3.2.17 Labrador Transportation Initiative Fund (2001 Annual Report, Part 3.11)

Introduction

In 2001, we performed a review of the Labrador Transportation Initiative Fund (the Fund). The objective of our review was to determine whether the Province could construct the Trans Labrador Highway and maintain the Labrador ferry services using the money received from the Federal Government.

In March 1997, the Federal and Provincial governments agreed that the Province would assume all responsibility for the operation of 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. In January 1998, $349.2 million, representing the $347.6 million plus accrued interest, was transferred from the Province to the Fund.

The Fund operates under the authority of the *Labrador Transportation Initiative Fund Act.* Its affairs are managed by a Board of Management appointed by the Lieutenant-Governor in Council. The objective of the Board is to authorize payments from the Fund to the Consolidated Revenue Fund of the Province of Newfoundland and Labrador for the construction of the Trans Labrador Highway, maintenance of marine and ferry services to Labrador, and other Labrador initiatives related to transportation which the Lieutenant-Governor in Council may approve.

During 1998, Government prepared a seven year projection relating to expenditures from the Fund for Labrador ferry operation and the construction of the Trans Labrador Highway. At that point in time Government expected that the vessels could be operated in perpetuity even after funding the construction of the Trans Labrador Highway. Government estimated that the Trans Labrador Highway would be completed in 2002-03 at a total cost of $190 million, that the cost of the Labrador ferry operations to 2003-04 would be $83.3 million, and that there would be sufficient monies left in the Fund to pay operation costs of the Labrador ferry services in perpetuity.

Our 2001 review concluded that the Fund would be depleted earlier than 2014-15, based upon updated cost estimates prepared by Government in May and November 2001. In May 2001, Government updated its cost estimates which indicated that the Fund would be depleted by 2014-15 after construction of Phases I and II of the Trans Labrador Highway at an estimated cost of $190.4 million, and estimated annual operating costs for the Labrador ferry services from 2002-03 to 2014-15 ranging from $13 million to $15 million. In November 2001, Government further

updated its cost estimates to operate the Labrador ferry services to $19.5 million for both 2001-02 and 2002-03, resulting in the Fund being depleted earlier than 2014-15.

In our 2003 annual report, we included an update on the expected shortfall of the Fund and the actions that were taken to address this expected shortfall. At that time, officials of the Fund indicated that if Phase III of the Trans Labrador Highway was to be funded by the Fund, it would be expected to be fully depleted by the 2005-06 fiscal year. Also, it was indicated that once the Fund was depleted, the remaining construction on the Trans Labrador Highway, as well as the ferry operations, would be dealt with through Government's budgetary process.

Update

In October 2004, we contacted officials of the Fund to determine if there have been any additional revisions to the estimated costs of operating the Labrador ferry services and the construction of the Trans Labrador Highway since our 2003 update, and to determine the impact that these revisions may have on the expected depletion of the Fund. In addition, we enquired about any actions which may have been taken to address the expected shortfall in the Fund. The information provided by officials of the Fund in response to our request is outlined below.

We were informed that the Fund has expended approximately $35.52 million on highway construction and approximately $37.24 million for ferry operations for the fiscal years ending 31 March 2003 and 2004, leaving a Fund balance of approximately $79.72 million at the beginning of the 2004-05 fiscal year. If Phase III of the Trans Labrador Highway is funded by the Fund, it is expected to be fully depleted by the 2005-06 fiscal year. This is based on projected costs provided by the Department of Transportation and Works and projected interest revenue as shown in Figure 1.

Figure 1

Projected Costs and Interest Revenue
($ Millions)

	2004-05	2005-06
Beginning Balance	$79.72	$57.96
Projected highway construction costs	(6.00)	(41.00)
Projected ferry operations costs (Note 1)	(17.35)	(18.12)
Projected interest revenue	1.59	1.16
Ending balance	**$57.96**	**$0.00**

Note 1: It should be noted that the estimated cost of ferry operations for 2005-06 is $19.15 million and $0.50 million for ferry terminals; however, only $18.12 million will be reimbursed from the Fund. The remainder will be funded through appropriations of the Department of Transportation and Works.

It was indicated that 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.

Update on Prior Years' Report Items