

## 2.8 Labrador Transportation Initiative Fund

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### Introduction

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#### Background

In March 1997, the Government of Canada and the Government of Newfoundland and Labrador entered into an agreement where the Province would assume responsibility for operating marine freight and passenger services on and to the coast of Labrador in exchange for \$340 million plus interest.

The Province received \$347.6 million in December 1997 as a cash settlement, together with related ferry service infrastructure. On 19 December 1997, the Province transferred \$349.2 million, representing the \$347.6 million plus accrued interest of \$1.6 million, to the Labrador Transportation Initiative Fund (the Fund).

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#### Fund mandate

Although the Federal funding was provided to operate the Labrador ferry service in perpetuity, the Province decided that it could operate the ferries in perpetuity and also fund a portion of a Trans Labrador Highway. The concept was that a highway would reduce the use of the ferries and the resulting reductions in operating costs would be such that the Fund would be sufficient in perpetuity.

The Fund operates under the authority of the *Labrador Transportation Initiative Fund Act*. A Board of Management, appointed by the Lieutenant-Governor in Council, manages the Fund's affairs. The Board may authorize payments from the Fund to the Province's Consolidated Revenue Fund for the purposes of:

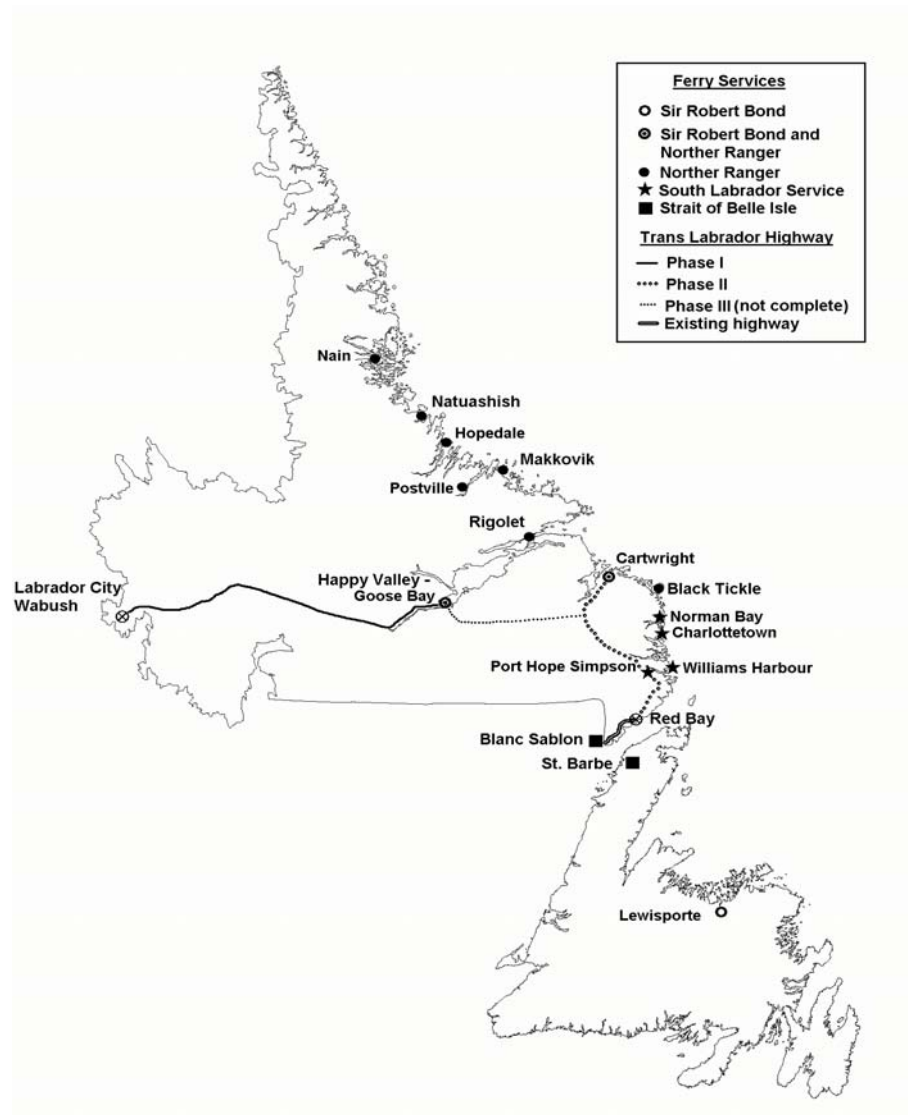
- Marine freight and passenger services and maintenance of lands, wharves and related facilities transferred under the Agreement;
- Construction of the Trans Labrador Highway; and
- Other Labrador initiatives related to transportation that are approved by the Lieutenant-Governor in Council.

Figure 1 shows the Trans Labrador Highway and ferry routes.

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Figure 1

Trans Labrador Highway and Ferry Routes



### Audit Objective and Scope

#### Objective

The objective of our review was to determine the current status of the Labrador Transportation Initiative Fund and whether there are sufficient funds to operate the Labrador ferry service in perpetuity.

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### Scope

We completed our review of the Labrador Transportation Initiative Fund in October 2005. Our review included an examination of Fund records and discussion with officials at Executive Council and the Department of Transportation and Works.

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### Conclusions

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#### Fund expected to be depleted in 2007

Although Government received approximately \$350 million in 1997 to operate the Labrador ferry service in perpetuity, the Fund, after only 9 years, is expected to be depleted in 2007.

The Fund will not be sufficient to operate the Labrador ferry service in perpetuity because:

- \$238 million has been spent and an additional \$24.6 million is expected to be spent on the construction of Labrador highways. Therefore, approximately 63% of the Fund and earned interest will be used for highway related construction.
- Reductions in ferry operating costs expected from the increased use of the highway have not materialized. In fact, ferry operating costs (net of passenger and freight revenues) are increasing and in 2005-06 are expected to total approximately \$17.7 million. In 2004-05 actual net ferry operating costs were \$14.6 million.

#### Cost to operate ferries to be budgeted

After 2007, Government will have to fund the operations of the Labrador ferry service through its budgetary process - estimated at a net cost of approximately \$18 million per year.

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### Findings

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The findings of our review of the Labrador Transportation Initiative Fund are outlined in the following sections:

1. Fund balance
2. Ferry operations
3. Trans Labrador Highway

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### 1. Fund Balance

**\$375 million  
spent to date**

Since January 1998, when the \$349.2 million was transferred to the Fund and invested, it has earned interest of \$66.8 million. As at September 2005, \$375.4 million of the Fund has been spent. Details of the Fund, interest and expenditures are outlined in Figure 2.

**90% of fund  
used to  
September 2005**

**Figure 2**

#### **Labrador Transportation Initiative Fund Summary of Interest and Expenditures**

<b>Year</b>	<b>Interest</b>	<b>Expenditures</b>	<b>Fund Balance</b>
Initial transfer			\$ 349,172,013
1998	\$ 3,163,733	\$ 29,756,908	322,578,838
1999	16,756,235	41,508,276	297,826,797
2000	14,801,811	52,698,136	259,930,472
2001	14,593,152	79,263,617	195,260,007
2002	8,126,905	60,808,278	142,578,634
2003	4,003,718	39,140,040	107,442,312
2004	2,912,554	30,636,336	79,718,530
2005	1,705,455	22,112,409	59,311,576
September 2005	725,115	19,433,888	40,602,803
<b>Total</b>	<b>\$ 66,788,678</b>	<b>\$ 375,357,888</b>	<b>\$ 40,602,803</b>

Source: Audited Financial Statements except September 2005 unaudited interim financial Statements

Details of the \$375.4 million in expenditures are outlined in Figure 3.

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**Figure 3**

### **Labrador Transportation Initiative Fund Funded Initiatives 1998 to 30 September 2005**

<b>Funded Initiatives</b>	<b>Amount</b>
Labrador Highways	
Trans Labrador Highway and depots	\$ 219,466,282
Environmental Impact Study	2,007,482
Pinsents Arm Access Road	6,488,756
Other Labrador roads	9,321,493
3 Graders	407,380
	237,691,393
Coastal Labrador marine services (including terminals)	137,595,718
Bank charges and professional fees	70,777
<b>Total</b>	<b>\$ 375,357,888</b>

Source: Audited Financial Statements except September 2005 unaudited interim financial Statements.

#### **Government's projection of Fund balance**

In 1998, Government estimated the Fund would be used to construct Phase I and II of the Trans Labrador Highway at a cost of \$190 million with sufficient monies left to pay the operating costs of the Labrador ferry services in perpetuity.

In May 2001, Government updated its cost estimates and indicated the Fund would be depleted by 2014-15 after constructing Phases I and II of the Trans Labrador Highway.

In November 2001, Government further updated its cost estimates to operate the Labrador ferry services and indicated the Fund would be depleted earlier than 2014-15.

During the budget process for 2005-06, it was expected that the Fund would be fully depleted. However, as not all budgeted amounts were spent, the Fund will now be depleted in 2007.

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### Fund depletion expected in 2006-07

At 30 September 2005, the Fund balance was \$40.6 million. The Fund is expected to be eliminated as outlined in the following table.

Balance, 30 September 2005	40.6 million
Expenditures projected to 31 March 2006	
- Ferry operations	9.0 million
- Trans Labrador Highway	24.6 million
Balance projected, 31 March 2006	7.0 million
Expenditures projected for 2007	7.0 million
Balance, 2007	Nil

Source: Departmental records

As such, the Province will have fully depleted, in a 9-year period, the Labrador Transportation Initiative Fund. Government will have to fund the remaining construction of the Trans Labrador Highway and the operations of the Labrador ferry service through its budgetary process.

### 2. Ferry Operations

### No reductions in ferry operating costs

In 1998, Government estimated that the cost of the ferry operations (net of passenger and freight revenues) to 31 March 2004 would be \$83.3 million and that they would decline each year as more traffic used the newly constructed Trans Labrador Highway.

### M.V. Sir Robert Bond



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Figure 4 outlines the net costs of ferry operations from 1998 to 2005 and the estimated cost for 2006.

**Figure 4**

**Labrador Transportation Initiative Fund  
Ferry Operations and Terminals  
(\$ Millions)**

<b>Year</b>	<b>Estimated Cost 1998</b>	<b>Actual Costs</b>
1998	\$ 13.5	\$ 13.6
1999	12.6	14.1
2000	13.1	10.9
2001	12.6	20.3
2002	11.0	18.2
2003	11.0	19.0
2004	9.5	18.2
<b>Total to 31 March 2004</b>	<b>83.3</b>	<b>114.3</b>
2005 (Note 1)		14.6
Estimated - 2006		17.7
<b>Total</b>	<b>\$ 83.3</b>	<b>\$ 146.6</b>

Source: Audited Financial Statements except September 2005 unaudited interim financial statements

Note 1: Reduced costs attributed to lower capital costs and reductions in the Lewisporte operating schedule for a portion of the year.

As the Figure shows, the actual cost (net of passenger and freight revenues) to operate the ferries to 31 March 2004 was \$114.3 million, an increase of 37% over the original budget to that date. The annual net operating cost for the ferry service has not decreased as originally anticipated.

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### 3. Trans Labrador Highway

#### Construction over budget

In 1998, Government estimated that \$190 million from the Fund would be used to construct Phases I and II of the Trans Labrador Highway and that construction would be completed in 2002-03.

#### Trans Labrador Highway



Figure 5 shows the budget and actual construction cost for the Trans Labrador Highway, and the amount transferred from the Labrador Transportation Initiative Fund, from 1998 to September 2005, and estimated for the remainder of 2005-06.

**Figure 5**

#### Labrador Transportation Initiative Fund Labrador Highway Costs (\$ Millions)

Labrador Highway	1998 Original Estimates	Construction Costs (Actual and Estimated)	Labrador Transportation Initiative Fund
Trans Labrador Highway			
Phase I	\$ 60.0	\$ 65.2	\$ 65.2
Phase II	130.0	135.6	135.6
Phase III	-	25.7	18.6
Environmental Impact Study	-	2.0	2.0
Pinsents Arm Road	-	6.5	6.5
Other Labrador roads	-	9.4	9.4
3 Graders	-	0.4	0.4
<b>To September 2005</b>	<b>190.0</b>	<b>244.8</b>	<b>237.7</b>
Estimated 2006 (Phase III)		24.6	24.6
<b>Total</b>	<b>\$ 190.0</b>	<b>\$ 269.4</b>	<b>\$ 262.3</b>



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As the Figure shows, Government originally planned to use the Fund to pay for Phases I and II of the highway at an estimated cost of \$190 million. However, Government has now also funded other initiatives and a portion of Phase III of highway construction and total funded costs are now estimated to be approximately \$262.3 million - \$72.3 million in excess of original plans.

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### Fund's Response

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*Once the Fund has been fully depleted, the remaining construction on the Trans Labrador Highway will be dealt with through Government's budgetary process. As for the ferry operations, the Department of Transportation and Works will be responsible for maintaining operations, which will also be handled through Government's budgetary process.*

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