

To All Commissioners

Re: **2022 Capital Budget Recosting**

Recommendation

That the Commission APPROVE the amended Capital Budgets for the 2022 Bus Replacement and Bus Expansion programs as set out in the table below noting the revisions include the impact of the base bus price increase being applied by New Flyer to all existing contracts.

Description	Source of Investment				Total
	Capital Program Reserve	City of London	Federal and Provincial (ICIP)	Provincial Gas Tax	
Bus replacement	\$ -	\$ 8,260,300	\$ -	\$ 4,101,000	\$ 12,361,300
Bus expansion	-	948,100	2,602,900	-	3,551,000

Background

At the November 24, 2021 meeting, the Commission approved the contract award for the purchase of the 2022 replacement bus requirements (15 - 40' buses and two – 60' foot articulated buses) from New Flyer Industries Canada, ULC at a total cost of \$10,913,909, exclusive of applicable taxes. Approval for the 2022 expansion bus requirements (5 – 40' buses) was provided at the March 30, 2022 meeting when the 2022 Service Plan was approved and confirmation had been received that the assessment growth funding business case had been approved by municipal council.

As indicated in previous COVID update reports, New Flyer has advised that due to a global computer chip shortage and the need for same for the VANSCO Multiplex Module on board the bus, delivery of both the 2022 replacement and expansion buses is likely to be delayed. The most recent update from New Flyer indicates this shortage is anticipated to be a problem until at least August, and that delivery of the 2022 bus order is likely to extend into 2023.

On June 15, 2022, administration received a letter from New Flyer indicating that a price increase of 7% would be applied to all existing contracts with a delivery date of July 1, 2022 and onward (see Enclosure I). The letter indicates that New Flyer has experienced unprecedented disruptions from the COVID-19 pandemic and resulting global supply chain and logistics disruptions, political unrest in Eastern Europe, and now momentous and continuously increasing costs. The letter goes on to discuss some of the factors stemming from recent rapid inflation being experienced including:

- raw material shortages and resulting price escalation;
- price increases and surcharges from major component suppliers;
- delays, shortages and exorbitant premiums paid on the broker market for microchip and electronic component supply; and
- escalating freight costs.

Further supporting the rationale for the increase, the letter provides examples of raw material cost increases that have been experienced recently, including:

- carbon steel (for use on bus chassis) is 71% higher than 5-year average;
- copper (used to move coolant and fluids) is 43% higher than 5-year average; and
- resin (used in fiberglass) is 30% higher than 5-year average.

The 7% increase in base bus price results in an increase of \$43,100 per 40' bus (from \$615,800 to \$658,900) and an increase of \$65,400 per 60' bus (from \$934,600 to \$1,000,000). The tables below set out the budget impacts associated with the increased bus costs for both the 2022 Bus Replacement Program and the 2022 Bus Expansion Program.

Amended Capital Budget – 2022 Bus Replacement Program				
Replacement Bus Program	Units	Original Budget	Amended Budget	Variance
40' Bus	15	\$ 9,237,000	\$ 9,883,600	\$ 646,600
60' Bus	2	1,869,200	2,000,000	130,800
Ancillary Equipment & Prep	17	477,700	477,700	-
		\$ 11,583,900	\$ 12,361,300	\$ 777,400
Funding				
Provincial Gas Tax		\$ 3,323,600	\$ 4,101,000	\$ 777,400
City of London		5,394,300	5,394,300	-
Federal Gas Tax (City of London)		2,866,000	2,866,000	-
		\$ 11,583,900	\$ 12,361,300	\$ 777,400

Amended Capital Budget – 2022 Bus Expansion Program

Expansion Bus Program	Units	Original Budget	Amended Budget	Variance
40' Bus	5	\$ 3,079,000	\$ 3,294,500	\$ 215,500
Ancillary Equipment & Prep	5	256,500	256,500	-
		\$ 3,335,500	\$ 3,551,000	\$ 215,500
Funding				
Development Charges (City of London)		\$ 355,700	\$ 380,000	\$ 24,300
City of London		533,700	568,100	34,400
ICIP funding - Provincial		1,111,600	1,182,500	70,900
ICIP funding - Federal		1,334,000	1,420,400	86,400
		\$ 3,335,500	\$ 3,551,000	\$ 215,500

The impacts of this price increase can be accommodated within the sources identified in the tables above. The capital budget program for 2023 – 2032, scheduled to be presented at the August meeting will be updated to reflect this new pricing.

Delivery of the 22 buses is not anticipated to be completed until the first quarter of 2023, which will impact the timing for implementation of service improvements requiring additional buses. Further discussion with respect to timing of service improvements will be provided at a future meeting once delivery dates have been confirmed.

Enclosure

I – Letter from New Flyer dated June 15, 2022

Recommended by:

Mike Gregor
Director of Finance

Craig Morneau
Director of Fleet and Facilities

Concurred in by:

Kelly S. Paleczny
General Manager