



THE VANCOUVER BOARD OF TRADE

**REPORT CONCERNING
TRANSLINK FINANCIAL SHORTFALLS AND POTENTIAL
SOLUTIONS**

SEPTEMBER 20, 2001



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Introduction

TransLink is facing serious financial shortfalls. Over the past several months, The Vancouver Board of Trade has explored measures that would help to overcome the financing problems faced by TransLink. Various options for resolving the situation have been reviewed, and consultations have been held with several other regional transportation stakeholders. We have also considered important related matters, including service provision by TransLink and its subsidiaries, and the governance of TransLink.

Ways of addressing the TransLink financing problem are described in this document, together with reasons why each would be worth pursuing or would be unacceptable. Collectively the means recommended to address the problem would provide more than enough savings or increased revenue to overcome TransLink's financial problems for the next few years. In the longer run, the very large financial demands of TransLink's Strategic Transportation Plan will require substantial re-thinking.

Similarly, TransLink's preoccupation with transit must give way to acceptance of the organization's broader mandate for regional transportation. There must be increased attention paid to the regional road system, which carries the huge majority of people movement and is essential to the movement of goods and services. Partly in relation to that, the governance of TransLink must be addressed to ensure that it is more directly accountable to and responsive to the public and other stakeholders.

Report of the Auditor General of British Columbia

We appreciate that the Auditor General for British Columbia has reviewed the funding agreement between the Province of British Columbia and TransLink, and that the Auditor General's report has been released. However, TransLink's funding problem remains. We

have therefore continued to address this problem. We also have carried out a preliminary review of the Auditor General's report, and comment on that in this document.

TransLink Financing Problem

TransLink is facing both a short-term and long-term problem with respect to financing regional transportation services and infrastructure.

In the short-term, public pressure and the failure of the previous provincial government to meet its commitments has left TransLink with a funding shortage that could necessitate significant cutbacks in transit services, and an inability to replace the aging electric trolley fleet and aging diesel buses. TransLink also would not be able to afford improvements to the roads and bridges in Greater Vancouver and major maintenance funding for arterial roads.

Short-Term versus Long-Term Perspective

This situation would apply to the next two or three years. Beyond that point a new strategic transportation plan will need to be in place to complement the revised Greater Vancouver regional plan which will succeed the existing Livable Region Strategic Plan. If the strategic plan continues to include the projected northeast and western extensions of the Millennium SkyTrain Line, TransLink will face a renewed and much greater financial challenge from the debt service costs resulting from those extensions. The magnitude of those charges is projected to exceed \$100 million annually.

Long Run, Wide-Ranging and Penetrating Review Required

In the longer term, a wide-ranging and penetrating public review of TransLink and its financing is required. That review would cover far more than balancing the TransLink budget. There is a need to review and likely change the governance of TransLink, including making the organization more directly accountable to the public and the stakeholders who are so dependent upon transportation in Greater Vancouver.

The Office of the Auditor General of British Columbia has carried out part of this review. However, there are key aspects of the problem that were not dealt with in that report. For example, the preoccupation of TransLink with transit while de-emphasizing the broader mandate for regional transportation is a serious flaw. Similarly, the public accountability of TransLink is not adequately dealt with, including the fact that TransLink is twice removed from direct public accountability.

TransLink Preoccupation with Transit

TransLink's preoccupation with transit must be changed. Even if all of the investments proposed by TransLink proceed, according to TransLink's own estimates well over 80 per cent of workers in the region will travel to work by automobile, and almost all the movement of goods and services within the region will be by road. The current TransLink Strategic Plan pays lip service to the road network, with the huge majority of capital and operating funding directed to transit.

The mandate of TransLink is regional transportation. That includes far more than transit. If TransLink does not step up to and act on that broader mandate, then it should be recognized as a transit authority only and another mechanism should be found to address the other serious regional transportation challenges that are already having strong negative effects on the regional economy.

Inequitable Treatment of Road Users

In the past, road users in Greater Vancouver have paid an extraordinarily large proportion of the cost of transit in comparison with the situation in other major Canadian cities. In resolving the TransLink financing problem, this situation should be redressed.

Lessons Learned from the Transit Strike

The recent transit strike has provided a number of lessons. One of these is that there is only a small proportion of the regional population that is truly dependent on transit, and that transit service needs to be very efficiently tailored to meet those peoples' needs. Another lesson is that in some areas of the region traffic flowed more freely during the strike, and the situation was improved from the overall perspective of road users. Another perspective is that the need for transit services has been re-emphasized by situations such as the evening rush hour leaving the downtown Vancouver peninsula, where there was a much worse congestion problem. It is important to take these and other lessons learned from the strike and use them in reshaping transit services for greater efficiency and greater cost-effectiveness.

Road Congestion

The federal Minister of Transport recently quoted a figure of \$500 million annually as the cost of road congestion in Greater Vancouver. This region, like other metropolitan areas, runs a risk of escalation of this cost and strangulation of economic growth unless adequate attention is paid to improvements to the road system. Those improvements should include implementation of the Major Commercial Transportation System currently being planned by the Greater Vancouver Gateway Council and allied organizations. The improvements should also include measures to facilitate automobile travel in the large parts of the region where transit is not generally economically viable.

Need for Dedicated Road Program with Dedicated Financing

A road program with dedicated financing and capital expenditure commitments must be part of any solution to the TransLink financial problem. The financial concentration of TransLink on transit must be relaxed to allow a reasonable level of funding for road improvements, without the risk of that funding being diverted to transit purposes.

The road program would include the provision of road operating cost/maintenance funding to municipalities as provided for under the Strategic Transportation Plan. The program would also include a series of key road and bridge improvements particularly important to commercial traffic.

The separately funded road program would need to involve the assurance of ongoing provincial capital contributions to road and bridge improvement projects in Greater Vancouver. These contributions would need to be at a level previously proposed by the provincial government as part of the provincial highway program and would be quite justifiable given the importance to the provincial economy of commercial traffic in Greater Vancouver.

Other Key Projects Included in Overall Road/Bridge Improvements

In addition to the road/bridge projects financed under the TransLink road program, other key projects would be included in the overall road/bridge improvements. A leading example is the proposed Maple Ridge-Langley crossing of the Fraser River and the associated parts of the South Fraser Perimeter Road. It is anticipated that the project would be financed by tolls under a public-private partnership arrangement

Need for Short-Term Solution to Balancing TransLink's Budget

The longer run plans of TransLink will be the subject of a revised Strategic Plan and perhaps will be responding to fundamental changes to the organization such as revised governance. Regional transportation stakeholders will look forward to participating in the process that will lead to that revised plan and any other fundamental changes. In the meantime, it is premature to address the TransLink financial plan beyond the next two or three years.

Providing Additional Revenue Alone Not Satisfactory

In the next two or three years, the current financial flows to TransLink are projected to result in an annual funding shortfall of approximately \$50 million annually. This assumes the current approach to and pattern of transit services together with other relatively modest expenditures. However, simply finding a way to provide this amount annually for TransLink is a simplistic answer that would address only a part of a larger, vital issue.

Improvements in Operations as the First Priority

The starting point to address the funding shortfall is improvements in the operations of TransLink and its operating subsidiaries. The curtailment of very high cost per ride bus services that has already begun is a step in this direction. Similarly, the economies that could be realized from some of the points in the recently imposed collective agreement and ongoing collective bargaining would add to potential cost savings.

There is a need to re-examine the level of transit services provided, the route structures and other aspects of transit to rationalize the system. There needs to be assurance that large buses are not being operated with light passenger loads whatever the time of day. There needs to be a willingness to discontinue lightly used routes, to substitute smaller equipment, to stop service earlier if need be. There needs to be an approach adopted that provides service only when there is a reasonable level of demand. TransLink subsidiaries

also need to be free to introduce efficiencies that were prevented under previous labour agreements.

As an example, it is important that TransLink be able to contract out transportation services such as the pilot service operated with small vehicles on a neighbourhood basis in Burnaby. Reports in the press quoting some of the Coast Mountain Bus Company operating executives suggest that they have ideas for substantial improvements in operating efficiency. We understand that in part this would involve changes to work rules.

It is important that elected politicians not be in a position to dictate details of service delivery at the expense of system efficiency. It is important that the local politicians who are the masters of TransLink not impose inefficiencies for local purposes. Boards of directors must act at levels of policy and deal with major decisions, leaving operating details to experts who have been hired to run the transit system effectively and efficiently.

Need for Funding to Avoid Unacceptable Curtailment of Transit Services

Even with improved management as outlined above, it appears that some increases in funding would be necessary to avoid serious and unacceptable curtailment of transit services. We have considered several measures that could help to bridge the gap. These measures and their potential impact are discussed below.

Potential for Federal Government Funding for Urban Transportation

Some groups have strongly made the point that the Government of Canada collects large amounts of fuel tax from road users and does not spend those funds specifically on transportation. They argue that there is a strong need for federal government funding for urban transportation, and that this source should be one that helps to solve the TransLink financing problem.

While it appears that the federal government has become sympathetic to that argument, it seems that it will be at least two to three years before funding becomes available from the federal government. In addition, the funding is likely to be available only for capital projects. If in the interim the national economy does not perform well and hence federal government revenues are not as robust as expected, funding from that source could be delayed. Provincial governments are lobbying the federal government for further large increases in health-care funding, which could compete with federal funding of urban transportation.

This source of funding is not likely to be useful to solve the shorter-term TransLink funding problem. However, it is important that the provincial government urge the federal government to provide financial support for urban transportation.

Transit Levy Collected Through BC Hydro Billing System

At present TransLink receives the proceeds of a transit levy that is collected from each household in the region through the BC Hydro billing system. The amount charged per

household is \$1.90 per month, or \$3.80 per bi-monthly bill. The annual amount is \$22.80, which spread over the households in the Greater Vancouver Region is forecast to produce a revenue contribution of \$16.8 million in 2002. If this levy were doubled, it would cover close to one-third of the annual funding shortfall over the next two to three years.

Free Electricity for Transit

Another measure that could be used to help alleviate the TransLink funding crisis is the provision of free electricity for electric trolley buses and SkyTrain. This measure would amount to a cross-subsidization of TransLink by BC Hydro, and already the electrical energy used by TransLink is said to be provided at a cost below that of generation and transmission.

Sales Tax on Fuel and Electricity

Yet another measure suggested to help TransLink would be for the provincial government to forego or refund the sales tax on diesel fuel and electricity that is consumed in transit operations in Greater Vancouver. This presumably would necessitate a similar refund to the transit operators in the rest of the province. In any event, we are informed by TransLink that this would not amount to a large contribution towards the funding shortfall.

Trolley Bus Replacement as Part of “Green” Infrastructure Program

Another measure which would help TransLink in the short run would be to secure a major contribution towards the roughly \$200 million cost of trolley bus replacement by including this capital cost in the “green” component of an infrastructure program grant application. We have been informed by TransLink that this has already been done.

Introduction of Private Sector Capital

The introduction of private sector capital to regional transportation infrastructure also offers a means of improving efficiency. The opportunity to introduce private sector funding to the regional transportation system is a prime opportunity to bring new money and innovation to public services.

Innovation implies more than technical change. Private finance provides opportunities for new ways of managing and operating public facilities in a productive and accountable manner. It also gives government the opportunity to transfer significant risks to entities more capable of their management. Serious consideration should be given to public tendering of transportation services and maintenance of transportation facilities. Developments along these lines in London, Stockholm and elsewhere should be studied to see if it would be desirable to replicate them here.

Property Tax Dedicated to TransLink

Another source of funding already in use for the benefit of TransLink is a regional property tax that previously was levied to support hospitals. The provincial government took over

the hospital financing obligation, and the tax has been dedicated to TransLink. It is estimated by TransLink that in 2002 that tax will produce revenues of \$56 million, equivalent to an average of roughly \$90 per property.

An increase in this tax is another source that could be used to bridge the TransLink funding gap, although municipal politicians that sit on the TransLink board of directors are reported to have said that they would not use additional property tax to finance TransLink. However, we believe that this source is worthy of serious consideration. It has the virtue of only taxing business properties at a rate 2.5 times the rate applied to the value of residential properties, in comparison to the 5 times or higher rate applied to business properties in the City of Vancouver. A \$25 increase in the average property tax would produce an additional \$26 million in annual revenue.

The property tax increase under the already established taxation mechanism would be paid approximately one-third by business and two-thirds by residential properties. Accordingly, it is proposed that the proceeds of this tax increase should go one-third to the road program for commercial traffic projects and two-thirds to the transit program.

Downloading of TransLink Funding Needs to Municipal Taxes is Unacceptable

The downloading of TransLink expenditures so that they are financed by municipal taxes is unacceptable. The distortions in municipal property taxation already result in some property classes paying inequitable tax rates. Adding taxes at this level only results in further inequity. The use of the regional property taxation mechanism available to TransLink is the only acceptable means of property taxation for regional transportation purposes, and then only if absolutely necessary after transit system rationalization and introduction of operating efficiencies as discussed above.

Advance Timing of Transfer of Existing Gasoline Tax Increments

Provincial government payments towards TransLink financing are scheduled to be increased by a transfer of one-half cent per litre of gasoline tax in 2003 and a further one-half cent in 2005. This is a transfer of existing gasoline tax. To help reduce the shortfall in transit financing in the short-term, it is proposed that those transfers be advanced to April 1, 2002. At this time we do not have an estimate of the magnitude of the effect of this change in timing.

Advance Timing of Fare Increases

Given the financial situation facing TransLink, an increased contribution by transit users requires serious consideration. The higher operating costs, which will be incurred under the recently imposed settlement of the Greater Vancouver transit strike, should be met in part through increased user pay. A fare increase should be introduced in the relatively near future to help defray these costs and contribute to balancing the TransLink budget.

Other Taxation Measures Unacceptable

Other taxation measures have been suggested to help resolve the TransLink funding problem. **We believe that there would be very widespread, strong opposition to these measures, and suggest that it would not be realistic to pursue them.** They include:

- a vehicle levy;
- an increase in and extension of the provincial sales tax on parking; and
- a benefiting area tax.

Summary

In summary, some of the proposals outlined above appear to have the potential to help solve the short-term financial shortfall faced by TransLink. In the longer run, TransLink's Strategic Transportation Plan for the region needs to be revised in connection with the revisions to the Livable Region Strategic Plan and in conjunction with a more penetrating review of TransLink, including its governance.

A wide-ranging and penetrating public review of TransLink, its financing and governance is required. TransLink's preoccupation with transit must be changed, with increased attention paid to the regional road system that carries the huge majority of people movement and is essential to the movement of goods and services. A road program with dedicated financing and capital expenditure commitments must be a part of any solution to the TransLink financial problem.

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