides an update on the progress of approved projects and whether they had proceeded as intended as at December 31, 2017. All projects require Specific Project Approval (SPA) during which they are reviewed by TransLink’s Capital Management Committee to ensure fiscal responsibility and overall alignment with the Regional Transportation Strategy. Projects are required to obtain SPA approval first before any commitment is made with an external party.

Table 4 – Summary of project progress for active projects with GVRF funding

Active Projects With GVRF Funding	Stage of project progress as at Dec 31 2017	Whether proceeded as intended
Metrotown - Trolley Overhead Rectifier Replacement	Detailed design 90% complete; contracts issued for construction works & equipment supply; construction and equipment installation to begin in 2018	Yes, SPA approved in December 2014
2016 Conventional Bus Replacement - 40'	Amendment of procurement contract for the additional 30 CNG and 10 hybrids have been finalized	Yes, SPA approved in December 2016
2016 Conventional Bus Replacement - 60'	Substantially completed; already in-service	Yes, SPA approved in October 2015
Expo Line Propulsion Power System Upgrade	Substantially completed; already in-service	Yes, SPA approved in July 2010
Surrey Transit Centre - CNG Facility Retrofit	The CNG fueling and retrofit portion of STC will be completed by end of January 2018	Yes, SPA approved in March 2015
Automated Train Control Equipment Replacement	Substantially completed; already in-service	Yes, SPA approved in August 2015
2nd SeaBus Replacement	Substantially completed; already in-service	Yes, SPA approved in April 2011
Hamilton Transit Centre	Substantially completed; already in-service	Yes, SPA approved in March 2012
2016 Community Shuttle Vehicle Replacement	Substantially completed; all 20 vehicles have been accepted and in service.	Yes, SPA approved in October 2016
2017 Community Shuttle Vehicle Replacement	Substantially completed; all 20 vehicles have been accepted and in service.	Yes, SPA approved in October 2016
2017 HandyDART Vehicle Replacement	13 vehicles (out of 35) have been received and in-service; the remaining vehicles are expected to be in-service by end of Q1 2018	Yes, SPA approved in February 2017
2017 Conventional Bus Replacement	Procurement contract has been signed for the bus order	Yes, SPA approved in November 2016
SkyTrain Mark I Vehicle Refurbishment	34 of 114 Mark I Series 100-400 Trains are completely refurbished and are in service. Refurbishment execution will continue till April 2020.	Yes, SPA approved in September 2012
Defective Community Shuttle Vehicles Replacement	Substantially completed; already in-service	Yes, SPA approved in July 2014
2015 Conventional Bus Replacement	Substantially completed; already in-service	Yes, SPA approved in July 2014
2015 Community Shuttle Vehicle Replacement	Substantially completed; already in-service	Yes, SPA approved in October 2016
2013 HandyDART Vehicle	Substantially completed; already in-service	Yes, SPA approved in September 2012
2015 HandyDART Vehicle	Substantially completed; already in-service	Yes, SPA approved in September 2015
2014 Community Shuttles	Substantially completed; already in-service	Yes, SPA approved in May 2013
2014 Conventional Bus	Substantially completed; already in-service	Yes, SPA approved in May 2013
2014 HandyDART Vehicle	Substantially completed; already in-service	Yes, SPA approved in May 2013
2018 HandyDART Vehicle Replacement	Procurement contract has been signed for the bus order	Yes, SPA approved in September 2017
2018 Conventional Bus Replacement	Procurement contract has been signed for the bus order	Yes, SPA approved in June 2017
2018 Community Shuttle Vehicle Replacement	Procurement contract has been signed for the bus order	Yes, SPA approved in August 2017
2018 40' Conventional Bus Purchases - Expansion	Procurement contract has been signed for the bus order	Yes, SPA approved in July 2017
2018 60' Conventional Bus Purchases - Expansion	Procurement contract has been signed for the bus order	Yes, SPA approved in October 2017
Equipment for Deferred Retirement Program	72 of the 99 required sets of equipment for deferred retired vehicles are ordered	Yes, SPA approved in December 2017
Electric Battery Bus Purchases - Pilot	The project is finalizing the detailed design charging station infrastructure and equipment procurement	Yes, SPA approved in September 2017
2018 HandyDART Vehicle Purchases - Expansion	Procurement contract has been signed for the bus order	Yes, SPA approved in October 2017
2018 Community Shuttle Vehicle Purchases - Expansion	Procurement contract has been signed for the bus order	Yes, SPA approved in August 2017
2019 Conventional Bus Expansion - double decker	Not yet initiated	Yes, SPA approval expected in March 2018
2019 Conventional Bus Expansion - 40' hybrid	Not yet initiated	Yes, SPA approval expected in March 2018
2019 Conventional Bus Expansion - 60' hybrid	Not yet initiated	Yes, SPA approval expected in March 2018
2019 HandyDART Vehicle Purchase – Expansion	Not yet initiated	Yes, SPA approval expected in May 2018
2019 Double Decker Bus Purchase – Replacement	Not yet initiated	Yes, SPA approval expected in March 2018
2019 HandyDART Vehicle Purchase – Replacement	Not yet initiated	Yes, SPA approval expected in May 2018
2019 Community Shuttle Purchase – Replacement	Not yet initiated	Yes, SPA approval expected in April 2018

## **F. Alignment with Evaluation Criteria**

The "Federal Gas Tax Fund Expenditures Policy" includes a list of criteria (Evaluation Criteria) that will be used by Metro Vancouver to evaluate whether or not a regional transportation project proposed by TransLink for GVRF funding merits approval. Two types of Evaluation Criteria are identified:

- 1) Screening Criteria, which represents requirements that are mandatory for any project for which GVRF funding is requested; and
- 2) Integrated Criteria, which allows for a qualitative assessment of the proposed project based on high priority objectives that reflect the intent of the GVRF as well as of Metro Vancouver goals.

TransLink concludes that the current group of active projects with GVRF funding meets the Evaluation Criteria because:

- The projects are either expansion or replacements to existing public transit network;
- Project expenditures claimed under the GVRF funding meets the eligibility criteria as defined in Schedule C of the 2014 Administrative Agreement;
- The projects are included in TransLink's 2017 Investment Plan, which advances the goals identified in TransLink's long-term Regional Transportation Strategy, and supports goals identified in Metro Vancouver's Regional Growth Strategy, *Metro Vancouver 2040: Shaping Our Future (Metro 2040)*;
- The projects are consistent with TransLink's corporate policies, such as sustainability, environmental and emissions policy;
- The projects support the Regional Growth Strategy by aligning with the five strategic goals in *Metro 2040* and demonstrating tangible benefits to the overall performance of Urban Centers and Frequent Transit Development Areas;
- The projects provide tangible beneficial effects on vehicle kilometres travelled and congestion, transit mode share and ridership, transit passenger congestion, and transportation safety;
- The projects meet the Regional Environmental Objectives by aligning with Metro Vancouver's *Integrated Air Quality and Greenhouse Gas Management Plan (IAQGGMP)* and demonstrating tangible beneficial effects on reducing greenhouse gas and common air contaminant emissions; and
- The projects support regional economic development and demonstrate tangible beneficial effects on transportation performance.

## **CONCLUSION**

TransLink has delivered the majority of projects funded via the GVRF as required. TransLink will continue to ensure that all active projects funded by GVRF will meet the requirements as defined by the "Federal Gas Tax Fund Expenditures Policy".



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To: Finance and Intergovernment Committee

From: Phil Trotzuk, Chief Financial Officer

Date: April 11, 2018 Meeting Date: April 20, 2018

Subject: **Operating, Statutory and Discretionary Reserves Policy**

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**RECOMMENDATION**

That the MVRD/GVWD/GVS&DD/MVHC Board approve the *Operating, Statutory and Discretionary Reserves Policy* as presented in the attached report, dated March 28, 2018, titled “Operating, Statutory and Discretionary Reserves Policy.”

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At its April 11, 2018 meeting, the Performance and Audit Committee adopted the following resolution:

*That the Performance and Audit Committee endorse the Operating, Statutory and Discretionary Reserves Policy as presented in the attached report, dated March 28, 2018, titled “Operating, Statutory and Discretionary Reserves Policy.”*

**Attachment**

Report dated March 28, 2018, titled “Operating, Statutory and Discretionary Reserves Policy”

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To: Finance and Intergovernment Committee

From: Phil Trotzuk, Chief Financial Officer

Date: March 28, 2018 Meeting Date: April 20, 2018

Subject: **Operating, Statutory and Discretionary Reserves Policy**

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**RECOMMENDATION**

That the MVRD/GVWD/GVS&DD/MVHC Board approve the *Operating, Statutory and Discretionary Reserves Policy* as presented in the attached report, dated March 28, 2018, titled "Operating, Statutory and Discretionary Reserves Policy."

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**PURPOSE**

To present for Committee and Board consideration the *Operating, Statutory and Discretionary Reserves Policy* which will guide the establishment, use and management of reserves for Metro Vancouver's four legal entities and statutory functions.

**BACKGROUND**

Reserves are an essential component of the financial sustainability of the Metro Vancouver entities. Metro Vancouver has, over the years, consistently followed established practices regarding the establishment, use and management of reserves. During the 2018 to 2022 five year financial planning process there was discussion at several Standing Committee meetings regarding the application of reserves. As part of the 2018 Finance and Intergovernment Committee work plan, staff have been directed to develop a proposed Reserve Policy that will guide the establishment, use and management of reserves for Metro Vancouver's four legal entities and statutory functions.

This report presents a draft policy for the Committee and Board's consideration which addresses the three types of reserves that are used within Metro Vancouver – Operating, Statutory and Discretionary Reserves.

**METRO VANCOUVER RESERVE STRUCTURE**

Metro Vancouver comprises four legal entities, Greater Vancouver Water District (GVWD), Greater Vancouver Sewerage and Drainage District (GVS&DD), Metro Vancouver Housing Corporation (MVHC) and Metro Vancouver Regional District (MVRD) and within the MVRD there are separate statutory functions for Affordable Housing, Air Quality, Electoral Area, General Government, Labour Relations, Regional Global Positioning System (GPS), Regional Parks, Regional Planning, E911 Emergency Telephone Service, Regional Emergency Management and Sasamat Fire Protection Service.

Each are accounted for as separate legal entities. The revenues generated by each entity or function are only permitted to be expended for business operations of that entity or function. Consistent with this, any revenues retained for use in the future (i.e. reserves) are also restricted to the given entity or function. As a result of the Metro Vancouver's legal structure, reserves must be maintained separately for each entity and function.

## **PROPOSED POLICY**

As part of the *Operating, Statutory and Discretionary Reserves Policy* development process, Metro Vancouver's current process and framework was examined along with practices adopted by other local municipalities within British Columbia such as: City of Victoria, City of Burnaby, Regional District of Nanaimo, Fraser Valley Regional District, City of West Kelowna and District of Mission. The results from the examination indicated that Metro Vancouver's current practice is in line with best practices with the other local municipalities, however, a formalized policy for Metro Vancouver is an appropriate next step to ensure Board oversight in the establishment and management of reserves.

The proposed policy supports the following principles:

- Financial stability, security and sustainability
- Consistent with long term financial plans, Board and Corporate strategic goals
- In accordance with legal requirements under applicable legislation

The policy outlines general requirements that govern Metro Vancouver reserves, which are all reserve contributions and applications must be approved by the Board and that all reserves exclusively belong to a specific legal entity or statutory function and can only be applied to fund business activities of that legal entity or statutory function. Reserves will earn interest annually based on the internal rate of return on investments. Furthermore, Financial Services is responsible for the stewardship and oversight of all Metro Vancouver reserves.

Under this policy, Metro Vancouver will maintain three types of reserves: Operating Reserves, Statutory Reserves and Discretionary Reserves.

## **OPERATING RESERVES**

Operating Reserves are established within the policy for each legal entity and statutory function to serve as a measure of financial security against an unforeseen financial loss, such as a revenue shortfall or unexpected expenditures.

The policy requires that each legal entity and statutory function maintain a minimum level of Operating Reserve as a financial safeguard. The amount of that minimum is based on the inherent risk of incurring a financial loss. The inherent risk is a factor of business volume which can be represented as a percentage of the legal entity and statutory function's prior year's operating expenditures net of reserve contributions, contributions to capital and debt service costs. The risk of an unforeseen financial loss also increases with the volatility associated with the business activity. The greater the volatility, the higher the representative percentage.

The inherent volatility associated with business activity for purposes of determining an appropriate level of operating reserve is assessed as high, moderate or low. The GVWD and the Solid Waste function within the GVS&DD have higher revenue uncertainty as both are based on volume times a unit rate and actual volumes could be adversely impacted by uncontrollable factors. As a result, of this higher potential risk, the policy sets a required Operating Reserve equal to 15% of net operating expenditures representing about 2 months of operations.

The Liquid Waste function within the GVS&DD has moderate risk associated with business activities due primarily to the volume of activity as there is little risk regarding revenues with the primary source being the sewer levy collected from member jurisdictions. The MVHC also has a moderate level of risk. While MVHC is dependent on rental revenues for funding of operations, the vacancy rate is normally quite low and expenditures can be managed should revenue availability dictate such. With a moderate level of risk, the policy sets a required Operating Reserve equal to 10% of net operating expenditures representing about 1 month of operations.

Finally, the functions within the MVRD have low risk relative to business activities. The nature of business activities within these functions are relatively consistent from year to year and the primary revenue source is tax requisitions collected from member jurisdictions. As a result, this policy sets a required Operating Reserve, for each MVRD Statutory function, equal to 5% of net operating expenditures representing about 0.5 of a month of operations.

The minimum Operating Reserve requirements included under this policy can be summarized as follows:

Legal Entity/Function	Minimum Operating Reserve
GVWD	15% of Net Operating
GVS&DD - Solid Waste	15% of Net Operating
GVS&DD - Liquid Waste	10% of Net Operating
MVHC	10% of Net Operating
MVRD	5% of Net Operating

**STATUTORY RESERVES**

Statutory Reserves are reserves that require a legal framework which governs their composition and application. Statutory Reserves are set aside for a legal entity and statutory function for a specific purpose in accordance with the applicable terms and conditions within the legal framework as follows:

1. **Legal Statute** - required by specific legislation.
2. **A Board Approved Bylaw** - sets out the purpose, sources of funds, uses and management of the specific reserve.
3. **Governing Agreement** - an arrangement with another level of government or entity, in which the terms and conditions of the reserves will be outlined. This involves prescribing the sources of funding, contribution sources, use and management.

Contributions to Statutory Reserves are made through annual budget contributions and the appropriation of the annual surplus generated from operations in accordance with legal statute, the Board approved bylaw, or governing agreement.

## **DISCRETIONARY RESERVES**

Discretionary Reserves are reserves established by the Board for legal entities and statutory functions as follows:

- to meet a known or anticipated future financial obligation, or
- for general future usage.

An important policy requirement is that the usage of Discretionary Reserves will be included, where applicable, within the five-year financial plan. This involves reporting on Discretionary Reserves opening balance, forecasting the contributions, uses and ending balance, which will be included as part of the five year financial planning process.

### **Appropriation of Annual Surplus**

The application of an annual surplus, the excess of revenues over expenditures, once ensuring that all Operating Reserves meet the minimum balances and that all requirements for Statutory and Discretionary Reserves are met, will be prioritized as follows:

1. **Fund capital expenditures or pay down existing debt.**
2. **Fund one-time expenditures.**
3. **Rate stabilization for a legal entity or statutory function.** This involves smoothing out utility rates, levies or tax requisitions resulting from operating budget expenditures. Usage of reserves for rate stabilization is only used in circumstances where priorities 1) and 2) are not applicable, or have been met. This application is discretionary and may not be applicable. If not applicable, then move to priority 4.
4. **Maintain as a Discretionary or Statutory Reserve.** This can represent an addition to an existing Statutory or Discretionary Reserve or the establishment of a new Discretionary Reserve based on new information regarding a future financial obligation.

### **Management of Reserves**

When the Board has approved the use of reserves to fund expenditures, the funding must be spent for the intended purpose within the year of approval, or the following year. If the money has not been spent within the given time frame, the legal entity or statutory function must receive re-approval from the Board to use the reserves.

### **ALTERNATIVES**

1. That the MVRD/GVWD/GVS&DD/MVHC Board approve the *Operating, Statutory and Discretionary Reserves Policy* as presented in the attached report, dated March 28, 2018, titled "Operating, Statutory and Discretionary Reserves Policy."
2. That the MVRD/GVWD/GVS&DD/MVHC Board receive for information the report dated March 28, 2018, titled "Operating, Statutory and Discretionary Reserves Policy" and provide alternate direction.

### **FINANCIAL IMPLICATIONS**

If the Board approves alternative one, the minimum Operating Reserve balances for Metro Vancouver entities and functions is projected to be \$50.2 million for 2018 with Solid Waste increasing by 5% or approximately \$4.0 million and the MVHC by approximately \$700,000 which will result in an

appropriate measure of financial security for each entity or function. The Statutory and Discretionary Reserves are maintained as required and consistent with current practice. The approval of alternative one will ensure that Metro Vancouver has a formal policy that outlines a prudent and risk based approach to the establishment, use and management of reserves.

The approval of alternative two will require that the financial implications be quantified accordingly depending on the direction provided.

### **SUMMARY / CONCLUSION**

Reserves are a critical component of long term financial planning and management in ensuring a strong financial position. The approval of this reserves policy, as attached, will provide clear Board direction for the principles and requirements associated with the establishment, use and management of Metro Vancouver reserves. Staff recommend that the Board approve alternative one.

### **Attachments**

1. *Operating, Statutory and Discretionary Reserves Policy (Doc #24116127)*
2. 2018 Projected Reserves Balances

24900500



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**OPERATING, STATUTORY AND DISCRETIONARY RESERVES**

Effective Date:

Approved By: MVRD/GVWD/GVS&DD/MVHC

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**PURPOSE**

To outline principles and requirements that guide the establishment, use and management of Metro Vancouver reserves.

**DEFINITIONS**

**“Annual Surplus”** means excess of revenues over expenditures for the current year.

**“Legal Entity”** means Greater Vancouver Water District (GVWD), Greater Vancouver Sewerage and Drainage District (GVS&DD), which includes the legal functions of Liquid Waste and Solid Waste, Metro Vancouver Housing Corporation (MVHC) and Metro Vancouver Regional District (MVRD).

**“Statutory Functions”** mean functions related to the Metro Vancouver Regional District, which include: Affordable Housing, Air Quality, Electoral Area, General Government, Labour Relations, Regional Global Positioning System (GPS), Regional Parks, Regional Planning, E911 Emergency Telephone Service, Regional Emergency Management and Sasamat Fire Protection Service

**POLICY**

Reserves are funds that are appropriated as a means of providing financial security against an unforeseen financial loss, such as a revenue shortfall and unexpected expenditures, or for meeting future financial obligations. They are a key element of Metro Vancouver’s long term financial sustainability and they provide a mechanism to ensure a strong financial position. Metro Vancouver reserves are categorized as Operating, Statutory or Discretionary.

Metro Vancouver’s Reserves Policy supports the following principles:

- Financial stability, security and sustainability
- Consistent with long term financial plans, Board and Corporate strategic goals
- In accordance with legal requirements under applicable legislation

In addition to these guiding principles, reserves shall be established and managed in accordance with the following:

- All reserve contributions and applications must be approved by the Board
- All reserve balances will earn interest at a rate based on Metro Vancouver’s average return on investments
- All reserves exclusively belong to a specific legal entity or statutory function and can only be applied to fund business activities of that legal entity or statutory function.
- Financial Services is responsible for the stewardship and oversight of all Metro Vancouver reserves.

## 1. OPERATING RESERVES

Operating Reserves are established for each legal entity and statutory function to serve as a measure of financial security should there be an unforeseen financial loss beyond the control of the organization.

A legal entity or statutory function's inherent risk of experiencing an unforeseen financial loss increases both with the level of business activity as well as the nature of that business activity. Operating expenditures serve as a measure of an entity or function's level of business activity; therefore, the greater the business activity the greater the risk of an unforeseen financial event. Risk of an unforeseen financial loss also increases with volatility associated with the business activity.

**Minimum Reserve.** The minimum required Operating Reserve amount for a legal entity or statutory function shall be determined as a percentage of the legal entity or statutory function's prior year operating expenditures net of reserve contributions, contributions to capital and debt service costs and is based on the inherent risk of incurring a financial loss. As noted above, the higher the level of inherent risk, the higher the required reserve minimum balance.

Operating Reserve balances must be maintained at the established minimum amounts in order to ensure security against unforeseen financial impacts as this financial security is paramount to financial sustainability. Should the Operating Reserve balance fall below the established minimum, the Operating Reserve must be replenished to the minimum level within two budget years.

**Contributions to Reserve.** Contributions to Operating Reserves are made through the appropriation of annual surpluses generated from operations within a legal entity and statutory function.

**Usage of Reserve.** The usage of Operating Reserve balances will only be contemplated for the funding of unforeseen revenue shortfalls or expenditures obligations where other sources of funding is not available.

### a) **Greater Vancouver Water District (GVWD) Operating Reserve**

The required Operating Reserve for the Water Services function is equal to 15% of net operating expenditures representing approximately two months of operating costs.

The GVWD is an entity whose primary revenue source is the sale of water based on a unit rate per cubic metre of water consumed within the region. The unit rate is set at a rate to cover annual expenditures and based on an estimated volume of overall regional consumption. The actual level of consumption, however, may vary from expectation due to many factors including weather, effectiveness of conservation measures and the implementation of watering restrictions. This potential volatility in consumption and that the majority of expenditures are not variable with the level of consumption and cannot easily be adjusted should there be a drop in consumption, results in the GVWD having a higher relative level of inherent risk associated with their business activities.

**b) Greater Vancouver Sewerage and Drainage District (GVS&DD) – Solid Waste**

The required Operating Reserve for the Solid Waste function is equal to 15% of net operating expenditures representing approximately two months of operating costs.

Solid Waste is a function whose primary revenue source is Tipping Fee revenue based on a unit rate per cubic tonne of waste disposed of within the region. The unit rate is set to cover annual expenditures and is based on an estimated volume of overall regional waste tonnage. The actual level of waste tonnage, however, may vary from expectation due to many factors including level of construction and demolition, effectiveness of waste diversion activities and waste migration. While some expenditures in Solid Waste are somewhat variable with waste volumes, many are fixed. This along with the potential volatility in waste volumes leads to Solid Waste having a higher relative level of inherent risk associated with their business activities.

**c) Greater Vancouver Sewerage and Drainage District (GVS&DD) – Liquid Waste**

The required Operating Reserve for the Liquid Waste function is equal to 10% of net operating expenditures representing approximately one month of operating costs.

Liquid Waste is a function whose primary revenue source is an annual sewer levy collected from member jurisdictions and as a result are low risk in terms of collection. While the majority of revenues in Liquid waste carry a high level of certainty, the nature of the business of collecting and treating sewage has operating risks including weather related overflows, impacts from power interruption and infrastructure failure. As a result, Liquid Waste has a moderate relative level of inherent risk associated with their business activities.

**d) Metro Vancouver Housing Corporation (MVHC)**

The required Operating Reserve for the Housing Corporation function is equal to 10% of net operating expenditures representing approximately one month of operating costs.

The MVHC is reliant on tenant rents to support the annual expenditures to provide affordable housing. The level of rental revenue has some inherent risk of volatility due to factors including vacancy rates, tenant turnover and rental losses caused by required repairs and maintenance activities. The nature of the housing complexes being of wood construction, include a level of risk of unforeseen significant maintenance requirements. As a result, the MVHC has a moderate relative level of inherent risk associated with their business activities.

**e) Metro Vancouver Regional District (MVRD)**

The required Operating Reserve for each MVRD Statutory function is equal to 5% of net operating expenditures representing approximately one half of one month of operating costs.

The statutory functions of the MVRD are reliant on tax requisition collected from member jurisdictions and therefore, have low risk in terms of revenue collection. In addition, the MVRD statutory function's operating expenditures are relatively consistent annually and quite predictable. As a result, the MVRD statutory functions have a low relative level of inherent risk associated with their business activities.

SUMMARY OF OPERATING RESERVE MINIMUMS	
Legal Entity/Statutory Function	Operating Reserve Amount
Greater Vancouver Water District	15% of prior year's net operating expenditures (approximately 2 months of operating costs)
Greater Vancouver Sewerage and Drainage District Solid Waste	15% of prior year's net operating expenditures (approximately 2 months of operating costs)
Greater Vancouver Sewerage and Drainage District Liquid Waste	10% of prior year's net operating expenditures (approximately 1 month of operating costs)
Metro Vancouver Housing Corporation	10% of prior year's net operating expenditures (approximately 1 month of operating costs)
Metro Vancouver Regional District Affordable Housing Air Quality E911 Emergency Telephone Service Electoral Area Service General Government Labour Relations Regional Emergency Management Regional Global Positioning System Regional Parks Regional Planning Sasamat Fire Protection Service	5% of prior year's net operating expenditures (approximately 0.5 month of operating costs)

**2. STATUTORY RESERVES**

Statutory Reserves are established where reserves are required within a legal framework which governs their composition and application. Statutory Reserves are reserves set aside for a legal entity and statutory function for a specific purpose in accordance with the applicable terms and conditions within the establishing legal framework as follows:

- Legal statute
- Board approved bylaw
- Governing agreement with another level of government or entity

Examples of Statutory Reserves include Liquid Waste Development Cost Charges, Cultural Grants and Park Land Acquisition.

**Contributions to Reserve.** Contributions to Statutory Reserves are made through annual budget contributions and the appropriation of the annual surplus generated from operations in accordance with legal statute, Board approved bylaw, or governing agreement.

**Usage of Reserves.** The usage of Statutory Reserve balances will only be authorized for the purpose designated by the Statutory Reserve and must be withdrawn in accordance with legal statute, Board approved bylaw, or governing agreement.

### 3. DISCRETIONARY RESERVES

Discretionary Reserves are established by the Board for legal entities and statutory functions as an appropriation of annual surplus to meet a known or anticipated future financial obligation.

**Contributions to Reserve.** Contributions to Discretionary Reserves are made through the appropriation of the annual surplus generated from operations for a known or anticipated future financial obligation, or for general future usage in accordance with the priority sequence as outlined under “Appropriation of Annual Surplus.”

**Usage of Reserves.** The usage of Discretionary Reserve balances will fund expenditures as an additional annual revenue source to support Metro Vancouver’s goals and priorities in reducing the need for revenue from rates, levies and tax requisitions. The usage of Discretionary Reserves will be included, where applicable, within the five-year financial plan.

### 4. APPROPRIATION OF ANNUAL SURPLUS

After ensuring that all Operating Reserves meet the minimum balances as established under this Policy and that all requirements for Statutory Reserves and Discretionary Reserves are met, any annual surplus remaining will be utilized in accordance with the following priority sequence:

- I. **Fund capital expenditures or pay down existing debt.** This is consistent with **debt avoidance** and the mitigation of future financial obligations
- II. **Fund one-time expenditures.** This includes but is not limited to funding equipment purchases and consulting initiatives and projects.
- III. **Rate stabilization for a legal entity or statutory function.** This involves smoothing out utility rates, levies or tax requisitions resulting from operating budget expenditures. Usage of reserves for rate stabilization is only used in circumstances where priorities 1) and 2) are not applicable, or have been met. This application is discretionary and may not be applicable. If not applicable, then move to priority 4.
- IV. **Maintain as a Statutory or Discretionary Reserve.** This can represent an addition to an existing Statutory or Discretionary Reserve or the establishment of a new Discretionary Reserve based on new information regarding a future financial obligation.

#### **Management of Reserves**

When the Board has approved the use of reserves to fund expenditures, the funding must be spent for the intended purpose within the year of approval, or the following budget year.

Although reserves are to only be used for their intended purpose, there may be instances when short-term internal borrowing from reserves is financially beneficial or required. Internal borrowing is permitted to temporarily finance funding requirements to avoid external temporary borrowing or to fund emergencies as required, in accordance with the applicable legislation. If

## BOARD POLICY

money from one reserve is used for temporary financing purposes, there must be repayment of the amount used to the reserve, plus interest within five years of borrowing.

Internal borrowing and transferring of funds from Reserves must be approved by the Board.

2018 PROJECTED RESERVE BALANCES

ATTACHMENT 2

	2017 RESERVE BALANCE	2017 SURPLUS	INTEREST	FUND CAPITAL DIRECTLY	TRANSFER TO/ FROM RESERVE	2018 NET BUDGETED CONTRIBUTIONS	2018 PROJECTED RESERVE BALANCE
<b>OPERATING RESERVES</b>							
WATER	15,982,208	17,212,251	434,393	(17,609,317)	-	-	16,019,534
LIQUID WASTE	19,973,308	8,741,782	457,745	(13,822,714)	-	-	15,350,121
SOLID WASTE	8,958,284	10,824,768	251,331	(6,838,401)	-	-	13,195,982
MVHC	1,834,915	3,854,319	113,785	-	(3,257,005)	-	2,546,014
AFFORDABLE HOUSING	-	288,140	5,763	-	(256,171)	-	37,731
AIR QUALITY	317,393	141,107	9,170	-	44,920	-	512,590
E911	656,889	128	13,140	-	(460,764)	-	209,394
ELECTORAL AREA A	-	95,587	1,912	-	(76,662)	-	20,837
GENERAL GOVERNMENT	1,986,007	1,173,247	63,185	-	(2,930,981)	-	291,458
LABOUR RELATIONS	1,676,503	232,975	38,190	-	(1,812,492)	-	135,176
REGIONAL EMERGENCY MANAGEMENT	-	-	-	-	12,350	-	12,350
GPS	762,781	141,621	18,088	-	(903,954)	-	18,536
REGIONAL PARKS	1,374,933	1,054,357	48,586	-	(1,062,911)	-	1,414,964
REGIONAL PLANNING	367,620	413,177	15,616	-	(645,556)	-	150,857
SASAMAT FIRE PROTECTION SERVICES	-	34,651	693	-	(22,687)	-	12,657
WEST NILE VIRUS	338,369	-	6,767	-	-	-	345,136
<b>TOTAL OPERATING</b>	<b>54,229,210</b>	<b>44,208,110</b>	<b>1,478,362</b>	<b>(38,270,432)</b>	<b>(11,371,914)</b>	<b>-</b>	<b>50,273,336</b>
<b>DISCRETIONARY RESERVES</b>							
WATER							
General Debt Reserve Fund	7,747,158	-	51,648	(7,798,806)	-	-	-
Lower Seymour Conservation Reserve	179,221	-	3,584	-	-	-	182,805
LIQUID WASTE							
Biosolids Inventory Reserve	16,288,678	-	325,774	-	-	-	16,614,452
General Debt Reserve Fund	57,227,817	-	381,519	(57,609,336)	-	-	-
Lions Gate Contingency	1,378,874	-	27,577	-	-	-	1,406,451
SOLID WASTE							
Solid Waste General Reserve	37,946,235	-	758,925	-	-	-	38,705,160
Landfill Post Closure Reserve	10,430,077	-	208,602	-	-	-	10,638,679
MVHC							
Capital Replacement Reserve	13,180,531	-	263,611	-	3,257,005	1,719,533	18,420,680
Capital Development Reserve	16,313,473	-	326,269	-	-	-	16,639,742
AIR QUALITY							
Air Quality General Reserve	3,556,291	-	71,126	-	(44,920)	-	3,582,497
E911							
E911 General Reserve	-	-	-	-	460,764	-	460,764
ELECTORAL AREA A							
Electoral Area General Reserve	1,545,827	-	30,917	-	76,662	-	1,653,406
GENERAL GOVERNMENT							
General Government General Reserve	1,094,951	-	21,899	-	2,930,981	-	4,047,831
LABOUR RELATIONS							
Labour Relations General Reserve	-	-	-	-	1,812,492	-	1,812,492
REGIONAL EMERGENCY MANAGEMENT (REM)							
REM General Reserve	290,040	-	5,801	-	(12,350)	-	283,491
REGIONAL PARKS							
Regional Parks Legacy Fund	2,611,206	-	52,224	-	-	-	2,663,430
REGIONAL PLANNING							
Regional Planning General Reserve	1,334,596	-	26,692	-	645,556	-	2,006,844
CENTRALIZED SUPPORT	20,427,696	-	408,554	-	-	-	20,836,250
FLEET VEHICLE RESERVE	5,111,494	-	102,230	-	-	798,982	6,012,706
<b>TOTAL DESIGNATED</b>	<b>196,664,165</b>	<b>-</b>	<b>3,066,950</b>	<b>(65,408,142)</b>	<b>9,126,190</b>	<b>2,518,515</b>	<b>145,967,679</b>
<b>STATUTORY RESERVES</b>							
WATER							
Laboratory Equipment Reserve	569,048	-	11,381	-	-	46,000	626,429
Sustainability Innovation Fund	11,235,806	-	224,716	-	-	723,000	12,183,522
LIQUID WASTE							
DCC Reserve Fund	287,702,326	-	5,754,047	-	-	-	293,456,373
Laboratory Equipment Reserve	465,739	-	9,315	-	-	95,788	570,842
Sustainability Innovation Fund	16,236,138	-	324,723	-	-	1,127,000	17,687,861
AFFORDABLE HOUSING							
Affordable Housing Reserve	-	-	-	-	256,171	1,000,000	1,256,171
ELECTORAL AREA A							
Community Works Reserve	407,490	-	8,150	-	-	115,834	531,474
GENERAL GOVERNMENT							
Sustainability Innovation Fund	11,291,125	-	225,823	-	-	347,000	11,863,948
Cultural Grants Reserve Fund	2,287,292	-	45,746	-	-	-	2,333,038
GPS							
GPS Reserve	-	-	-	-	903,954	30,000	933,954
REGIONAL PARKS							
Regional Parks Capital Reserve	8,508,725	-	170,175	-	1,062,911	(4,143,000)	5,598,811
Parkland Acquisition Reserve Fund	14,024,056	-	280,481	-	-	3,570,000	17,874,537
Delta Airpark Reserve	56,167	-	1,123	-	-	23,000	80,290
SASAMAT FIRE PROTECTION SERVICES							
Capital Reserve	625,734	-	12,515	-	22,687	52,100	713,036
Communications Reserve Fund	54,291	-	1,086	-	-	-	55,377
Emergency Equipment Reserve Fund	25,245	-	505	-	-	-	25,750
SELF-INSURANCE FUND	2,580,401	-	51,608	-	-	-	2,632,009
<b>TOTAL STATUTORY</b>	<b>356,069,583</b>	<b>-</b>	<b>7,121,392</b>	<b>-</b>	<b>2,245,724</b>	<b>2,986,722</b>	<b>368,423,421</b>
<b>GRAND TOTAL</b>	<b>606,962,958</b>	<b>44,208,110</b>	<b>11,666,704</b>	<b>(103,678,573)</b>	<b>-</b>	<b>5,505,237</b>	<b>564,664,436</b>

## 2018 Finance and Intergovernment Committee Work Plan

Report Date: April 4, 2018

### Priorities

1 <sup>st</sup> Quarter	Status
2018 Standing Committee Events	Complete
2018 International Program	Complete
Fraser Basin Contribution Agreement	Complete
Zero Waste Conference Update	Complete
National Zero Waste Council Update	Complete
Regional Prosperity Initiative Update	Complete
Public Engagement Policy	Complete
Intergovernmental Communications and Engagement Update	Complete
Board Policies (As Required/Applicable)	Complete
2 <sup>nd</sup> Quarter	
Affordable Housing Development Cost Charge Waiver Bylaw	Pending
Statutory and Non-Statutory Reserves Policy	In Progress
Financial Planning Policy	Pending
George Massey Tunnel Replacement Project Update	Pending
Intergovernmental Communications and Engagement Update	Pending
Board Policies (As Required/Applicable)	Pending
3 <sup>rd</sup> Quarter	
Review of Debt Management Principles	Pending
TransLink Federal Gas Tax Application and Annual Report	Pending
Zero Waste Conference Update	Pending
Regional Prosperity Initiative Update	Pending
Intergovernmental Communications and Engagement Update	Pending
Board Policies (As Required/Applicable)	Pending
4 <sup>th</sup> Quarter	
Asset Management Policy	Pending
National Zero Waste Council Update	Pending
Regional District Service Area, General Government & Corporate Support Annual Budget Review	Pending
Overall Annual Budget and Five Year Financial Plan Update approval for Districts	Pending
Intergovernmental Communications and Engagement Update	Pending
Board Policies (As Required/Applicable)	Pending