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Item No. 14.1.2
Halifax Regional Council
November 8, 2016

TO: Mayor Savage and Members of Halifax Regional Council

Original Signed by 

SUBMITTED BY:

Jacques Dubé, Chief Administrative Officer

Original Signed by 

Jane Fraser, Acting Deputy Chief Administrative Officer

DATE: October 7th, 2016

SUBJECT: **Sole Source Award – Voith Schneider Propellers – Voith Canada Inc.**

ORIGIN

July 19, 2016 – Council Report Bus Replacement Project Contribution Agreement – Build Canada Fund
September 7, 2016 – Audit & Finance Federal Infrastructure Funding: Halifax Transit Project Budget Amendments.

LEGISLATIVE AUTHORITY

Administrative Order #35, the Procurement Policy, requires Council to approve the award of contracts for sole sources exceeding \$50,000 or \$500,000 for tenders and RFP's. Under the HRM Charter, Section 79, Halifax Regional Council may expend money for municipal purposes. The following report conforms to the above Policy and Charter.

RECOMMENDATION

It is recommended that Halifax Regional Council:

1. Award the Sole Source purchase of Voith Schneider propeller units for two new Halifax Transit ferries, for a total cost 1,760,940 Euros (the approximate cost at the date of this report with net HST included is equivalent to 2,706,691 CAD) to Voith Canada Inc, with funding from Project No. CM000001 – Ferry Replacement, as outlined in the Financial Implications section of this report;
2. Authorize and direct the CFO to enter into a hedging agreement on behalf of HRM with a chartered bank or other financial institution, to mitigate foreign exchange risk by locking in the full purchase price in Euros using Canadian dollars; and
3. Approve an unbudgeted withdrawal from the Q551 ferry reserve in the amount of \$136,788 as outlined in the Financial Implications section of this report.

BACKGROUND

On September 20th, 2016, Halifax Regional Council approved a list of 2017/18 projects for advanced funding for the purposes of advanced tendering with funding contributions provided under the Public Transit Infrastructure Fund program. Included in the list of approved projects are two new passenger ferries for Halifax Transit, with one ferry delivered in 2017 and 2018 respectively. The two oldest ferries in the fleet are now past their predicted service lives and are becoming more difficult to maintain; while Halifax Transit had plans to recapitalize these vessels in future years, the funding provided under the Public Transit Infrastructure Fund will facilitate replacement now and, for the reasons outlined in the Discussion section, a sole source purchase of Voith propellers is required to advance this project independent of any federal funding support.

DISCUSSION

Ferries produced under the Public Transit Infrastructure Fund program will incorporate the design of the vessels of the existing ferry fleet. Ferries of this type have proven to be efficient and reliable, and they were designed to integrate with the unique terminal infrastructure that is featured at Halifax Transit ferry terminals.

Vessels of the current fleet each feature two Voith Schneider propellers as components of the main propulsion system. The unique characteristics of these units contribute to the efficiency and manoeuvrability of the ferries (which permits them to operate safely in relatively high winds), and they have proven to be extremely reliable in operation. Maintenance of commonality in propulsion systems across the ferry fleet will simplify training, maintenance and sparring, as operators will have to maintain proficiency with a single propulsion arrangement only.

A letter from EYE Marine, consultants to HRM for the design of the Halifax Transit Ferries, supports the case for sole sourcing and verifies that the model of propeller under quote (12R4 EC/75-1) is the correct model for the intended design.

The subject sole source purchase from Voith is in accordance with HRM's Procurement Policy (Administrative Order 35), **Sole Source/Single Source Purchases** - Section 8(11A) sub-sections (a) and (b) as follows:

- a) To ensure compatibility with existing products, to recognize exclusive rights, such as exclusive licences, copyright and patent rights, or to maintain specialized products that must be maintained by the manufacturer or its representative.
- b) Where there is an absence of competition for technical reasons and the goods or services can be supplied only by a particular supplier and no alternative or substitute exists.

Lead time to produce Voith Schneider propellers is in the order of 12 months. A tender competition for construction of the two replacement ferries has been issued. In order to ensure the propellers are available for timely integration with the hull and propulsion systems during the build program, it is necessary to contract to procure and produce these units now. Following Council's approval of this award, HRM will issue a letter of "Intent to Purchase" to Voith Turbo GmbH & Co., for a total cost 1,760,940 Euros (net HST excluded), and related matters will be reviewed by Procurement and Legal Services to finalize the terms and conditions of sale and purchase, including warranty and payment terms, before a purchase order is issued.

The purchase is denominated in Euros. To mitigate the risk of an unfavourable currency fluctuation a hedging agreement can be entered which will provide Transit with certainty about the purchase price in Canadian dollars.

	Quotation	Quoted Price Net HST excluded
Voith Canada Inc*	Quotation No. SQ004616	1,760,940 Euros

Recommended*

FINANCIAL IMPLICATIONS

Based on a quoted price of 1,760,940 Euros for two shipsets, the approximate cost as of the date of this report is \$2,595,450 CAD plus net HST of \$111,241 CAD for a net estimated total of \$2,706,691 CAD. The actual cost in Canadian dollars is subject to market conditions at the time the Euros are hedged and may be higher or lower than this estimate. Currently there are insufficient funds available in Project Account No. CM000001 – Ferry Replacement. If the final hedged price exceeds available funds in the Project Account CM000001 another report will be written to request a budget increase with funds from the Obligation Reserve - Q551 – Transit Capital Reserve.

Budget Summary: Project No. CM000001 Ferry Replacement

Cumulative Unspent Budget	\$ 2,569,903
Funding from Q551 Ferry Reserve	\$136,788
Less: Voith Canada Inc.	<u>\$ 2,706,691*</u>
	\$ 0

As of August 31, 2017, the reserve, Q551 has a projected March 31, 2017 net available balance of \$2,465,120, so there are sufficient funds to cover the \$136,788, when/if required. As per above, a future report requesting a budget increase and unbudgeted reserve withdrawal report to Audit and Finance Standing Committee will be prepared if additional funding is necessary.

RISK CONSIDERATION

There is schedule risk associated with this purchase, as there is a 12 month lead time required to produce each shipset and the production schedule must be integrated with that of the hull and propulsion systems for each ferry. The first ferry is scheduled for completion in autumn of 2017; therefore, time is of the essence.

The purchase is denominated in Euros, which introduces foreign exchange risk. Euros will need to be purchased at the market rate and if the amount is left unhedged it is difficult to predict what the final cost will be in Canadian dollars. Transit is working with Finance to develop an appropriate strategy to mitigate this foreign currency risk which consists of entering into a hedging arrangement to fix the contract price in Canadian dollars at the time the contract is approved.

ENVIRONMENTAL IMPLICATIONS

Staff have not identified any environmental implications associated with the procurement of two new passenger ferries or these propellers.

ALTERNATIVES

Council could choose to not proceed with the procurement of two new passenger ferries or the procurement of Voith Schneider propellers or defer the purchase. However this would preclude Halifax Transit from recapitalizing the final two older ferries in the ferry fleet and the Municipality would forfeit the contributions award via the Federal Government's Public Transit Infrastructure Fund as outlined in Table 1 below.

Table 1: Funding Source Summary – Ferry Replacement Project

FERRY	HRM FUNDING	PTIF FUNDING	TOTAL
Ferry One	\$3,017,500	\$3,017,500	\$6,035,000
Ferry Two	\$3,017,500	\$3,017,500	\$6,035,000

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.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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