

March 10, 2004

File: KEL.23

Mr. R. W. Westlake,
Transportation Manager
City of Kelowna
1435 Water Street,
Kelowna, BC V1Y 1J4

Mr. Wayne d'Easum
Administrator
Central Okanagan Regional
District
1450 KLO Road
Kelowna, BC V1W 3Z4

Mr. Stephen Banmen
Treasurer
District of Lake Country
10150 Bottom Lake Rd.
Lake Country, BC V4V 2M1

Dear Messrs. Westlake, d'Easum and Banmen:

SUBJECT: 2004/05 Kelowna Regional Conventional Transit Annual Operating Agreement

Further to our discussions with Farwest Transit Services Inc., please find enclosed the 2004/05 Annual Operating Agreement (AOA) for the Kelowna Regional conventional transit system for approval. An Information and Performance Summary is also enclosed. This AOA and the previously approved Master Operating Agreement constitute the operating agreements for the transit system. The Kelowna Regional Transit System is entering Year 5 of a five-year contract term.

For the Municipal Systems Program as a whole, the provincial operating budget contribution in 2004/05 will maintain existing transit services at current cost-sharing ratios. Gregory Slocombe, Chair of BC Transit has noted in previous correspondence that the efforts of all parties to find efficiencies, control costs and secure supplementary provincial funding in 2003/04, and now 2004/05, have been successful. In addition to the 2004/05 AOA budget as presented, we expect further cost reductions will be achieved from the 100% rebate of the Goods and Services Tax to municipalities, as promised in the federal Throne Speech. We will provide more information to you on the GST savings when the federal legislation is tabled. Finally, we haven't lost sight of the need for a new sustainable long term funding and governance structure for transit. Our Board of Directors will be working with the Ministry of Transportation to advance this issue.

The specific details of this AOA budget are noted below.

FINANCIAL ANALYSIS

Total cost for the 2004/05 AOA is budgeted at \$9,016,884, an increase of \$317,528 (3.7%) from 2003/04. The increase in costs is due to the following factors:

- Fixed costs increase 9.5% as a result of higher administration and supervisory costs associated with the service expansion together with a 1.5% allowable increase.
- Variable hourly and distance costs increase 4.6% and 2.7% as a result of expansion together with minor increases to driver's benefits. These costs are offset by reductions in extra service costs that were reallocated to supplement service expansion.
- ICBC costs increase \$22,400 (13.2%) as a result of two additional buses in the fleet together with general increases.

- Fleet insurance costs increase by \$10,000 (37.0%), reflecting industry trends.
- Vehicle Debt Service (Local Share) costs increase by \$47,482 (5.2%) reflecting the two additional 35 foot Dennis DART buses. The BC Transit share of those costs is accounted for separate from the AOA.
- Other minor increases include Property and Land Lease, Property Taxes and administration costs.
- Maintenance costs remain identical to 2004/05, a result of BC Transit's Accelerated Maintenance Program which moved ahead to 2003/04, a portion of major overhauls scheduled for 2004/05.

PERFORMANCE ANALYSIS

Ridership is forecast at 2,950,000 in 2004/05, an 82,000 passenger (2.9%) increase from 2003/04. This increase is based on actual forecast for 2003/04 together with additional rides generated from the more reliable service. Revenue is projected at \$3,129,900, a \$332,355 (11.9%) increase, a result of increased ridership, annualized increased fares (effective September 2003) and higher BC Bus Pass revenue. Ridership performance improves slightly to 26.6 rides per hour.

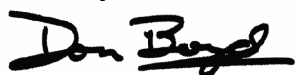
As a result of improved revenues the overall Net Municipal share decreases \$44,346 (2.0%) to \$2,160,497. This share includes the 100% contribution by the City and Regional District provided under flex funding for service expansion in February 2003 (\$239,000).

The local splits of Net Municipal Share result in a decrease of \$70,328 (5.5%) and \$7,293 (7.0%) for the City of Kelowna and District of Lake Country and a \$33,274 (4.1%) increase for the Central Okanagan Regional District. The reason for this inconsistency in local net share is the flex-funded share of CORD expansion operating costs is proportionally higher than additional revenue gained. In other words, Kelowna's increased revenue covers their additional expansion costs and more, CORD's increased revenue does not match their increased costs. The allocation of the local share of costs is based upon the figures agreed by all parties in December 2003. These allocations will be review within the 2004/05 AOA term. The BC Transit share increases by \$21,493 (0.6%).

A fare summary and tariff strategy has been previously circulated for the Municipal Systems Program.

The agreements may be approved by resolution. Once the agreements have received signature/seal from the municipalities, please forward to Farwest Transit Services Inc. for approval with a request to return all originals to the undersigned for execution by BC Transit. The operating company must return the agreements to BC Transit by April 30, 2004 so that the April payment to the operating company can be processed. The budget is also subject to approval by the Board of Directors of BC Transit. Please call if you have any questions on the attached material.

Yours truly,
Don Boyd



Transit Planner
Municipal Systems Program

Copy: Alvin Zaharko, Farwest Transit Services Inc.

Attachments: 3 Annual Operating Agreements
1 Information and Performance Summary

Information & Performance Summary

Kelowna Regional Conventional

	03/04 AOA AMENDMENT 2	Official AOA		
	Base Budget	Base Budget	Variance	
	2003/2004	2004/2005	\$ / #	%
ANNUAL OPERATING AGREEMENT				
BUDGET SUMMARY				
Total Costs	\$8,699,357	\$9,016,884	\$317,528	3.7%
Total Revenue	\$2,797,545	\$3,129,900	\$332,355	11.9%
BCT Share of Costs	\$3,562,811	\$3,584,305	\$21,493	0.6%
Net Municipal Share	\$2,204,843	\$2,160,497	-\$44,346	-2.0%
Net City of Kelowna Share	\$1,287,492	\$1,217,164	-\$70,328	-5.5%
Net Reg District of Central Okanagan Share	\$812,466	\$845,740	\$33,274	4.1%
Net District of Lake Country Share	\$104,886	\$97,593	-\$7,293	-7.0%
PERFORMANCE SUMMARY				
Level of Service				
Population Served	105,700	105,700	0	0.0%
Number of Buses in Service	38	40	2	5.3%
Revenue Hours of Service	108,637.06	110,878.46	2,241.40	2.1%
Effectiveness				
Annual Revenue Passengers	2,867,725	2,950,000	82,275	2.9%
Conventional	2,867,725	2,950,000	82,275	2.9%
Total Revenue Passengers per Capita	27.13	27.91	0.78	2.9%
Van Passengers per Revenue Hour	26.4	26.6	0.2	0.8%
Total Cost per Passenger	\$3.03	\$3.06	\$0.02	0.8%
Cost Recovery	32.2%	35.8%	0.0	11.4%
Efficiency				
Total Operating Cost of Service per Revenue Hour	\$70.50	\$71.39	\$0.89	1.3%
Total Cost of Service per Revenue Hour	\$80.08	\$81.32	\$1.24	1.6%