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**TO:** GENERAL COMMITTEE

**SUBJECT:** TRANSIT SERVICE PARTNERSHIP AND FUNDING AGREEMENTS –  
FOR THE PROVISION OF TRANSIT SERVICES TO THE TOWNSHIP  
OF ESSA

**PREPARED BY AND KEY CONTACT:** R. EMERSON,  
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**SUBMITTED BY:** B. ROTH, DIRECTOR  
RECREATION, FACILITIES & TRANSIT *Bmk*

**GENERAL MANAGER APPROVAL:** RICHARD FORWARD, MBA, M.Sc., P.ENG.,  
GENERAL MANAGER OF COMMUNITY OPERATIONS *R Forward*

**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** CARLA LADD, CHIEF ADMINISTRATIVE OFFICER *CL*

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**RECOMMENDED MOTION**

1. That the Director of Recreation, Facilities & Transit or their designate be authorized to negotiate with the Township of Essa and the County of Simcoe to develop and finalize the following relevant agreements for the provision of transit services between Barrie, Angus and CFB Borden in accordance with the parameters identified in Appendix "A" to Staff Report RFT001-13:
  - a) A Transit Services Partnership Agreement between the City of Barrie and the Township of Essa that will define the services to be provided, and the roles and responsibilities of the parties, the terms and conditions for the provision of the service, and the funding to be provided by the Township of Essa to the City of Barrie.
  - b) A Transit Services Funding Agreement between the City of Barrie and the County of Simcoe that will define the funding to be provided by the County of Simcoe to the City of Barrie for the provision of transit services to the Township of Essa, and the terms and conditions related to such funding.
2. That the Mayor and Clerk be authorized to execute the Transit Services Partnership Agreement with the Township of Essa and Transit Services Funding Agreement with the County of Simcoe, subject to the agreements addressing the key terms and conditions, as well as any other terms and conditions necessary as determined by the General Manager of Community Operations, and the form of the agreement being prepared to the satisfaction of the Director of Legal Services and the Director of Finance.
3. That the Director of Recreation, Facilities and Transit report back to General Committee should negotiations not produce, by May 1, 2013 a Transit Services Partnership Agreement and a Transit Service Funding Agreement in accordance with the key terms and conditions identified in Appendix "A" to Staff Report RFT001-13.
4. That the required bylaw(s) designating the City of Barrie as the host municipality for the provision of transit services in the Township of Essa, for the purposes of Ontario Gas Tax Funding, be presented to City Council for consideration, as soon as possible following the execution of the Transit Services Partnership Agreement with the Township of Essa.

5. That subject to the execution of the Transit Services Partnership Agreement, the appropriate by-law be prepared to authorize the execution of lease agreement related to the bus equipment required for this service subject to the satisfaction of the Director of Legal Services and the Director of Finance.
6. That the Director of Recreation, Facilities and Transit provide City Council with a memorandum, no later than 14 months following the implementation of the new transit service, to provide details on first year usage, ongoing operating costs, and initial start-up costs related to the new transit service.

#### **PURPOSE & BACKGROUND**

7. The purpose of this report is to seek Council's approval for staff to negotiate a partnership agreement to provide transit services to the Township of Essa and Base Borden. This Agreement would define the roles and responsibilities for the service partners involved including financial obligations. The service – including both conventional and specialized/accessible transit - would be provided to the Township of Essa on a full operational cost recovery basis to the City of Barrie.
8. In 2011, the Mayors of Barrie and Essa, and the CFB Borden Commander met to discuss the feasibility of providing transit service that would link Barrie to portions of Essa Township, specifically Angus and CFB Borden.
9. A community transit survey was conducted in 2011 for the Township of Essa and Base Borden. The survey indicated there was support for public transit in the community of Angus and Base Borden with linkages to the City of Barrie. The primary need for transit based on the survey results were for employment and shopping destinations.
10. A review of operational requirements outlined numerous route options and provided preliminary costing for these options. Through consultation with The Township of Essa and Base Borden, there is interest in proceeding with a service option to provide transit service Monday to Friday in the mornings, mid-day, and afternoons.
11. The Township of Essa has expressed support in principle for moving ahead with formal negotiations towards a Transit Services Partnership Agreement, and the Township Council will shortly consider approval of a very similar motion to one being recommended to Barrie City Council in this report.
12. The County of Simcoe has committed \$50,000 towards the net operating cost of the proposed transit service. City of Barrie staff have been informed that this amount has been included in the County's 2013 operating budget, and that the commitment will extend on the same basis to 2014
13. County of Simcoe staff have expressed their support for the building of transportation linkages between urban areas within the County. In a reported dated February 12, 2013 to the County of Simcoe Human Services Committee on February 12, 2013 County staff expressed "The proposed transportation link between the City of Barrie and the Town of Angus if approved, would see a considerable reduction within the [County of Simcoe's] Ontario Works budget regarding transportation."

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## ANALYSIS

### Description of Service

14. The proposed transit services would be commuter-focused, with two buses that would operate from the Barrie Transit Terminal, along County Road 90 to portions of Angus, terminating at CFB Borden. The exact service route, hours of operation and frequencies remain to be finalized between the City of Barrie and the Township of Essa.
15. The commencement date for the proposed transit services would be confirmed between the City of Barrie and the Township of Essa, however there is interest to have the services in place in 2013. Based on operational requirements, and seasonal transit usage considerations, staff are anticipating that the new services could be implemented in August 2013, at the same time as route and schedule changes as a result of the introduction of the Plan for Transit.

### AODA Compliance

16. Through a review of relevant regulations within the Accessibility for Ontarians with Disabilities Act (AODA) and comparison to similar services provided by other Ontario municipalities, staff have determined that Barrie Transit would be responsible to provide specialized transit services alongside the new conventional services. These AODA responsibilities would be met through the provision of contracted taxi services to the identified service area within 400 metres of the established route, bringing eligible passengers to the nearest accessible stop where they would board the conventional buses used for the route, which would be fully accessible. Upon arriving at the Barrie Transit Terminal, eligible passengers would continue on to destinations in Barrie by way of the existing Barrie Accessible Community Transit Services (BACTS).

### Definition of Responsibilities and Principles

17. The following provides a brief overview of the purpose and context for the key terms and conditions associated with the proposed agreements, which are identified in Appendix "A"
18. The Transit Services Partnership Agreement would define the City of Barrie as solely responsible for the provision of this transit service, including coordinating, managing, and supervising the transit services to be provided by the City's existing transit services contractor.
19. The proposed transit services would be provided to the Township of Essa on a full operational cost recovery basis, with the City of Barrie incurring no net expense related to the operation. Full cost recovery (including amortization, corporate overhead, and debt) has not been considered for this partnership, as the transit service would be provided using existing Barrie Transit resources and therefore would not result in any increase to these amounts.
20. The Transit Services Partnership Agreement would define that all operating and financial risks and costs would be the full responsibility of the Township of Essa, with both the Township of Essa and the City of Barrie being jointly responsible for any liability related to the operation of the transit service. The estimated increase to insurance and liability costs for the City of Barrie would be included in the costs to be paid by the Township of Essa.
21. The Township of Essa would be responsible for all other required support services not defined as the responsibility of the City of Barrie, including but not limited to: snow removal, garbage collection, required construction and/or maintenance of local bus stop locations in the Township of Essa, and pass distribution. The Township of Essa would be asked to acknowledge, through the Transit Services Partnership Agreement, that they are aware of the full cost of this new transit service, including but not

limited to cost factors identified by the City of Barrie, and the risks associated with future potential new or increased costs.

22. The Township of Essa would be responsible for any operating shortfall resulting from any revenue or expense items differing from the amounts projected, including but not limited to: projected Ontario Gas Tax revenue; projected fare revenue; the reduction or withdrawal of any funding to be received from the County of Simcoe; additional expenses related to AODA compliance.
23. The City of Barrie would apply for Ontario Gas Tax funding from the Province of Ontario as the host municipality providing the public transit services and would directly receive all Ontario Gas Tax revenue related to these services. Ontario Gas Tax revenues would be applied to the operating cost of providing the agreed upon transit services, and would be reported to the Township of Essa on an annual basis.
24. The Transit Services Partnership Agreement would require both the City of Barrie and the Township of Essa to adopt bylaws which would designate Barrie as the host municipality for the provision of transit services in the Township of Essa – as required by Ontario Gas Tax Funding regulations. The Transit Services Partnership Agreement would contain a clause declaring the agreement null and void, should the bylaws as described not be adopted by each municipality within 60-days following the signing of the agreement.
25. The Transit Services Partnership Agreement would contain a provision that it may be cancelled by either the City of Barrie or The Township of Essa with no less than 90-days notice, with the Township of Essa bearing all cancellation costs.
26. As noted in the recommended motion, staff would report back to General Committee in the event that negotiations do not produce a Transit Services Partnership Agreement between the City of Barrie and the Township of Essa. Furthermore, should successful negotiations result in an agreement that conforms to the principles articulated in this report, staff would advise City Council by way of memorandum once the agreements with the Township of Essa and the County of Simcoe have been executed by all parties.

#### **ENVIRONMENTAL MATTERS**

27. An efficient and effective transit system facilitates an alternative to single passenger automobile trips, thereby reducing greenhouse gas emissions. The transportation sector accounts for 30% of Canada's greenhouse gas emissions and passenger vehicles are the highest of total vehicle emissions. It is foreseen that the introduction of this new transit service would have some environmental benefit through the reduction of passenger vehicle trips between Angus, CFB Borden, and Barrie - although the exact environmental benefit is not quantifiable at this time.

#### **ALTERNATIVES**

28. The following alternatives are available to the General Committee in regard to this report:

**Alternative #1**

General Committee could choose not to approve the recommendation authorizing staff to negotiate the final terms of a Transit Service Partnership agreement and take no further action with respect to the implementation of transit service for the Township of Essa.

If General Committee wishes to pursue the provision of transit services to the Township of Essa, a transit services agreement would inevitably be required to protect the interests of the parties involved. Considering there are a number of issues to be discussed in relation to the service, approval of the key terms and conditions contained in this report would be helpful to guide the negotiation process which would lead to a formal agreement.

**Alternative #2**

General Committee could alter the key terms and conditions defined for the two agreements, identified in Appendix "A" to Staff Report RFT001-13, so that the Township of Essa would only be responsible to cover direct costs incurred by the City of Barrie for the operation of the agreed upon transit service. This would mean the Township of Essa would not be required to compensate the City of Barrie for administrative and managerial services related to the transit service which would be provided using existing Barrie Transit resources at no additional cost.

Should General Committee choose to pursue this alternative, the City of Barrie would provide operational services on an in-kind basis and would reduce the amount of funding due from the Township of Essa by the \$53,884 – the estimated value of these services. The estimated amount for the operational support component of the total costs to be recovered from the Township of Essa would therefore be reduced from \$66,684 to \$12,800.

This alternative is not recommended, as staff have developed the parameters for a proposed agreement on a full operational cost recovery basis. Providing administrative and managerial support in-kind without compensation from the Township of Essa would reduce Barrie Transit's ability to offset the resources required to provide this operation support.

**FINANCIAL**

29. Table 1 on the following page indicates the estimated net operating costs, estimated partner funding, and the estimated cost to the Township of Essa, for the provision of the new transit service:

**TABLE 1: Estimated Net Cost of Transit Service (Essa-Borden-Barrie)**  
Partial first year of operations and annualized operations

	August 1, 2013 - December 31, 2013			Typical Full Operating Year		
	Revenue : Cost Ratio			Revenue : Cost Ratio		
	10%	20%	30%	10%	20%	30%
<b>ESTIMATED NET OPERATING COST</b>						
Start-up cost	\$ 17,100	\$ 17,100	\$ 17,100	\$ -	\$ -	\$ -
Operating Cost: Conventional Transit	\$ 151,779	\$ 151,779	\$ 151,779	\$ 364,270	\$ 364,270	\$ 364,270
Operating Cost: Specialized Transit	\$ 18,333	\$ 18,333	\$ 18,333	\$ 44,000	\$ 44,000	\$ 44,000
Fare revenue	\$ (15,178)	\$ (30,356)	\$ (45,534)	\$ (36,427)	\$ (72,854)	\$ (109,281)
Ontario Gas Tax Funding	\$ (58,333)	\$ (58,333)	\$ (58,333)	\$ (140,000)	\$ (140,000)	\$ (140,000)
<b>ESTIMATED NET OPERATING COST</b>	<b>\$ 113,701</b>	<b>\$ 98,523</b>	<b>\$ 83,346</b>	<b>\$ 231,843</b>	<b>\$ 195,416</b>	<b>\$ 158,989</b>
<b>ESTIMATED PARTNER FUNDING</b>						
Estimated Simcoe County operating contribution	\$ (50,000)	\$ (50,000)	\$ (50,000)	\$ (50,000)	\$ (50,000)	\$ (50,000)
<b>TOTAL ESTIMATED PARTNER FUNDING</b>	<b>\$ (50,000)</b>	<b>\$ (50,000)</b>	<b>\$ (50,000)</b>	<b>\$ (50,000)</b>	<b>\$ (50,000)</b>	<b>\$ (50,000)</b>
<b>ESTIMATED FUNDING REQUIRED FROM THE TOWNSHIP OF ESSA</b>	<b>\$ 63,701</b>	<b>\$ 48,523</b>	<b>\$ 33,346</b>	<b>\$ 181,843</b>	<b>\$ 145,416</b>	<b>\$ 108,989</b>

Explanatory notes for the data provided in this chart are included on the following pages.

Operating Cost: Conventional Transit

30. The proposed transit service would require a minimum of 3,780 conventional service hours. It is estimated this level of service would cost approximately \$364,270 annually. In addition to the annual cost, approximately \$17,100 of start-up costs have been estimated. These costs are broken down in below:

**TABLE 2: Estimated Annual Operating costs for Conventional Transit through Barrie Transit**

	Annual \$
Hourly service charge	\$ 237,686
Vehicle charge	\$ 59,900
Support service charge	\$ 66,684
<b>Total operating charge</b>	<b>\$ 364,270</b>

**TABLE 3: Start-up Cost**

	Annual \$
One-time charges	\$ 13,100
Capital	\$ 4,000
<b>Total startup charges</b>	<b>\$ 17,100</b>

31. The hourly service charge indicated in Table 2 above reflects the hourly rate for the transit service provider, currently First Canada. The vehicle charge indicated in Table 2 above reflects the lease cost of vehicles used to provide conventional transit, plus insurance and licensing and fare box costs. Other methods of acquiring the required vehicles, including purchase, were considered and Appendix "B" of this report provides an analysis of the financial implications of the options considered in accordance with the City's Leasing Policy.
32. The support service charge indicated in Table 2 above reflects the estimated value of City of Barrie resources required to facilitate the service on an ongoing basis. City of Barrie staff time to-date has not been included in either the annual operating costs or start-up costs.
33. The operating costs for conventional transit in Table 1 includes only operating costs to Barrie Transit, and does not include costs for services to be directly provided by the Township of Essa, including but not limited to: snow clearing, garbage collection, pass distribution, etc.

Operating Cost: Specialized Transit (AODA Compliance)

34. The cost for the provision of the defined AODA compliant specialized transit service have been estimated at \$44,000 for a full year of operation, and is included in the net operational cost calculated in Table 2. In the event it is determined that additional services are required for full AODA compliance, such costs would be the full responsibility of the Township of Essa.

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Fare Revenue

35. Three scenarios have been presented for consideration in Table 1, based on variations in the fare revenue to cost ratio (10%, 20%, and 30%). An increase in the fare revenue to cost ratio decreases the burden overall net operating cost of providing the service, and vice-versa - thereby increasing or decreasing accordingly the amount of funding required by the Township of Essa.

Ontario Gas Tax Funding

36. The Province of Ontario two cents per litre dedicated Gas Tax funding program is available to municipalities that operate a public transit service. The allocation is generally based on 70% transit ridership and 30% municipal population, which is reviewed annually. However, the proposed transit system is a start-up with no historical information. Therefore, the Township of Essa's dedicated gas tax eligible amount would be initially calculated based on population. The estimated amount of gas tax available for service in The Township of Essa is approximately \$140,000 on an annual basis.
37. Any deviation from the gas tax revenue estimate provided which results in a higher than anticipated net cost for the service would be the full responsibility of the Township of Essa.
38. The proposed agreement would see the Township of Essa designate the City of Barrie as the host municipality. The Township of Essa and the City of Barrie would be required to produce a by-law documenting this agreement.
39. Under this arrangement, the Township of Essa's population and ridership statistics would be combined with those for the City of Barrie. All dedicated gas tax funding would be directed to the City of Barrie.
40. All administrative functions associated with dedicated gas tax funding would be performed by City of Barrie staff.
41. Staff are not aware of any adverse financial consequences related to the City of Barrie acting as a host municipality for Provincial Gas Tax purposes.

Estimated Partner Funding

42. The County of Simcoe has committed \$50,000 towards the net operating cost of the proposed transit service within the County's 2013 operating budget. City of Barrie staff have been informed that this commitment will extend on the same basis to 2014.
43. The Township of Essa has expressed it's support in principle, through the commitment of \$130,000 towards the net operating cost of the new transit service within the Township's 2013 operating budget. The Township of Essa Council will shortly consider a motion similar to the one being recommended to Barrie City Council in this report, which will also include financial approval for their required commitment.



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**LINKAGE TO 2010 – 2014 COUNCIL STRATEGIC PLAN**

44. The recommendation(s) in the Staff Report support the following goals identified in the 2010- 2014 City Council strategic Plan:
- Manage Growth & Protect the Environment
  - Strengthen Barrie Financial Condition
45. The concept of providing transit services to surrounding municipalities links to the Provincial Places to Grow Plan, which promotes public transit and providing seamless public transit between municipalities. Beyond the obvious connections between Essa, Angus, CFB Borden and Barrie, the proposed service would also link to GO Transit bus and train services, through Barrie Transit's existing service network.
46. Providing transit services to and from surrounding municipalities, that link to Barrie Transit's existing service network, would result in increased transit ridership for Barrie. This would support Barrie's economy by providing increased transportation alternatives for residents and visitors. The proposed service would better position Barrie as a regional destination to access such amenities as post-secondary education, shopping & dining, hospitals, tourism and cultural events, and recreational facilities.

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APPENDIX "A"

**Proposed Parameters for Transit Service Partnership and Funding Agreements**

1. A Transit Services Partnership Agreement between the City of Barrie and the Township of Essa will define the services to be provided, and the roles and responsibilities of the parties, the terms and conditions for the provision of the service, and the funding to be provided by the Township of Essa to the City of Barrie.
2. A Transit Services Funding Agreement between the City of Barrie and the County of Simcoe will define the funding to be provided by the County of Simcoe to the City of Barrie for the provision of transit services to the Township of Essa, and the terms and conditions related to such funding.
3. For the purposes of both agreements, the term transit service shall refer both to the provision of conventional transit services specialized/accessible services compliant with the Accessibility for Ontarians with Disabilities Act (AODA) unless explicitly stated otherwise.
4. The proposed transit services will be commuter-focused, with two buses operating from the Barrie Transit Terminal, along County Road 90 to portions of Angus, terminating at CFB Borden, with the exact service route, hours of operation and frequencies to be finalized between the City of Barrie and the Township of Essa. Specialized/accessible transit services will be provided alongside this new conventional service, through means agreeable to the Township of Essa, and utilizing the existing services of Barrie Accessible Community Transit Services (BACTS) within the City of Barrie, where possible.
5. The City of Barrie will be solely responsible for the provision of the all transit services, including coordinating, managing, and supervising the transit services to be provided by the City's existing transit services contractor.
6. The commencement date for the proposed transit services will be no earlier than August 1, 2013 and no later than December 31, 2013, and will be confirmed between the City of Barrie and the Township of Essa subject to operational requirements, and seasonal transit usage considerations.
7. The proposed transit services will be provided to the Township of Essa on a full operational cost recovery basis, with the City of Barrie incurring no net expense related to the operation
8. All operating and financial risks and costs will be the full responsibility of the Township of Essa, with both the Township of Essa and the City of Barrie being jointly responsible for any liability related to the operation of the transit service.
9. The Township of Essa will be responsible for all other required support services not defined as the responsibility of the City of Barrie, including but not limited to: snow removal, garbage collection, required construction and/or maintenance of local bus stop locations in the Township of Essa, and pass distribution.

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11. The Township of Essa will be responsible for any and all operating shortfall resulting from any revenue or expense items differing from the amounts projected by the parties, including but not limited to: projected Ontario Gas Tax revenue; projected fare revenue; the reduction or withdrawal of any funding to be received from the County of Simcoe; additional expenses related to AODA compliance.
  12. The City of Barrie will apply for Ontario Gas Tax funding from the Province of Ontario as the host municipality providing the public transit services and will directly receive all Ontario Gas Tax revenue related to these services. Ontario Gas Tax revenues will be applied to the operating cost of providing the agreed upon transit services, and will be reported to the Township of Essa on an annual basis.
  13. The Transit Services Partnership Agreement will be conditional upon both the City of Barrie and the Township of Essa adopting bylaws which will designate Barrie as the host municipality for the provision of transit services in the Township of Essa – as required by Ontario Gas Tax Funding regulations. The Transit Services Partnership Agreement will be null and void, should the bylaws as described not be adopted by each municipality within 60-days following the signing of the agreement.
  14. The Transit Services Partnership Agreement may be cancelled by either the City of Barrie or The Township of Essa with no less than 90-days notice, with the Township of Essa bearing all cancellation costs.

APPENDIX "B"

Lease Analysis for Required Bus Equipment

Overview

1. Two buses would be required to provide the proposed transit service beginning August 1, 2013. The City of Barrie will operate and maintain the required equipment through its transit service provider, currently First Canada.
2. Three options were considered for securing the required equipment:
  - **Purchase of New Equipment:** Estimated cost of \$105,000. (New buses require a one year lead time for the manufacturer. Therefore, a new bus purchase cannot be accommodated and has been excluded from further analysis.)
  - **Purchase of Used Equipment:** \$29,700/unit. However, equipment is being sold "as is, where is" therefore, the final cost to execute the purchase must include a number of additional estimated costs necessary to take delivery of the units:

Purchase price per unit		\$29,700
Total Estimated Delivery Costs:		
Transport from NY	2,000	
Customs	500	
Canadian Standards	6,000	
Safety	3,000	\$11,500
		\$41,200
Total Estimated Cost to Purchase		\$41,200

- **Lease of Refurbished Buses:** Monthly cost of \$2,350/unit for an 18-month term and is non-cancellable. This rate includes all of the amounts itemized for the purchase price, as the equipment would be provided "road ready". The City has an option to purchase the buses at the end of the lease for \$1 per unit. The stated interest rate for the lease, and all other quoted services is 0%..
3. The same vehicles would be acquired, from the same vendor, for either the lease or purchase used options.

Lease vs. Purchase Analysis

4. The following summarizes the present value cost of the lease, and purchase options.

	Present Value of future minimum lease payments	Purchase Price	Lease Term / Estimated Remaining Useful Life
Lease	\$82,685		18 months
Purchase		\$80,495	18 months

5. The cost of maintenance and repairs are included in the hourly rate paid to the transit service provider. Therefore, these costs are assumed equal under both options.
6. A purchase discount of 10% (\$2,970) per unit is available if payment is received by the vendor on or before March 15, 2013. Taking advantage of the discount would reduce the present value of the purchase option by an additional \$5,940. However, since the purchase would not be made until the Transit Services Partnership Agreement has been executed it will not be possible to take advantage of this discount.
7. The buses being considered are from the 2006 model year, with an estimated remaining useful life of 18 months. Buses typically have a minimal salvage value at the end of their useful life and the refurbished buses being considered are expected to have a salvage value of \$1,000 per unit at the end of 18 months of service. The present value of the anticipated salvage proceeds has been deducted from the purchase price for the purposes of this analysis.
8. While the vendor has quoted a 0% interest rate, there is a \$900 difference between the delivery costs estimated by Barrie Transit for the purchase option, and the value of the delivery fees as quoted by First Canada for the lease option. Therefore, the implicit interest rate should be viewed as 3.75%
9. The 18 month term of the lease approximates the financial point of indifference between the lease or purchase options with the information as presented (i.e. excluding the possible outcome of price uncertainties discussed in the Risks section below). This presents the City with the opportunity to defer the potential purchase of the buses by 18 months without financial loss. Some of the benefits associated with this deferral include:
- a. Mitigation of price uncertainty risks,
  - b. 18 months to assess mechanical fitness of the otherwise unfamiliar vehicles before committing to purchase.

Risks

10. There is a significant degree of price uncertainty associated with the purchase option. Costs for Transportation from Rochester, New York, Customs clearance fees, Canadian Transport Standards registration and inspection fees, and the Safety inspection fee are estimates and subject to change. Furthermore, no estimate is available for the additional costs (if any) which may be incurred for mechanical work required to satisfy the findings of the safety inspection. When these cost uncertainties become known, they may have a significant adverse impact on the present value cost of the purchase option.

11. The lease option presents a degree of price certainty, as the pricing reflects an "all-in" amount for the delivery of "road ready" equipment to Barrie Transit.
12. Barrie Transit's current contracted service provider has the right to satisfy itself of the mechanical fitness of any vehicle entering the fleet before accepting maintenance and repair responsibility for that vehicle under the existing transit service contract. While this risk should be mitigated by the fact that the existing service provider shares common ownership with the proposed vehicle vendor, should any unidentified mechanical or structure work be required in order for the contractor to accept maintenance and repair responsibility the cost of such repairs has not been estimated as part of the purchase price. However, an allowance for such required work has been included in the lease price provided, and acceptance of maintenance and repair responsibility for the vehicles has been included in the "road ready" lease price.
13. The proposed transit service for which these vehicles would be used is new to all of the involved partners and therefore the financial viability of the service is less than certain - regardless of the bus acquisition option selected. In event service is halted during the 24 month termination of the associated Transit Service Partnership Agreement could be greatly complicated by issues of equipment ownership. These complication do not exist with a lease financing structure, as responsibility for any remaining lease payments would be clearly defined in the agreement.

#### Conclusion

14. The lease option results in a marginally higher (\$2,190) present value cost relative to the purchase option (\$82,685 vs. \$80,495). Never-the-less, it is still considered the preferred option. The key rationale for this conclusion is as follows:
  - a. Price certainty – The lease option is priced "all-in" whereas the purchase option comes with significant price uncertainties that may result in an overall higher cost to the Partners (refer to price uncertainty comments in analysis section)
  - b. The end of lease term coincides with the financial point of indifference between the lease or purchase options. When taken together with the bargain purchase option of \$1 per unit, the lease option presents a "try before you buy" opportunity while mitigating price uncertainty risks.

#### Accounting

15. Given the proposed terms, it is expected this lease would be accounted for as a capital lease.
16. The lease commitment will have an immaterial impact on the Corporation's debt and obligations.