

Municipality of Chatham-Kent
Infrastructure and Engineering Services
Engineering and Transportation Division

To: Mayor and Members of Council
From: Ian Clark, Transit Project Manager
Date: November 20, 2019
Subject: CKTransit Fleet Ownership

Recommendations

It is recommended that:

1. The Municipality purchase and retain ownership of its public transit vehicles, with continued third party operation, storage, and maintenance, for future operator contracts expected to commence after June 30, 2021, pending available funding;
2. Administration report to Council in early 2020 with specific funding sources for the purchase of fleet vehicles following confirmation from senior levels of government.

Background

In January 1998, the ownership of eight Municipally-owned buses was transferred to the private operator of the Chatham Conventional Service in response to a reduction in transit funding from senior levels of government. Beginning in 2002, outsourcing the capital purchase and ownership of transit vehicles continued with subsequent operators as new vehicles were required to replace the aging pre-amalgamation fleet.

From 2002 – 2006 the Municipality was eligible under the Ontario Transit Vehicle Program (OTVP) to receive up to one-third of the capital portion charged by the CKTransit operators, despite the Municipality no longer owning the vehicles. In 2007, the program was restructured under the Ontario Bus Replacement Program (OBRP) which capped the annual capital contribution well below the one-third share. In 2010, the OBRP was discontinued and the Municipality was no longer eligible to offset third party-owned capital vehicle costs under any existing grant or funding program.

In 2014, the current operator contracts were awarded for CKTransit services. To minimize upfront municipal investment, all contracts required the operator to purchase, own, operate, store, and maintain the necessary number of transit vehicles until contract

expiry on June 30, 2021. The Municipality incurs the full capital portion of vehicle costs, amortized over the seven-year period, through the fees charged by the operator.

In June 2019, the Municipality initiated a one year review, Driving Forward: CK's Transit Strategy Project, with the objective of prioritizing and recommending policies, projects, and operating service standards to guide CKTransit over the next 5-10 years. On September 23, 2019, Council was notified that any recommendations with implications on fleet would be prioritized early in the process due to the approximate 15 month lead time required to both award an operator contract and procure the vehicles.

On October 21, 2019 Council approved administration to enter into a cooperative purchasing agreement with Metrolinx, a crown agency owned by the province of Ontario, for the purpose of purchasing transit vehicles and related equipment. Council also approved the purchase of two 8-metre transit vehicles through this cooperative agreement for use in an upcoming evening service pilot in the community of Chatham, as well as part of future CKTransit operations.

Comments

Chatham-Kent is alone among peer comparators in Ontario with regards to its transit vehicle ownership practice. With some exceptions for smaller vehicles used in accessible/para transit services, municipalities of similar size or larger retain transit vehicle ownership and either deliver operations internally or contract operations to a third party.

Administration considers owning the CKTransit fleet as advantageous for the following reasons:

- Allows access to existing grant and funding programs to facilitate transit vehicle replacement or upgrades;
- Provides flexibility to access one-time vehicle grants not anticipated when operator contracts are established;
- Provides flexibility in the length of operator agreements as they will no longer be based around the lifespan of the vehicle;
- Allows for future conversion to alternative fuel vehicles in line with any municipal plans to develop supporting infrastructure;
- Provides additional revenue streams through bus wraps, in-vehicle advertisements, and the sale of vehicles once they are out of service;
- Shortens the lead time required to award an operator contract as the Municipality can purchase the vehicles at any time prior to the service agreement or transfer existing vehicles from one operator to the next;
- The removal of the capital fees paid to the operator, included in the CKTransit operating budget, will allow for the creation of a transit vehicle lifecycle reserve to mitigate the risk of a future loss of senior government grants to replace the vehicles;

The disadvantages of this practice include the Municipality assuming risk for the upfront capital investment and procurement process. This is mitigated respectively through leveraging senior government grants and participation in Metrolinx' cooperative purchasing agreement. This agreement is expected to be utilized for fleet purchase due to cost certainty and administrative expertise. Staff are also reviewing the best practices of comparable municipalities regarding language in vehicle use agreements with third party operators to ensure quality control.

CKTransit operators have regular access to 16 vehicles in order to deliver the base service outlined in the 2014 agreements. All vehicles are 8-metres in size with some variation in the Chatham Accessible and Wallaceburg Accessible fleets. Administration anticipates that any future CKTransit service comparable to current baseline operations will require 16 vehicles, including backups. Based on public feedback and ridership projections a combination of 9-meter, 8-metre, and mini-buses will be considered. Any potential future service expansion will include additional vehicle costs when warranted.

Costs

Between 2014 – 2021 the Municipality will have paid the full \$2.4 million cost of all 16 vehicles utilized on CKTransit operator contracts. A required increase in vehicle capacity, changes to accessible legislation, modern amenities, and inflation has increased this cost to approximately \$3.46 million. In-service costs are estimated at \$240,000 and include items such as fare system hardware, vehicle location systems, mounts, signage, and decals.

Item	Cost
2014 Replacement Cost	\$2,400,000
Added Capacity (Size)	\$710,000*
AODA Requirements/Modern Amenities	\$80,000
Inflation	\$270,000
Sub-total	\$3,460,000
In-Service Costs	\$240,000
Total	\$3,700,000

Table 1: Cost Factors Based on 16 Vehicles (HST included)

*Note larger vehicles typically have increased lifespan, reducing annual amortized capital cost

The two 8-metre buses recently purchased by the Municipality for the evening service transit pilot are expected to be in operation by July 2020 and available for continued use in the future fleet after June 30, 2021. This reduces the capital cost of a complete fleet purchase to \$3.25 million.

The Provincial Gas Tax Reserve currently has approximately \$4.9 million in funds. However, existing commitments or pending projects are expected to reduce this amount below the required \$3.25 million. In the summer of 2019, Chatham-Kent applied for \$1.65 million in funding for new transit vehicles as part of the Investing in Canada Infrastructure Program (ICIP). Provincial approval of the funding was confirmed in September while Federal approval has been delayed due to the election.

Administration will recommend a combination of the Provincial Gas Tax Reserve and ICIP funding to complete the fleet purchase. Should ICIP funding not be secured the outstanding amount will be referred to the 2020 budget process. The General Manager of Infrastructure and Engineering Services also has authority under existing Fleet practices to purchase used vehicles in a timely manner if they become available. This practice will also be considered, should the opportunity exist and it realizes cost savings for the Municipality.

While it is anticipated that senior government grants will continue to be available to replace aging vehicles in the foreseeable future, administration will incorporate a transit vehicle lifecycle contribution beginning with the 2021 operating budget to mitigate the risk of lost funding. This lifecycle amount is expected to be comparable to the existing capital portion of the operator fees and have no net increase on the operating budget.

Pending funding and Council approval, the procurement of these vehicles will take place in the second quarter of 2020. Should Council wish to continue with third party ownership, a Request for Proposal for operations will need to be issued at least 15 months prior to current contract expiry to allow time to award the contract and for the operator to procure the vehicles independently.

Areas of Strategic Focus and Critical Success Factors

The recommendations in this report support the following areas of strategic focus:

Economic Prosperity:

Chatham-Kent is an innovative and thriving community with a diversified economy

A Healthy and Safe Community:

Chatham-Kent is a healthy and safe community with sustainable population growth

People and Culture:

Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community

Environmental Sustainability:

Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendations in this report support the following critical success factors:

Financial Sustainability:

The Corporation of the Municipality of Chatham-Kent is financially sustainable

Open, Transparent and Effective Governance:

The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership

- Has the potential to support all areas of strategic focus & critical success factors
- Neutral issues (does not support negatively or positively)

Consultation

CKTransit operators were consulted for some of the vehicle information in this report. The Infrastructure and Engineering Services department was consulted regarding any additional administrative responsibilities vehicle ownership will place on staff.

Financial Implications

The recommendations in this report do not have a direct financial impact on the Municipality. In early 2020, administration will recommend approximately \$3,250,000 in senior government funding be used to purchase a transit fleet. Should enough funding not be secured the outstanding amount will be referred to the budget process.

Removing the capital portion from the operator fees and replacing it with a vehicle lifecycle contribution is expected to have no net increase on the CKTransit operating budget.

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