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Item No.
Audit & Finance Standing Committee
Nov 15, 2017

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: Original Signed

Jacques Dubé, Chief Administrative Officer

Original Signed

Dave Reage, Director Halifax Transit

DATE: November 8, 2017

SUBJECT: Request for New Capital Project (Fuel Systems Upgrade)

ORIGIN

- OAG Report “A Performance Review of Risk Management: Fuel Spill at Halifax Transit”
- RFP #P16-332, “Diligence Inspection of Fuel Storage and Dispensing Facility, Halifax Transit”

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter

- Section 79(1) - Specifies areas that the Council may expend money required by the Municipality.
- Section 35(2)(d)(i) - The CAO can only authorize budgeted expenditures or within the amount determined by Council by policy.
- Section 93(1) - The Council shall make estimates of the sums that are required by the Municipality for the fiscal year.

Audit & Finance Standing Committee Terms of Reference

Section 8. The Audit and Finance Standing Committee shall review and make recommendations on proposals coming to the Council outside of the annual budget or tender process including:

- ...
- (c) proposed changes in any operating or project budget items;
- (d) the commitment of funds where there is insufficient approved budget;
- (e) new or increased capital projects not within the approved budget;
- ...

RECOMMENDATION

It is recommended that the Audit & Finance Standing Committee recommend that Halifax Regional Council:

1. Approve a budget reduction of \$165,000 from project account CMU00982, Transit Security; and,
2. Increase the capital budget for a new capital project 'Fuel System Upgrade' in the amount of \$165,000, as outlined in the Financial Implications Section of this report.

BACKGROUND

In March 2015, the Auditor General released a report titled "A Performance Review of Risk Management: Fuel Spill at Halifax Transit". The report (found at <https://www.halifax.ca/city-hall/auditor-general/published-reports>) details the investigation completed by the OAG following a large scale fuel spill on Halifax Transit property in 2014. The many recommended corrective actions included changes to operations, risk management procedures and environmental controls.

From page 5 of the report:

Once HRM made the operational decision to accept the risks associated with fuel, it also had a direct responsibility to taxpayers to:

- *Control the likelihood of the risks becoming a reality*
- *Control the impact of the risks both from qualitative and quantitative perspectives,*
- *Ensure appropriate professional and regulatory standards are met and*
- *Manage potential liabilities.*

Following the release of the OAG report, Transit began a full-scale review of all processes related to fuel management. An engineering consultant (TENG engineering, RFP #P16-332) was retained to perform a due diligence inspection of the dispensing system. The goal of the inspection was to ensure compliance with applicable regulations and codes, and compare the operation with industry best practises.

DISCUSSION

The TENG diligence inspection highlighted several areas of non-conformance on the BTC Transit dispensing station that will require physical modification to address. These areas are summarized below:

- *Owing to the age building and regulations that were in place time of original installation, the existing offload/dispensing area does not have proper containment infrastructure. If there is a major spill during offloading caused by a bad connection or hose failure, the product or contaminated water may be discharged into the storm water system through a nearby catch basin.*
- *There is no spill containment around the transfer pump area, which shall be used to contain any minor spill or leak when pumps are in operation or out-of-service.*

Based on this evaluation, TENG (in partnership with Transit) produced a scope of work to correct the deficiencies. Halifax Transit is requesting authorization to transfer the required funding from CMU00982 Transit Security to complete the project. Installation of the necessary secondary containment infrastructure will have the following benefits for HRM:

- **Regulatory Compliance:** After completing the scope of work, experts in the field have confirmed the dispensing station design will be compliant with the *Nova Scotia Petroleum Management Regulations*, and *Nova Scotia Standards for Construction and Installation for Petroleum Storage Tank Systems*.
- **Environmental Stewardship:** Establishing a secondary containment for the offload/dispensing area

will mitigate the effects of minor spills and protect the environment from damage.

- **Managing Potential Liabilities:** In conjunction with the operational controls identified in the OAG report, establishing physical secondary containment will further protect the organization (and taxpayer) from unanticipated costs associated with environmental remediation and cleanup.

FINANCIAL IMPLICATIONS

The project will be tendered in accordance with established HRM purchasing procedure. A budgetary estimate by external consultants anticipates a total project cost of \$124,600 within a 30% margin of error.

There are available funds in account CMU00982 - Transit Security due to a lower than anticipated tender of the Transit Security Upgrade Project. This project is to be reduced by the \$165,000 and used to create a new account for the Fuel System Upgrade.

It is important to note that this construction estimate makes no allowance for disposal of contaminated soil. In the event the excavated soil is determined to be contaminated, remediation costs would substantially increase the cost of the project.

Budget Summary: CMU00982 – Transit Security Upgrades

Cumulative Unspent Budget	\$ 4,221,993
Less: Budget Reduction	\$ 165,000
Available	\$ 4,056,993

The balance of funds will be used to implement Transit Security measures.

Budget Summary: new project # - Fuel System Upgrade

Current Budget	\$0
Amount of recommendation	\$165,000

RISK CONSIDERATION

Completing modifications to the BTC Fuel storage system will mitigate the known risk of environmental contamination in the event of a fuel spill. There is a low-rated risk that excavation could uncover contaminated soil from a past spill.

A decision not to proceed with the project will maintain the environmental risk posed by the lack of secondary containment infrastructure, and will not bring the BTC fuel storage system in line with current best practices. As a result, any fuel spilled at the offloading area could run directly into the storm-water drainage system.

COMMUNITY ENGAGEMENT

N/A – Design for the containment was produced by an external engineering consultant, to meet industry standards.

ENVIRONMENTAL IMPLICATIONS

The BTC station uses approximately 20,000 liters of diesel fuel per day. The high turnover at transit dispensing stations means that fuel is continually being trucked in, offloaded, or pumped to dispensing nozzles. When combined with the potential for environmental damage resulting from even a small spill, diesel fuel represents a significant risk to the environment surrounding the transit center.

ALTERNATIVES

The Chair and Members of Audit & Finance Standing Committee may choose not to support the transfer of funds and modification of the BTC fuel storage and dispensing facility, and accept the potential environmental risk and non-conformance with industry standards.

ATTACHMENTS

None.

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

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