Report of the Regional Transportation Commissioner On TransLink's 2014 Transportation and Financial Base Plan and Outlook

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His Worship Richard Walton
Mayor of the District of North Vancouver and
Chair, Mayors' Council on Regional Transportation

Dr. Nancy Olewiler
Chair, Board of Directors
South Coast British Columbia Transportation Authority

Delivered via email November 29, 2013

Dear Mr. Mayor and Dr. Olewiler:

Regional Transportation Commissioner's Report
on the South Coast British Columbia Transportation Authority's
2014 Base Plan and Outlook

I am pleased to submit the enclosed report, as required by section 203 of the *South Coast British Columbia Transportation Authority Act*. It gives my opinion on the reasonableness of the parameters and assumptions in the Authority's 2014 Base Plan and Outlook.

Last year, the Commission undertook examinations of the Authority's 2013 Base Plan and Outlook and its 2013 Supplemental Plan and Outlook, and found them reasonable. This year, the Authority has updated its Base Plan and Outlook once again.

My report addresses an important question: with the passage of another year, has the Authority provided a legitimate Base Plan and Outlook, with reasonable parameters and assumptions, that remains true to the intent of the Mayors' Council when, in April 2013, the Council approved the *2013 Supplemental Plan and Outlook* which removed the time- limited property tax? Based upon my review of Authority's 2014 Base Plan and Outlook I believe it does.

The Commission team and I are available to present the findings to you in person, at your convenience.

Yours truly,

Robert Irwin
Regional Transportation Commissioner

1 TransLink's Plan and this Report

Significance of *the Plan* and This Report

On October 30, 2013, TransLink's Board of Directors approved its *2014 Transportation and Financial Base Plan and Outlook* (abbreviated to "*the Plan"* in this report). This 10-year plan looks ahead to the year 2023.

The *South Coast British Columbia Transportation Authority Act* (the "Act") requires TransLink to refresh its 10-year plan annually, to adjust to developments that have occurred, both within and beyond TransLink's control, during the year.

Accordingly, *the Plan* describes TransLink's intended output, i.e. the transit services, projects and programs that it aims to deliver, along with a financial portrait, all using the latest available information.

By law, a standard constraint applies to Base Plans: TransLink must assume access only to established funding sources, i.e.:

- revenues from already approved taxes and transit fares;
- funds saved from previous years (accounted for in its "Cumulative Funded Surplus" or CFS), and from sale of any assets; and
- borrowings within the dollar limit previously approved by the Mayors' Council.

The Act requires that any Base Plan and Outlook be approved by the TransLink Board, but does not require the further approval of the Mayors' Council or Commissioner.

The Act does, however, call on the Commissioner to publish within 30 days a formal opinion on whether the plan's "parameters and assumptions, including, without limitation, the expenditure and revenue estimates… are reasonable".[1]

As one of the bodies[2] charged with oversight of TransLink, the Commissioner's office is independent of TransLink. TransLink formulates its plans in the knowledge that every plan will receive an unbiased technical review and scrutiny in a published opinion.

This report presents the Commissioner's opinion for *the Plan*.

Origins of the Plan

The Plan is an update to TransLink's 2013 Strategic Plan, i.e., the 2013 Base Plan as modified by the 2013 Supplemental Plan.

TransLink's 2013 Base Plan was approved by the Board of Directors on October 30, 2012. It was designed to deliver as much of the 2012 Moving Forward Supplemental Plan as was financially feasible. The 2012 Plan itself was predicated on a two-year time limited property tax increase of $30 million per year to be collected in 2013 and 2014. It was approved by the Mayors' Council, in part, to buy time to identify and install a replacement funding source which would need to be enabled by the Province.

Subsequently the Mayors' Council, at its October 18, 2012 meeting, passed a resolution that requested the TransLink Board to develop by March 31, 2013, a 2013 Supplemental Plan that would remove the time-limited property tax if a new funding model was not confirmed by February 28, 2013. As no agreement with the Province was reached by this deadline, TransLink prepared a 2013 Supplemental Plan that responded to the Mayors' Council's resolution that was approved by the Council on April 17, 2013.

TransLink was able to remove the time-limited tax and deliver the programs and services contained in its 2013 Strategic Plan. However, the remaining expansion

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[1] Appendix A gives a fuller description of the Commissioner's role and responsibilities under the Act.

[2] The TransLink Board and the Mayors' Council are two other bodies with different and distinct oversight responsibilities. A 2012 amendment of the Act added a provision for the Mayors Council to request, every three or more years, the performance audit of TransLink to be conducted by the Province.

contemplated under the 2012 Moving Forward Plan remained deferred.

Main Elements of *the Plan*

In *the Plan,* TransLink projects to employ the following funding from established sources:

- total revenues of $1,439.9 million in 2014, which rises to $1,608.4 million by the end of 2016;
- drawdowns from its Cumulative Funded Surplus in each year of the Base Plan period to a level of 15.5 per cent at the end of 2016 after which it rises primarily due to the sale of real estate assets, reaching 23.7 per cent by the end of 2023;
- higher gross debt, which rises from its current level of $2.8 billion to within $46 million of its approved $3.5 billion limit by the end of 2023; and
- capital funding, mainly for buses, railcars and station upgrades, from senior government programs.

With this funding, TransLink projects that it will be able to:

- deliver virtually the same level of transit service that is in its 2013 Plan (i.e. no overall service cuts);
- continue to redesign and redeploy some transit capacity for better utilization;
- maintain its physical assets in a state of good repair;
- continue to contribute funds to municipalities for minor capital projects on the major road network, and capital for bike infrastructure at the 2011 budget level;
- invest in capital spending on major projects such as:
    - ongoing contributions to the Evergreen rapid transit line being delivered by the Province;
    - upgrading seven SkyTrain stations;
    - funding to mitigate seismic risk and address the condition of the Pattullo bridge deck; and
    - a bus replacement program.

Key Questions Considered

In reviewing the *Plan* for this report, the Commissioner and his advisors considered the following key questions:

a. Does *the Plan* comply with the requirements of the Act? Are the parameters and assumptions underlying the Plan reasonable? Have they been modified significantly relative to the 2013 Plan?

b. Are other revenue and expenditure assumptions reasonable?

c. Does the Plan respect the intent of the 2013 Base Plan and the 2013 Supplemental Plan, as to the (i) projects and programs to be undertaken, and (ii) services to be provided?

d. Are funding commitments from senior governments confirmed?

e. Is TransLink financially solvent after funding *the Plan*?

f. Is TransLink within its borrowing limits after funding *the Plan*?

g. What are the risks of Translink not being able to deliver the services outlined in the Plan?

This report is public. Addressed to both the Mayors' Council and the TransLink Board, its findings are advisory.

2 The Opinion and Recommendation

The Commissioner finds that the parameters and assumptions in *The Plan* are reasonable.

The Plan makes reasonable assumptions on the future economic environment. TransLink's planned output — its services, projects and programs — is rational based on the assumptions underlying the sources of funding and the projections of fare revenue and operating expenses. *The Plan* shows Translink maintaining a healthy Cumulative Funded Surplus and allows TransLink to remain solvent and financially sustainable.

Finally, the Commissioner finds that the Authority has provided a legitimate Base Plan and Outlook, with reasonable parameters and assumptions, that remains true to the intent of the Mayors' Council when, in April 2013, the Council approved the *2013 Supplemental Plan and Outlook* which removed the time- limited property tax.

However, there are a few elements that the Commissioner wishes to flag as areas of concern. They are:

- timing and amount of real estate revenue;
- senior government contributions; and
- labour costs.

These risk factors are discussed in the Findings section of the report.

Notwithstanding the above areas of concern, the Commissioner is satisfied that *the Plan* is in compliance with the requirements of the Act.

The Commissioner recommends that the Mayors' Council and TransLink receive this report for information.

3 Findings in Support of the Opinion

The following section summarizes the Commissioner's findings of *the Plan* in support of his opinion.

Compliance with the Act

The Plan features all the elements to be in compliance with the requirements of the *South Coast British Columbia Transportation Authority Act*. The Cumulative Funded Surplus remains above zero through the forecast period, and the approved borrowing limit of $3.5 billion is respected.

Reasonableness of Parameters and Assumptions

- **External Variables**

The Plan's forecast of external economic variables — notably GDP growth, cost inflation, interest rates, and fuel prices — are generally reasonable. The assumptions on GDP growth, inflation and interest rates are based on estimates from the BC Ministry of Finance Budget and Fiscal Plan (2013/2014 to 2015/16). Fuel prices are estimated using US Energy Information Administration forecasts adjusted for Canadian prices, taxes and price differentials, which is the same method used for the 2013 Base Plan and Supplemental Plan.

- **Fuel Tax Revenue**

Fuel tax revenue for *the Plan* period is very close to what was forecast in the 2013 Plan, however TransLink has revised Outlook revenues downward. Its forecast is conservative, based on a modification of the BC provincial forecast. Fuel tax revenue continues to pose a risk and TransLink has taken a prudent and reasonable approach in its projections.

- **Other Tax Revenue**

As to other taxes — property taxes and parking taxes and the hydro levy — revenue projections are reasonable.

- **Senior Government Funding**

The current agreement under which Metro Vancouver has committed 100 per cent of the Federal Gas Tax Fund to TransLink expires on March 31, 2014.The Metro Vancouver Board has signaled that it may wish to change the agreement. If TransLink does not receive 100 per cent of the Fund in the future, its vehicle replacement program is in jeopardy. Some $367 million in capital expenditures on infrastructure is at risk.

- **Fare Revenue**

TransLink has decreased its fare revenue forecast for 2014 from $538.5 million in the 2013 Supplemental Plan to $518.2 million, a change of $20.3 million. The primary reasons it gives for the change are:

- $8.2 million is attributed to a "delayed" allowable fare increase;
- $4.9 million to no Supplemental Fare increase;
- $3.2 million to Compass Card delay; and
- $2.4 million to ridership and other.

There is a $25.3 million decrease in forecasted fare revenues between the two plans for the years 2014 through 2016 despite fare increases starting in 2015. TransLink, however, has strengthened its forecasted revenues in the Outlook period.

The Commission also notes that TransLink intends to apply for a variance to the YVR Add Fare.

Overall, the Commission considers TransLink's fare revenue estimates to be reasonable.

Amount of Service

While TransLink has made several adjustments to the transportation services it plans to deliver, they are relatively modest. The only significant change is the timing of the start-up of the Evergreen line in 2016. The planned services are reasonable given constrained funding sources.

The Plan would deliver basically the same amount of transit service planned in the 2013 Plan. Notably, *the Plan*:

- avoids overall cuts to the transit service on the ground today;
- completes the service expansion south of the Fraser that was begun last year;

- flat-lines (but at a slightly lower level) overall transit service for 10 years as predecessor plans have done.

Accordingly *the Plan* remains true to the intent of the Mayors' Council when, in April 2013, the Council approved the 2013 Supplemental Plan and Outlook which removed the time- limited property tax.

The concern that the system is falling behind urban growth should be kept in perspective. During a long and financially unsustainable surge prior to 2009, transit service expanded faster than population. In both absolute and per-capita terms, the supply of transit service is still relatively high.

On a per-capita basis, the supply of transit service would decline through the 10 years of *the Plan*, slipping back to the level experienced by the region in 2005, but would still be higher than the years prior to 2005.

Transit Ridership

Ridership projections are essentially flat, a reflection of no increase in service (other than the Evergreen Line). Boardings per service hour are projected to show a slight increase over the plan period as service improvement initiatives continue, rising from 58.79 in 2014 to 59.79 in 2016.

Real Estate Revenues

The Plan relies on large contributions from real estate revenues in 2016 and 2017 for the cumulative funded surplus to remain above the stated policy levels of 12 per cent for the plan period and 10 per cent for the outlook period. It has pushed back the expected timing of the sale of major assets by one year and reduced its projection of total revenue by $90 million as a result of a reduction of projected gains on some properties and taking out some originally planned revenue assumptions. Any further delay in the sale of major properties pose a significant risk.

The Commission again points out that the sale of assets to support operations is not prudent fiscal policy, while recognizing that the only other recourse for TransLink would be fare increases or service reductions in the absence of additional funding sources.

Major Road Network

Projections for the Major Road Network (MRN), Bridges and Bicycle Program arise from TransLink's policy choices, rather than technical projections. They are not unreasonable.

The Plan provides $44.1 million annually to municipalities for operations, maintenance and rehabilitation, and continues to give municipalities their requested flexibility in use of MRN funding for their own projects.

The Plan also increases the capital funding earmarked for the Pattullo Bridge to $299 million for seismic risk mitigation and addressing the condition of the bridge deck (potentially through full deck replacement). A special allocation of $3 million per year has been added for maintenance of the bridge for 2014 and 2015 pending a decision on its replacement or rehabilitation. Maintaining such a holding position seems reasonable and prudent as more information and feedback is obtained before determining the course of action.

TransLink Corporate Costs

Corporate costs are significantly reduced from the 2013 Plan. Over the three-year planning period, corporate and police expenditures have been reduced by $64.6 million, largely due to the allocation of costs to subsidiaries. Police costs are not substantially different.

Capital Expenditures

In *the Plan*, TransLink updates its capital program. Reductions over both the plan and outlook periods are largely due to revised vehicle replacement needs. The changes are modest, with the exception of the additional $149 million for the Pattullo Bridge.

The Act requires the only first three years (base period – in this case 2013 to 2015) of the 10-year plan to be fully funded. *The Plan* satisfies the Act in that it shows that the investments in infrastructure and transit services that are committed to by the end of 2016 can be maintained through 2023 using only TransLink's established revenue sources. However, as stated above, if TransLink does not receive 100 per cent of the Federal Gas Tax Fund in the future, its vehicle replacement program, as well as some other minor infrastructure investments are in jeopardy. Some $367 million in capital expenditures are at risk.

Operating Expenditures

Transit operating expenditures are increased over the three-year planning period by $47.4 million and by $255.3 million over the total 10-year period. Most of the increase is explained by a change in cost allocation policies, with

TransLink corporate costs showing corresponding offsetting reductions. Operating cost estimates are reasonable.

Labour Costs

A major portion of TransLink's operating costs is labour costs. While the Commissioner has stated above that operating cost estimates are reasonable, the potential impacts of higher labour costs on Translink's future financial results are significant.

Compass Card

Introduction of the Compass Card has been delayed by approximately one year. Based on feed back from a peer group review, TransLink decided the original implementation plan was too risky. The 2014 Base Plan envisages the introduction of the Compass Card will begin in 2014 in phases starting with West Coast Express.

Total capital costs for the project in the 2014 Base Plan are approximately $22.5 million higher than estimated in the 2013 Supplementary Plan. TransLink has advised that the increase represents a combination of inflation due to the prolonged schedule, plus other factors including integration of new and existing systems and more complex faregate construction requirements. Given the delay in implementation and other factors the increase in project costs do not appear to be unreasonable.

Financial Sustainability

The Commissioner's review of *the Plan* indicates that Translink is able to maintain a healthy Cumulative Funded Surplus and based on these criteria and the assumptions regarding ongoing senior government contributions, allows it to remain solvent and financially sustainable. However, the Commissioner has noted that without the proceeds from real estate sales, the Cumulative Funded Surplus falls below the policy levels starting in 2017.

Consultation Process

The Commissioner reviewed TransLink's **consultation process** for *the Plan* and finds that it has met the spirit of the Act.

Alignment with Long Range Plans

Metro Vancouver's Growth Strategy

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- Ranks three priority corridors for rapid transit extensions;
- Calls for enhancing or extending TransLink's Frequent Transit Network in some five regional corridors;
- Seeks to lower the share of person-trips made by single-occupancy vehicles; and
- Seeks lower energy consumption and emissions from on-road sources.

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Finally, the Commissioner considered whether the *Plan* is in alignment with TransLink's own long-range strategy and those of the region and province.

According to legislation, The Base Plan and Outlook must be guided by TransLink's long-term Regional Transportation Strategy (RTS). TransLink has just recently updated the strategy, producing a new RTS Strategic Framework. It identifies three high-level strategies to achieve regional goals: Invest, Manage and Partner. The Base Plan is aligned with these strategies. However, as TransLink notes current funding levels do not allow it to keep pace with population growth. Service hours per capita are projected to decline to 2007 levels by 2016 and continue to decline to 2004 levels by the end of the outlook period.

TransLink's existing service patterns already support Metro Vancouver's regional land use objectives, providing relatively greater accessibility by transit to existing urban centres.

However, **the regional growth strategy** (see box) clearly calls for more service than exists today. In that respect, *the Plan's* fixed supply does little.

Parts of the **Provincial Transit Plan** have already been realized (Canada Line, Expo Line service upgrades and ongoing bus replacements). *The Plan* meets provincial goals for building the Evergreen rapid transit line, and the implementation of faregates and a smart-card system. It does not include extension of rapid transit to Surrey and UBC. Studies for these corridors have been completed and TransLink advises that specific investments for them will be determined through the development of the RTS Implementation Plan.

4 How the Commissioner Approached this Review

Context

This chapter reviews the context for *the Plan* and outlines how the Commissioner went about his review.

The cycle of TransLink's rolling 10-year plans, with the Commissioner's regular reviews of TransLink's plans, is now well established.

TransLink must update its 10-year plan every year: by November 1st, an update (called a "Base Plan and Outlook") for the 10-year period starting in the forthcoming year must be approved by the TransLink Board.

The Plan advances the planning cycle by one year, dropping the first year of last year's *2013 Base Plan and Outlook, as modified by the 2013 Supplemental Plan*, and adding one more year (i.e. the year 2023) to the far end.

Commissioner's Team and Approach

The Commissioner's team included: Sheldon Stoilen, Senior Advisor; and Stuart MacKay and Graeme Johnsen of MMK Consulting Inc., as technical advisors.

The Commissioner and the team had early access to a draft of *the Plan*, provided by TransLink on October 4, 2013. Before receiving the Board-approved version, he reviewed the Act in order to reconfirm what the Plan should contain and how to proceed with his assessment. He revisited the Provincial Transit Plan and TransLink's Regional Transportation Strategic Framework.

The Commissioner and senior advisor attended the Mayors' Council meeting on September 26, 2013 where Ian Jarvis, TransLink's CEO, presented an overview of a draft of *the Plan*.

The Commissioner received the TransLink-approved *Plan* on October 31, 2013, with supporting documentation that TransLink used in its preparation of the Plan.

During the review of *the Plan* and its supporting documentation, the Commissioner and his team compiled a series of questions for clarification by TransLink.

TransLink was helpful in responding to information requests about *the Plan*. This review relied on an examination of more data and analyses than have been publicly released.

The Commissioner asked TransLink to examine a final draft of this report for factual accuracy and made corrections accordingly.

5 Appendix A: Commissioner's Role

This Appendix summarizes the planning framework for TransLink and the Commissioner's oversight role in relation to it.

The *South Coast British Columbia Transportation Authority Act*, which was passed in November 2007, created a new governance structure for TransLink. It established an appointed Board of Directors, a Mayors' Council on Regional Transportation, and also the Regional Transportation Commissioner.

Long Term Strategy

Plans and Approvals

30+ Year Long Term Strategy

- must be updated every 5 years
- must be approved by Board
- *RTS Strategic Framework* is current strategy

3- Year Base Plan and 7- Year Outlook

- updated annually
- equals last year's Base Plan + any approved Supplements
- Base Plan must be approved by TransLink Board
- Commissioner reviews annually
- Supplements must be approved by Board and Council; short-term fare increases, if any, over 2 per cent per must also be approved by Commissioner

Under the Act, TransLink must produce both long-term and strategic plans. TransLink must consult with the public and stakeholders as these plans are created.

A Long-Term Strategy spans 30 or more years. It:

- identifies goals and direction for the transportation system, identifies key initiatives, and states the underlying principles; and
- guides preparation of Base Plans and any Supplemental Plans.

It must consider:

- regional land use objectives
- provincial and regional environmental objectives, including air quality and greenhouse gas emission reduction objectives; and
- anticipated regional population growth and economic development.

In developing the Long Term Strategy, TransLink must consult with Metro Vancouver, the Minister of Transportation and Infrastructure, local governments in or adjacent to the service region, agencies of government involved in transportation in the region, the public in the service region, and other appropriate bodies. The Long Term Strategy must be submitted to the TransLink Board for approval and then submitted to the Mayors' Council. It must be updated and submitted for approval and review by the respective bodies every five years.

Base Plan and Outlook

Amendments to the Act brought into force in June 2010 require TransLink to prepare annually a three-year Base Plan and an Outlook for the seven years after the Base Plan.

The Base Plan must describe how TransLink proposes to:

- provide transportation services;
- manage transportation demand; and
- meet its financial requirements.

In meeting its financial requirements, it can use only:

- established funding resources;
- funding resources from previous years; and
- borrowings within established limits.

The Outlook for the fourth to tenth years subsequent to the Base Plan requires TransLink to describe the transportation services (and their levels) that it plans to provide and the major capital projects that it contemplates engaging in for which expenditures will be required.

A subsequent amendment in 2012 changed the date the Board of Directors is required to submit an approved Base Plan to the Mayors' Council and the Commissioner from August 1 of each year to November 1.

The defining feature of the Base Plan is that it assumes only existing sources of funds — with, however, certain built-in growth factors to recognize inflation and population growth.

Role of the Mayors' Council in Base Plan

Political endorsement of the Base Plan by vote of the Mayors' Council is not required, so the council does not have absolute control over its contents.

However, TransLink must consult specifically with the Mayors' Council, and other stakeholder groups, before finalizing the Base Plan. In the Commissioner's view, for TransLink to proceed against significant opposition from stakeholders is as unlikely as it is inadvisable.

The only fiscal lever on the Base Plan and Outlook by Metro Vancouver mayors is indirect, via their overlapping membership of the Metro Vancouver Board. In that venue they may influence the annual disposition of the Federal gas tax revenue (Strategic Priorities Fund) which has to date been 100 per cent allocated to TransLink for eligible transportation expenditures, notably to buy new buses and rail cars.

The Base Plan must be submitted to the TransLink Board for approval, and then submitted to the Mayors' Council and the Commissioner by November 1st of each year. Within 30 days of receipt, the Commissioner must advise TransLink and the Mayors' Council of reasonableness and appropriateness of the assumptions and parameters in the Base Plan.

Supplements

TransLink may also prepare supplemental plans at any time that include changes to the transportation services and major capital projects and other additional initiatives. TransLink must indicate in a supplement any increased expenditures that will be required and how it will obtain the funds for those initiatives.

Supplements must be submitted to the TransLink Board for approval, and then submitted to the Mayors' Council and the Commissioner. Within 30 days of receipt, he must advise TransLink and the Mayors' Council of reasonableness and appropriateness of the supplements. The Mayors' Council must then approve or reject the supplement within 90 days of receipt. Any increases, beyond inflation, in short-term fares (i.e. any transit fare valid for up to 3 days) contemplated by a supplement must also be approved by the Commission.

Commissioner's Role

TransLink is responsible both for planning its output and also for delivering it, mainly through wholly owned subsidiaries. The combination of these two responsibilities in a single institution contains an inherent conflict. Also, TransLink is a monopoly. Its self-interest is not constrained by competition. This creates a potential for self-serving conduct on TransLink's part – as it chooses the service it will deliver as output, as it projects related revenues, expenditures and as it computes its funding requirements from taxpayers and fare-payers.

Under these circumstances, legislators decided to include provision for independent, objective examination of

TransLink's plans. Under the Act, the following are the roles of the Commissioner as they relate to the planning function:

- advising TransLink and the Mayors' Council of the reasonableness of the assumptions and parameters included in a Base Plan or a supplement submitted by TransLink;
- making an annual report to the Mayors' Council with an opinion as to whether TransLink's operations and its subsidiaries for the previous fiscal year were in accordance with the strategic plan and applicable service, capital, and operation plans.

Also, should a Supplemental Plan propose "short term" fare increases at a rate faster than 2 per cent per year, the Commissioner is responsible for the following tasks:

- provide TransLink and the Mayors' Council with a preliminary, non-binding indication of the appropriateness and reasonableness of a fare increase or an assessment of a new short-term fare proposed in any supplement;
- consider applications from TransLink for short term fares (transit service passes that are valid for less than three days) that are being assessed for the first time;
- consider applications from TransLink for increases in short-term fares being proposed under a Supplement approved by the Mayors' Council that are greater than the rate of inflation (2 per cent compounded annually);
- if he considers it necessary, hold public hearings on the application for new short-term fares or an increase in short-term fares above the rate of inflation.