



**REGIONAL TRANSPORTATION  
COMMISSIONER'S  
REPORT**

**on the**

**2009 10-YEAR PLAN**

**of the**

**South Coast British Columbia Transportation Authority**

August 25, 2008



Mayor Dianne Watts  
Chair  
Mayors' Council on Regional Transportation  
*delivered via email*

Mr. Dale Parker  
Chair  
Board of Directors  
South Coast British Columbia  
Transportation Authority  
*delivered via email*

August 25, 2008

Dear Mayor Watts and Mr. Parker:

**Regional Transportation Commissioner's Report  
on the South Coast British Columbia Transportation Authority's 2009 10-Year Plan**

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I am pleased to submit the enclosed report as required by section 203 of the South Coast British Columbia Transportation Authority Act. The report gives my opinion on the reasonableness of the assumptions and parameters in the Authority's 2009 10-Year Plan.

This report expresses no view as to whether TransLink's long-range goals, strategies, objectives and priorities are appropriate, or whether, in light of these, the authority is deploying the resources available to it effectively, either in the supply of service or of the management of demand. Ensuring that this is the case is, of course, a prime responsibility of the Authority's directors and managers.

Rather, my review is a limited examination of the assumptions and parameters of the current version of the 10-year plan to meet the requirements of the Act. For next year's version, the 2010 10-year plan, a deeper review will be both warranted and desirable.

Yours truly,

Martin Crilly  
Regional Transportation Commissioner

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# Executive Summary

The South Coast British Columbia Transportation Authority (“TransLink”) has published its first 10-year plan. It identifies the transportation services to be provided, the transportation demand measures to be undertaken, major capital projects planned and estimated funding requirements to the end of the year 2018.

## *Purpose of this report*

This report gives the Regional Transportation Commission’s opinion as to whether “the parameters and assumptions, including, without limitation, the expenditure and revenue estimates, in the plan ... are reasonable”.<sup>1</sup>

## *Realities faced by TransLink*

In preparing this 10-year plan, TransLink faced three difficult realities:

- there are tight statutory deadlines to formulate, consult upon, and issue the plan. These coincide with an obligation to produce a 30+ year plan, and with the organization’s adjustment to a new governance framework;
- the South Coast British Columbia Transportation Authority Act (the “Act”) stipulates that planned expenditures in a Base Plan be fully funded, in each of the ten years, using only established financial resources: that is, no new funding sources or yet-to-be-approved increases in tax rates from existing sources, other than those already fixed by law, can be assumed in the plan; and
- TransLink has so far had no practical opportunity to establish supplementary funding beyond a Base Plan.

In light of these realities, TransLink states that the plan is a bridging plan for 2009, i.e. a transitional plan with an intended one-year life.

## *Overall opinion*

Given this context, the Commission’s overall opinion is that *the significant parameters and assumptions of the plan, including the expenditure and revenue estimates, are reasonable*. This opinion, however, rests heavily on an expectation of the Commission. The expectation is that, as TransLink develops next year’s version of the 10-year plan, the Authority will supplement the planned services and projects—and support them with plans for the necessary additional revenue—subject to the outcome of consultations required by the Act.

*continued...*

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<sup>1</sup> Section 203 of the South Coast British Columbia Transportation Authority Act.

*Key assumptions*

As to key **assumptions** in the current plan:

- assumptions made for external economic and financial quantities such as inflation rates, interest rates, demand growth, and price of fuel and electricity, are within a reasonable range; and
- crucial assumptions that capital funding from governments will continue are adequately supported. The plan postulates that local governments will continue to agree in the early years of the plan that Federal gas tax funds flow to TransLink, and that the Province will fund almost half of the capital cost of SkyTrain cars and station improvements.

*Parameters*

An important **parameter** framing the plan is the list of items—programmes, projects and commitments—that are included in the plan, and which are excluded. For this plan, TransLink's list of included items is quite short. It contains only:

- items needed to maintain the existing system in good repair (e.g. replacing buses as required); and
- projects already approved and commitments anticipated in the 2009-2010 period.

Even with this short list, though, the plan shows a funding gap, equal to about 15% of revenues, in three years' time once TransLink's accumulated surplus is exhausted. To meet the Act's requirement of financial balance in every year, the plan shows, by way of illustration, deep cuts in bus service starting in 2012. This eventuality is of course entirely unsatisfactory and, one would hope, unlikely to occur in practice. The Commission concurs with TransLink: the prospective service cut makes plain the need for additional revenues to fund TransLink's current service commitments alone.

*Substantial exclusions noted*

Excluded from the list of items in the plan are some very substantial undertakings. Notable are post-2009 bus fleet expansion (as to both capital and operating costs), post-2009 capital for major and minor roads, and construction and operation of some major rapid transit lines identified in the provincial transit plan.

Investments of this kind will surely be needed, not only to swing the region's transport system in the direction of the 2040 vision, but also to access funding from senior governments, already indicated by them as available through cost-sharing agreements. TransLink states that such excluded items can be deferred until next year's iteration of the 10-year plan. Given the three realities identified above, and noting TransLink's declared intent to pursue new funding sources to support these items, their exclusion from this year's plan is not unreasonable.

\* \* \*

# 1 Introduction

The South Coast British Columbia Transportation Authority Act, which was passed in the provincial legislature in November 2007, created a new governance structure for TransLink. The Act established a new Board of Directors, a Mayors' Council on Regional Transportation and a Regional Transportation Commission.

Under the Act, TransLink must produce long term and strategic plans. The Act also requires TransLink to consult with the public and stakeholders as these plans are created.

## 1. Long Term Strategy

### Plans and Approvals

#### 1. 30+ Year Strategy

- Act requires "Long Term Strategy"
- must be updated every 5 years
- must be approved by Board
- reviewed by Mayors' Council
- *Transport 2040* is current strategy

#### 2. 10 Year Strategic Plan

- Act requires "Strategic Plan"
- updated annually
- equals last year's Base Plan + any approved Supplement(s)
- Base Plan must be approved by TransLink Board
- reviewed annually by Commission
- Supplements must be approved by Board and Council; fare increases, if any, over 2%/year must also be approved by Commission

The **Long Term Strategy**, which spans a period of thirty or more years:

- 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, local governments in/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. The Long Term Strategy must be updated and submitted for approval and review by the respective bodies every five years.

## 2. 10-Year Strategic Plan

TransLink must also develop a rolling **10-Year Strategic Plan** that is guided by and is consistent with its Long Term Strategy. The 10-Year Strategic Plan consists of a Base Plan and possibly Supplements to it. Once in place, the 10-Year Strategic Plan becomes the Base Plan for the next ten years, and must be updated every year through the process for Base Plans and Supplements.

*Base plan*

The Base Plan outlines TransLink's plan to provide transportation services, manage transportation demand, and meet financial requirements, utilizing only:

- established funding resources, i.e.:
  - fuel tax rates (existing rates, or as approved in a Supplement);
  - property tax revenues (inflated by 2% annually and 1% growth, or as approved in a Supplement);
  - fare revenues (April 1, 2008 short term fares inflated by 2% annually, or as approved in a Supplement and by the Regional Transportation Commission);
  - other estimated revenues;
- accumulated resources from previous years; and
- established borrowing limits.

*Approval requirements for the 10-Year Plan*

The consultation process for developing the 10-Year Plan is similar to that of the Long Term Strategy. The approval process, however, is different. The Base Plan must be submitted to the TransLink Board for approval, and then submitted to the Mayors' Council and the Regional Transportation Commission by August 1<sup>st</sup> of each year. The Mayors' Council receives the Base Plan for information. Within 30 days of receipt, the Commission must advise TransLink and the Mayors' Council of reasonableness and appropriateness of the assumptions and parameters in the Base Plan.

*Supplements and their approval*

Supplements, which must also be guided by the Long Term Strategy, set out additions, enhancements or other changes to the transportation services and major capital projects in the Base Plan, based on increased funding resources (beyond inflation) or increased borrowing limits. Supplements must be submitted to the TransLink Board for approval, and then submitted to the Mayors' Council and the Regional Transportation Commission by August 1<sup>st</sup> of each year. Within 30 days of receipt, the Commission must advise TransLink and the Mayors' Council of the reasonableness and appropriateness of the Supplements. The Mayors' Council must approve/reject the Supplements by October 31<sup>st</sup> of that year. If approved, the Supplements form part of the Ten Year Strategic Plan. If the Supplements are not approved, the Base Plan governs. 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.

### **3. Regional Transportation Commission's Role**

Under the provisions of the Act, the Regional Transportation Commission is responsible for:

- advising TransLink and the Mayors' Council of the reasonableness of the assumptions and parameters included in the Base Plan submitted by TransLink, by September 1<sup>st</sup> of each year;
- providing 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, by September 1<sup>st</sup> of each year;

- considering applications for short term fares (transit service passes that are valid for less than 3 days) that are being assessed for the first time;
- considering applications for increases in short term fares (transit service passes that are valid for less than 3 days) being proposed under a Supplement approved by the Mayors' Council, that are greater than the rate of inflation (2% compounded annually);
- holding public hearings on the application for new short term fares or an increase in short term fares above the rate of inflation, if he considers it necessary;
- approving the process for undertaking an annual customer satisfaction survey and any subsequent amendments to the process;
- approving the complaints resolution process and any subsequent amendments to the process;
- providing the Mayors' Council with an annual report that includes:
  - a summary of all applications and requests for decision to the Commission in the previous fiscal year;
  - a summary of all decisions made and all orders issued by the Commission in the previous fiscal year;
  - the financial statements applicable to the office of the Commission for that year along with the full disclosure of the expenses, and associated with, the office of the Commission; and
  - 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 operational plans;
- a review of the disposition of any major facility or major asset; and
- if required, carrying out inspections of records held by TransLink, as they relate to the Commission's authority under the Act.

#### **4. Considerations in Preparing the 10-Year Plan**

TransLink faced considerable challenges in preparing a year-by-year ten year plan that fulfilled the requirements of the Act. First and foremost among these challenges was the short time frame between the Act coming into force (January 1, 2008), and the deadline of August 1<sup>st</sup> 2008 for a Plan submission to the Mayors' Council and the Commission. Given the significant time required to consult and obtain consensus on additional supplemental revenues, TransLink decided that the 2009-2018 Strategic Plan would be a Base Plan only. In other words, in order to meet legislated restrictions under the Act, only existing funding resources would be used and projected borrowings would remain within the current borrowing limit. As a result, the Plan was developed based on the following major principles:

- provision is made for the costs of maintaining the system in a state of good repair (i.e. replacing assets as required);
- existing programmes, projects, and commitments anticipated in the 2009-2011 period are included;

- short term fares grow at 2% per year and property tax revenues grow at 3% per year; and
- accumulated surplus is used to fund annual deficits in the first three years of the Plan.

Over the 2009 10-Year Plan period, revenues increase from \$1 billion to \$1.4 billion, and expenditures increase from \$1.1 billion to \$1.5 billion. The annual deficit ranges from \$80 million in 2009 to a peak of \$180 million in 2015. These deficits can be funded from the cumulative surplus through 2011. New and/or increased revenues in the range of \$150 million per year are required to sustain 2011 service levels. For the Base Plan to be compliant with the Act, expenditures are reduced significantly in 2012. It is assumed that this will be achieved through service reductions.

The 2009 Ten Year Plan is viewed as a transitional plan with an intended one-year life. In fall 2008, TransLink intends to begin developing the 2010 10-Year Transportation and Financial Plan. It anticipated that this will include one or more Supplemental Plans, as defined by the Act, necessary to maintain 2011 service levels and implement significant improvements. TransLink plans to work with the public, stakeholders, and all levels of government to identify the investments needed to achieve the region's objectives.

## 5. Commission's Review

Several factors were taken into consideration in determining the scope and depth of the review of the 2009 10-Year Plan. Most obvious was the need to fully understand the assumptions and parameters in the Plan itself in order to advise TransLink and the Mayors' Council on their reasonableness and appropriateness. Other factors included the following:

- future Supplemental Plans are inevitable to avoid any major service reductions. It will be the Commission's responsibility to provide advice to the Mayors' Council on those Supplemental Plans. In particular, when considering any applications for new fares or fare increases, the Commission must do so in such a manner as to maintain the financial sustainability of TransLink;
- the Commission is required to provide the Mayors' Council with an annual report that includes, among other things, an opinion as to the whether or not the operations of TransLink and its subsidiaries for that year accord with its Strategic Plan and applicable service capital and operational plans; and
- a diverse audience has access to reports by the Commission, including the TransLink Board, TransLink staff, the Mayors' Council, and the general public.

There are many aspects of the plan on which the Commission's opinion is neither required nor given in this report. These aspects include TransLink's priorities for its activities, including but not limited to its capital spending, and how efficiently it deploys its resources in pursuit of its goals.

## 2 Review of 10-Year Plan

### 1. Commission's Approach

The Commission recognizes that the 2009 10-Year Plan is a transitional plan, intended to have shelf life of one-year. TransLink did not have sufficient time or resources to enter into the consultative process to produce more than a Base Plan. The Plan has TransLink entering into a deficit situation after the first three years, unless major service reductions are made in 2012, in order to meet the legislative parameters for a fully funded Base Plan.

As the service reductions in the latter years of the plan are not deemed realistic at this point, the focus of the Commission's review was therefore on the first three years. The assumptions TransLink used for the financial projections for the corporate entity as a whole, and the key parameters that framed the Base Plan, were the subject of the review, with no attempt to assess the efficiency or productivity of individual subsidiaries. The Commission relied on the material supplied to it by TransLink and no attempt was made to audit its accuracy. Finally, TransLink was provided with a draft copy of this report to ensure the Commission's interpretation of the information supplied was accurate.

### 2. Commission's Review Team

The review of TransLink's 2009 10 Year Plan was a collaborative process. The Commission was assisted by a team comprised (in alphabetical order) of:

- Ms. Nancy Cameron, Communications Manager for the Commission;
- Mr. David Egan, CA, CMC, Director, Advisory Services, Pricewaterhouse Coopers LLP; and
- Mr. Robert Irwin, M Eng, President, Irwin Transportation Services Inc.

Ms. Cameron's role, in addition to providing communications support to the team, was to develop a strategic consultation and communications action plan. She will distribute the report to key audiences and will coordinate all communications activities following its release.

Mr. Egan's primary role was in reviewing the planned capital expenditures and the revenues and expenditures related to roads and bridges and other transit outside of bus services.

Mr. Irwin provided general advice on transit and transportation operations and conducted a review of the assumptions and parameters, including revenues and expenditures, with respect to transportation operations.

### 3. Contact with Stakeholders

The Commission and the other members of his review team met with the senior executives of TransLink on Thursday, July 24, 2008, to receive a presentation on the 2009 10 Year Plan. Prior to the meeting, the team had received a briefing package that included draft copies of TransLink's Long Term Strategy, its draft 2009 10 Year Plan, and a copy of a report prepared for TransLink by KPMG.

On July 25, 2008, the Commission met with the following Metro Vancouver staff: Ms. Christina DeMarco, Regional Development Division Manager, Policy and Planning Department; Mr. Hugh Kellas, Manager of Policy and Planning; and Mr. Jim Rusnak, Chief Financial Officer.

The Commission also met briefly with the TransLink Board of Directors on July 31, 2008.

Following the meeting with the Board, the Commission consulted with Ms. Robin Nichols, Manager of Financial Planning for TransLink and Mr. Brian Mills, Manager of Strategic Planning, to discuss details of the Plan.

In addition to the meetings previously discussed, the Commission's team submitted a series of questions with respect to the draft Plan to TransLink staff during the course of the review. The team would like to acknowledge the prompt and detailed responses it received from TransLink.

### 4. Source Documents Examined

The South Coast British Columbia Transportation Authority Act was the guiding document for the review. As detailed in the Introduction, it provides legislative direction to both TransLink and the Regional Transportation Commission for the development of the 10-Year Plan and its review. The applicable provisions of the Act were carefully reviewed to ensure full compliance with them.

TransLink's Long Term Strategy, a requirement under the Act, was compared to the Provincial Transit Plan. Both documents serve as a framework for future actions by TransLink and provide context for its 10-Year Plan.

The Provincial Transit Plan contains several key objectives for the Metro Vancouver area. These include the transit market share growing from 12% during weekdays today to 17% by 2020 and 22% by 2030, along with a major reduction in greenhouse gas emissions. To achieve this, increased investments in new buses are contemplated, along with new and expanded rapid transit lines: the Evergreen Line, the UBC Line, an upgraded Expo Line, and the Canada Line currently under construction. The Plan also calls for new RapidBus BC lines on major corridors.

TransLink's Long Term Strategy, titled *Transport 2040: A Transportation Strategy for Metro Vancouver, Now and in the Future*, has six goals that are consistent with the Provincial Transit Plan. They are:

- greenhouse gas emissions from transportation are aggressively reduced in support of federal, provincial and regional targets;

- most trips are by transit, walking, and cycling;
- the majority of jobs and housing in the region are located along the Frequent Transit Network;
- traveling in the region is safe, secure, and accessible for everyone;
- economic growth and efficient goods movement are facilitated through effective management of the transportation network; and
- funding for TransLink is stable, sufficient, appropriate, and influences transportation choices.

The Act, the Long Term Strategy, and the Provincial Transit Plan establish the basis for development of the 10-Year Plans. It was necessary to understand their context to adequately assess whether or not the parameters and assumptions in the 2009 10 Year Plan were appropriate and reasonable. In the conduct of that assessment, the team also reviewed several other background documents, including:

- TransLink's 2007 Annual Report;
- TransLink Corporate 2008 Business Plan;
- TransLink First Quarter 2008 Report; and
- KPMG's Review of TransLink 10-Year Plan 2009-2018.

*KPMG LLP Review of  
TransLink's 10-Year Plan*

The KPMG report requires a brief explanation, inasmuch as the Commission team takes due note of the findings contained in it. KPMG LLP was engaged by TransLink to review several aspects of its 2009-2018 Plan. Relevant to the Commission's review, KPMG reviewed the key economic assumptions in the Base Plan and the basis for the sensitivity analyses and provided an opinion on their reasonableness. In general, KPMG's opinion of the assumptions were that they "appear to be reasonable" or "did not appear unreasonable". An important caveat on the KPMG report, which is available on the commission's web site at <http://translinkcommission.org>, appears in the footnote below.<sup>2</sup>

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<sup>2</sup> **CAVEAT.** On July 14 2008 TransLink engaged KPMG LLP ("KPMG") to undertake a review of its 2009 10-year Financial Plan. KPMG has provided written permission for the Commission to quote from its report. KPMG notes that the Commission's Report on TransLink's 2009 10-year plan makes reference to selected KPMG findings determined during the course of KPMG's work undertaken for TransLink. KPMG states to the Commission that "these excerpts may not represent our conclusive findings and opinions, which are only contained in our final written report (the "KPMG Report"). Further, the procedures KPMG carried out in performing the work that forms the basis of the KPMG Report were not such as to constitute an audit. Accordingly, the content of our report and any specific excerpts thereof should not be considered as providing the same level of assurance as an audit. In addition, while we have indicated in our report the sources of the information presented, we have not sought to establish the reliability of those sources.

"The KPMG Report and any excerpts thereof are provided solely for the benefit of the parties identified in the engagement letter and are not to be copied, quoted, or referred to in whole or in part without KPMG's prior written consent. KPMG accepts no responsibility to anyone other than the parties identified in its engagement letter for the references contained in this document or the information in the KPMG Report."

## 5. TransLink's Approach to its Base Plan

Given the time constraints it faced, TransLink opted to use a "top-down" approach in developing revenue and expenditure forecasts for its Base Plan. The development of the Plan, however, was dependent on first establishing service levels. The most critical decision it faced was determining the level of bus service expansion that would occur in 2009. One of the parameters that was eventually adopted was that existing projects and commitments<sup>3</sup> anticipated in the 2009-2011 period, including the introduction of 157 expansion buses in 2009, would be included in the Plan. Revenue and expenditure forecasts were then developed accordingly.

The forecast for the 2009-2011 period began with 2008 budget figures, adjusted to account for year-to-date results. Individual inflation and growth assumptions were then applied to the appropriate revenue and expense categories. The assumptions themselves were developed through external research, based on a consensus of opinion from a variety of sources, and tested with TransLink's operating subsidiaries, resulting in a matrix consisting of worst case, recommended, and best case scenarios. Ridership, for example, is determined by starting with the adjusted 2008 base, and then calculated for the following years by factoring in increased services hours from expansion and background growth.

For the remaining years of the Plan, beyond 2011, revenues and expenditures increase with more general growth and inflation factors. It is noted that because time and resource constraints did not allow for a more detailed "bottom-up" development approach, the assumptions used in both the first three years and the latter years of the Plan, are, in TransLink's words, "deliberately conservative".

## 6. Key Assumptions in the Base Plan

Several external economic conditions, which are both beyond TransLink's control and have varying degrees of uncertainty surrounding them, have a significant impact on revenue and expenditure forecasts. This is especially true in the latter years of the 10-Year Plan, where the degree of uncertainty increases. As mentioned, TransLink developed a matrix of key assumptions, assessing worst case, recommended, and best case scenarios, which were reviewed by KPMG for their reasonableness. In applying these assumptions, TransLink erred on the side of conservatism.

The following are the Commission's comments and observations:

### *General Inflation*

The **inflation rate** in the Plan for 2009 and 2010 is 3.0%, and 2% thereafter. This is generally consistent with forecasts by such sources as Provincial Budget guidelines, the Bank of Canada, and major Canadian banks. KPMG states that the forecast "does not appear unreasonable" and that the forecast "tends to lie at the high end of the range of forecasts reviewed by KPMG." The Commission sees the inflation assumption as somewhat reasonable.

### *Fuel Sales*

The tax on fuel sales, currently 12¢ per litre, accounts for approximately 29% of TransLink's revenue. TransLink is assuming no growth in the **volume of fuel sold** in the Metro Vancouver region over the 10 year term of

<sup>3</sup> Note that the Plan makes reductions to some existing TransLink funding programmes (e.g. Bicycle Program, Minor Transit Capital) beginning in 2010.

the Plan. In the Commission's view, the assumption of no growth is somewhat different from two contradictory Provincial positions. On one hand, it differs from the Provincial Government Budget assumption of 2% increase in volume over the next three years. On the other, it is contrary to the Provincial Transit Plan's goal to reduce greenhouse gas emissions. Recent recommendations by BC's Climate Action Team for emission reductions targets province-wide, for all sectors for 2012 and 2016, if accepted, suggest future policies for downward pressure on fuel sales in metro Vancouver.<sup>4</sup> The Commission considers TransLink's fuel volume assumption to be on the high side.

*Electricity Prices*

The Plan assumes an increase of 7.5% in **electricity prices** for the first three years. For 2012, the increase is assumed to be 6.0%, declining by 1% until the 2016-2018 period when it is assumed to be 2.0% per annum. BC Hydro has not applied for rate increases beyond 2010, but facilities upgrades and more generation capacity are required in the future. KPMG notes that the rates in the Plan result in a nearly 50% increase in rates over the next 10 years. Given the uncertainty surrounding rates in the long-term, the Commission considers the rate assumptions reasonable.

*Diesel Fuel Prices*

Diesel costs account for approximately 5% of TransLink's total expenditures. There is little consensus on the future direction on fuel costs, with market analysts predicting both increases and decreases. As a result, it is difficult to predict future **diesel fuel prices**, in either the short or long-term. KPMG agrees that TransLink's decision to use a price of \$1.50/litre for 2009, escalated by 2% per year thereafter would not appear unreasonable. The Commission concurs.

*Long Term Interest Rates*

TransLink assumes an **interest rate** of 5.25% for 2009 and 5.5% thereafter, based on an average of forecasts from the six major chartered banks, to which is added 100 basis points to reflect the spread between current rates and the rates applicable to the Municipal Finance Authority. In KPMG's opinion, the rates appear reasonable, and the Commission agrees.

*Property Taxes*

**Property taxes** are the third major revenue generator for TransLink, along with the fuel tax and fare revenue. Tax increases are limited at 3% per year under the Act for the Base Plan. No further comment by the Commission is necessary.

*Ridership*

**Ridership** growth is not only a function of external economic factors such as population growth, but is also influenced by internal operational decisions, such as the level and type of service provided. Ridership in turn directly affects fare revenue. TransLink has estimated a 2.3% yearly background increase for the 2009 to 2012 period, declining to 1.5% for the latter years of the Plan. Several factors tend to suggest that this estimate may be somewhat overly conservative. Population growth for the Metro Vancouver

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<sup>4</sup> These recommendations, province-wide and for all sectors combined, call for interim emissions reduction targets to meet the target of 33% by 2020. The Climate Action Team finds that by 2012, the growth in emissions must be reversed and emissions must begin to decline significantly, to 5%-7% below 2007 levels; and by 2016, the decline in emissions needs to accelerate. Emissions should fall to 15%-18% below 2007 levels.

region is expected to be 1.5% per year over the next few years, while higher fuel costs should result in greater demand for transit. While KPMG considers TransLink's analysis of ridership to be "not unreasonable", the Commission would deem it to be "somewhat reasonable".

In addition to the assumptions for external economic factors that are beyond TransLink's control, the Plan also includes key assumptions over which it has varying degrees of influence. These include the following.

*Labour Costs*

**Labour** accounts for 51% of TransLink's costs, based on 2008 budget total costs. This cost increases at 3 to 3.5% per year for current contracts, and then increases at 2% per year. Continued labour shortages could result in wage increases higher than the general rate of inflation, thus the 2% increase predicted in the latter years of the plan may be too low. The Commission concurs, however, with KPMG's analysis that the assumed increases are not unreasonable.

*Capital Funding*

TransLink assumes it will continue to receive a flow through of the **Federal Gas Tax Revenue** under the agreement it has with Union of BC Municipalities and Metro Vancouver. The present agreement is subject to renegotiation in 2010. Further, the 2007 Federal Budget has only committed funding through to 2014. Through the **Provincial Transit Plan**, the Province has indicated substantial funding toward the cost of additional Sky-Train vehicles and station improvements. In addition the Province is cost-sharing the cost of constructing the Evergreen Line. The Commission agrees that these crucial funding assumptions for the near future are reasonable, but notes that long term funding agreements are necessary in order to support the investments needed to meet the visions of Transport 2040 and the Provincial Transit Plan.

## 7. Key Parameters

The single largest parameter<sup>5</sup> that frames the 2009 10-Year Plan is that revenues, including the accumulated surplus, are no longer sufficient to maintain operations (including debt servicing) at the end of 2011. As mentioned, TransLink is required to prepare Supplements to increase funding levels over and above that described in the Act. In the absence of additional funding, the Plan contemplates major service reductions starting in 2012. Funding also impacts several other key parameters, as follows.

*Capital Inclusions and Exclusions*

Capital items already underway or planned for the next two years, together with projects that are required to maintain the system in a state of good repair (e.g. the bus replacement programme) are included. Not included in the Plan are several major road projects, expansion of the bus fleet, and new rapid transit lines, both bus and rail based, as envisioned in the Provincial Transit Plan. Given the funding reality faced by TransLink, the approach taken is reasonable and appropriate.

*Manpower*

Although not specifically mentioned in the Plan, it is the Commission's view that manpower availability may become a limiting factor in achieving

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<sup>5</sup> The Commission interprets the term **parameter** as intended in section 203 of the Act to mean both (a) any notable feature or distinguishing characteristic of the plan, and also (b) a limiting factor such as a fact or circumstance that restricts the plan, how it is prepared, and what is in or not in it.

the increased service levels in the first few years of the Plan. A significant increase in transit operators, mechanics, and support staff will be required to accomplish this increase. Planning for recruitment and training will be critical. It is encouraging to note that the Coast Mountain Bus Company and TransLink have recently joined with other organizations to form a Transportation Industry Training Organization.

*Time Constraint*

Yet another key parameter with respect to funding was the time constraint TransLink faced. Having neither the time nor the resources to conduct the consultation required to obtain consensus on supplemental revenues, TransLink had little option but to prepare a Base Plan only. It is TransLink's intention however to develop a 2010-2019 Plan that will include Supplemental Plans that will be sufficient to maintain the 2009 service levels and implement significant improvements.

**8. How We Assessed Reasonableness**

In assessing the assumptions and parameters in the Base Plan for reasonableness and appropriateness, the Commission applied several different criteria. Historical results were compared to budgets to gauge the degree of accuracy with which TransLink was able to forecast future revenues and expenditures. It is instructive to note that TransLink has been relatively successful in forecasting operating expenditures for one year hence—within 0.5 to 2 percent of budgets, but with larger variances in revenues and debt service costs. They have found fuel revenue difficult to forecast, while a lag in capital spending has resulted in lower debt service costs.

*Selected metrics*

The Commission looked at selected metrics to test the reasonableness of projected operations. For example, two basic metrics in the transit industry are the number of revenue passengers per hour of transit service and cost per hour of bus service. The following table gives past history and future projections of these two metrics for the first three years of the Plan:

<b>Metric</b>	<b>2006 <i>actual</i></b>	<b>2007 <i>actual</i></b>	<b>2008 <i>forecast</i></b>	<b>2009 <i>projected</i></b>	<b>2010 <i>projected</i></b>	<b>2011 <i>projected</i></b>
Passengers per transit vehicle service hour	32.26	32.26	31.48	32.07	32.92	33.47
Cost per bus operating hour	\$101.95	\$104.51	\$106.73	\$117.89	\$119.28	\$120.52

The Commission is satisfied that these indicators are reasonable, given factors such as service growth, population increase and fuel cost increases, and their effect on both operating costs and ridership.

The Commission also did some selective benchmarking against other organizations. Some degree of interpretation was necessary in drawing conclusions, in particular because of significantly different operating and environmental conditions, and varying bases of data capture. Overall though the Commission found TransLink's projections to be reasonable.

In the final analysis, the Commission relied on a qualitative judgment of all the documentation and analysis that was available to it.

## 3 Conclusions

### **1. Commission's View of TransLink's Overall Approach**

The Commission is of the view that TransLink's approach to the development of its 2009 10 Year Plan was appropriate and reasonable. It was faced with a major change in its governance structure with a different set of stakeholders. At the same time, the Act imposed strict timetables for consultation, plan preparation, and publication. TransLink also had to meet legislated limits on its access to revenue sources to support operations. In light of this, the decision to produce a Base Plan, with a shelf life of only one year, was the correct one.

### **2. Reasonableness of Assumptions and Parameters**

The Commission has examined and tested the basic assumptions, parameters and projections that are contained in TransLink's 2009 10-Year Plan. The ability to determine reasonableness decreases as the time horizon increases. While not ignoring the latter years of the Plan, the Commission has focused its attention on the first three years given its transitional nature. Overall, the Commission is of the opinion that the significant parameters and assumptions of the Plan, including expenditure and revenue estimates are reasonable.

### **3. Implications for the Future**

Several important observations have been made regarding the Base Plan: it is transitional; it has a one year shelf life; it recognizes the need for Supplemental Plans in the future; the magnitude of service reductions in 2012 is unrealistic; further major capital investments are needed to meet the visions of Transport 2040 and the Provincial Transit Plan. The list could go on. The implications for TransLink are self-evident:

- next year's plan, the 2010 10-Year Plan, needs to include those major capital investments that move the transportation system in Metro Vancouver in the direction of the 2040 vision;
- to accomplish this, a search for additional revenue is imperative; and
- a consultation process must accompany the preparation of the next 10-Year Plan to gauge the willingness of the public and its elected representatives to accept any new taxation or fare levies contained in Supplemental Plans.

## 4 Recommendations

The Regional Transportation Commissioner recommends that:

- the Mayors' Council and the TransLink Board of Directors recognize that the service reductions reflected in the Base Plan are unrealistic;
- additional revenue that meets the costs of planned 2009 service increases and future expansions be sought; and
- TransLink and the Mayors' Council on Regional Transportation accept this report for information.