

## **2001/02 Report 1**

### **Transportation in Greater Vancouver:**

#### **A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure**

#### **Auditor General's Comments (Executive Summary)**

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### **Table of Contents**

[Auditor General's Comments](#)

[Background:](#)

[In 1999, Transportation Services in Greater Vancouver Were Reorganized to Provide Local Control and More Service](#)

[Expectations about what service and financial results were to be achieved by the new transportation system were clear and agreed on](#)

[Expectations about how results would be achieved were also clear, and agreed on](#)

[TransLink is responsible for the delivery of a range of regional transportation services](#)

[A provincially owned company is undertaking the SkyTrain expansion project](#)

[This Report: Three Questions We Set Out to Answer](#)

[Summary of Recommendations](#)

[Part I: Are Service and Financial Expectations for Regional Transit Being Met?](#)

## Part II: Will Rapid Transit Expansion in Greater Vancouver Occur as Planned?

## Part III: Does the Governance Structure Promote Good Governance, Accountability and Decision-Making?

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### Auditor General's Comments



In 1999, after extensive negotiation with the Greater Vancouver Regional District (GVRD), the Province transferred responsibility for Greater Vancouver's public transit, major regional roads and AirCare program to a newly created body—TransLink. This new arrangement was intended to enable local decision making, provide suitable governance, and secure good accountability.

This was a significant event. It involved the devolution of responsibility for services that affect many citizens of British Columbia's largest urban area—services whose delivery is complex, expensive, and often controversial.

In the spring of this year the provincial government asked me to review certain issues arising since TransLink was set up. I consulted with many of the key stakeholders involved, and consistently heard concerns that some aspects of the devolution process were not unfolding as expected. After considering the information needs of the Legislative Assembly and the public, I decided to undertake a review, focusing my examination on three questions.

The first is whether service and financial expectations for regional transit are being met.

The second is whether rapid transit (SkyTrain) expansion in Greater Vancouver will occur as planned. This question has three parts:

- whether the steps necessary to bring the first phase of the expansion into revenue service are being taken;
- how the start-up costs of the first phase of the expansion should be allocated between the provincial government and TransLink; and
- whether planning for subsequent phases of the expansion is proceeding as contemplated in the cost-sharing agreement between the provincial government and TransLink.

The third question is whether the governance structure now in place promotes good governance, accountability and decision-making.

### **TransLink has been unable to raise the extra revenue needed to meet service and**

## **financial expectations**

Once TransLink started operations in 1999, it began work on a strategic transportation plan. After extensive public consultation, TransLink obtained approval from both its own board and the GVRD board for a plan that included both service expansion and a new revenue source (a vehicle levy) to help pay for the expansion.

TransLink began to deliver the expanded service called for in the plan—designing new routes and ordering new buses and other equipment.

Both the service expansion and revenue source were linked to the primary reason that TransLink was set up: namely, to contribute to the success of the region's land use plan. The strategic transportation plan makes the link clear: "To the maximum extent practical and equitable, TransLink should raise the revenues required in ways that shape transportation demand. From this perspective, the 'best' sources of revenues are those directly associated with use of the transportation system."

To collect the vehicle levy, TransLink needed the support of the provincial government. This support the government gave initially but later rescinded. In response, TransLink proposed alternative ways of collecting the levy, or raising the needed extra revenue from another transportation-related source, gasoline tax. Each alternative required provincial support, but the Province declined to give it. The result is that TransLink has stopped its service growth and reduced its recently expanded service to avoid running a deficit (which it is not permitted to do).

## **Rapid transit expansion in Greater Vancouver is occurring as planned**

TransLink has announced that, without the vehicle levy, it will be unable to operate the first portion of the SkyTrain expansion. Also, the Province and TransLink have been unable to reach agreement on two outstanding issues about the SkyTrain expansion: who will pay the start-up costs on the new Millennium line, and whether Bombardier Inc. should be contracted to operate and maintain the system (both existing and expansion lines).

However, despite these differences of opinion, both parties are proceeding with necessary work on the SkyTrain expansion. Construction of the first stage of expansion—the Millennium line—is very close to schedule and budget, as are preparations for start-up of the first part of the line. Planning and other preparatory work for subsequent phases of the SkyTrain expansion are proceeding at a reasonable pace, and generally in accordance with the cost-sharing agreement between the Province and TransLink.

## **Trust and cooperation must be rebuilt**

After examining these issues, I think it is time for the provincial government and TransLink to rebuild the trust and cooperation necessary to make regional transportation work. As a first step, the provincial government should follow through on its commitment to aid TransLink in efficiently collecting the revenue it needs for expansion. In doing this, the government should recognize that, through legislation, it has assigned to the TransLink and GVRD boards of directors a range of revenue sources and the to make decisions about which of these revenue sources TransLink will use. In turn, those boards of directors are publicly accountable for their decisions.

After that first step, I believe the other outstanding issues can be resolved between the parties. In particular, I recommend:

- The principles proposed by a consultant to the Province should be adopted as the basis for determining a reasonable allocation of start-up costs.
- The question of who should operate and maintain the SkyTrain system rests with the Province and should be approached with a focus on ensuring that the taxpayer receives good value for money.

If the parties are unable to reach agreement on these issues, they can make use of the arbitration provisions in their cost-sharing agreement.

## **The governance structure needs a number of improvements to promote good governance, accountability and decision-making**

I believe that the provincial government, the GVRD and TransLink should review the governance structure now in place for regional transportation, and evaluate whether it is suitable for the long term. The need for adjustments to the governance structure should not be surprising. TransLink started its operations little more than two years ago; its governance structure is complex; and the issues it deals with are not always easy to resolve.

In my opinion, changes to the current governance arrangements would be beneficial. My recommendations to the three parties can be summarized as follows:

The provincial government should:

- Recognize that the purpose of creating TransLink is to transfer responsibility for regional transportation to the region.
- Determine the best way to maintain oversight of TransLink activities, as they affect provincial interests.

The GVRD should:

- Recognize that it controls TransLink and is directly responsible for its success.
- Adopt a sound method of appointing people to TransLink's board.
- Report to the public on its accountability for TransLink.

TransLink should:

- Establish and document the governance rules, accountability methods, and performance evaluation processes to be used by TransLink and its subsidiaries.
- Report more completely on how it fulfills its responsibility for managing the transportation system in

## Greater Vancouver.

The findings and conclusions presented in this report are based on evidence gathered to mid-June 2001. My staff performed this review in accordance with our Office's professional standards. These standards require us to carry out such tests and procedures as we consider necessary to obtain sufficient evidence to support our conclusions. In gathering this evidence, we reviewed documents prepared by the provincial government, Rapid Transit Project 2000 Ltd. (the provincially owned company undertaking the SkyTrain expansion project), the GVRD, TransLink and its subsidiaries. We also interviewed board members, employees and consultants of these organizations.

This review involved a number of organizations and individuals, all of whom provided us with the information and explanations we required to complete our work. I acknowledge and thank them for their cooperation.

Wayne K. Strelhoff, CA  
Auditor General

*Victoria, British Columbia  
August 2001*

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### **Background: In 1999, transportation services in Greater Vancouver were reorganized to provide local control and more service**

Before 1999, transit in Greater Vancouver was provided by BC Transit. This provincial Crown corporation was responsible for planning, marketing and operating three different transit systems: the Vancouver region, the Victoria region and the so-called "municipal" systems serving 42 smaller communities in the province.

BC Transit was governed by a board of directors appointed by the provincial government. The board set policy and annual budgets. There were also two regional transit commissions, one for greater Vancouver and one for greater Victoria, which set fares and service levels for their respective areas and made recommendations to the board about operating and capital budgets.

This structure was unusual—most North American transit systems report directly to either municipal or regional governments—and it created some anomalies. For example, the commissions set fare levels and received fare revenues but did not have direct responsibility for costs. On the other hand, service levels set by the commissions had to accommodate the budget established by the BC Transit board, and ultimately by the Province.

Transit in Greater Vancouver did not keep up with demand or grow as fast as the agreed-on regional land use strategy required. That strategy, the Livable Region Strategic Plan, and its component Transport 2021 plan, called for transit in the region to grow substantially, in order to help create a less sprawling and less car-dependent region. The goal was for transit to achieve an 18% share of peak hour commuters by 2021, a very significant increase from the roughly 12% share that it had in 1995. Achieving that would require more than

doubling the market share growth rate over what BC Transit planned to deliver.

To solve this problem, the provincial government and the Greater Vancouver Regional District (GVRD) began in 1997 to negotiate a transfer of responsibility for transit and other regional transportation services from the Province to the GVRD. They also negotiated on a separate but related matter—the construction, by the provincial government, of new rapid transit lines in the region.

As a basis for estimating the financial impacts of the agreement being negotiated, the Province's and GVRD's negotiators agreed on a "mid-point scenario," a growth plan that lay midway between the transit growth projected in BC Transit's 10-year strategic plan and that required by Transport 2021. (The negotiators chose this mid-point scenario as the benchmark for negotiation because they considered BC Transit's planned growth to be insufficient. At the same time, they thought the level of growth required by Transport 2021 might not be feasible to implement in an efficient way in the first 10 years of a new agency's existence.) Each spending and revenue pattern considered during the deliberations was compared against the mid-point scenario using a computer model developed by BC Transit.

Negotiations proceeded in stages, each of which resulted in a document specifying important elements of the inception, powers and organization of a new agency, and of the SkyTrain expansion. These documents, which we refer to frequently in this report, are:

- *Recommended Agreement on Transportation Governance and Funding for Greater Vancouver*, October 25, 1997 (the "negotiators' agreement")
- *Memorandum of Understanding Between the Greater Vancouver Regional District and the Province of British Columbia*, June 18, 1998 (the "final agreement")
- *Greater Vancouver Transportation Authority Act* (the GVTA Act)
- *Negotiators' Agreement on Cost-Sharing and Construction of SkyTrain Extensions*, June 20, 1999 (the "negotiators' cost-sharing agreement")
- *SkyTrain Expansion Cost Sharing Agreement*, as of March 1, 2000 (the "cost-sharing agreement")

Exhibit 1 illustrates how the establishment of the new agency and the extension of the SkyTrain system have been intertwined.

## Exhibit 1

This timeline shows how establishment of TransLink and extension of the SkyTrain system were intertwined

	<b>Establishment of TransLink</b>	<b>Expansion of SkyTrain</b>
1994	June: Transport 2021 Long Range Transportation Plan approved by Greater Vancouver Regional District (GVRD)	
1995		BC Transit's 10-Year Strategic Plan concludes that Broadway-Lougheed and New Westminster-Coquitlam lines are highest-priority rapid transit routes
1996	January: Livable Region Strategic Plan adopted by GVRD	
1997	May: Province and GVRD agree to review/reform transit governance  October: negotiators' agreement completed	December: rapid transit project office opens
1998	February: Province and GVRD ratify negotiators' agreement July: Greater Vancouver Transportation Authority Act receives Royal assent	February: Rapid Transit Project 2000 Ltd. (RTP 2000) incorporated by Province to plan, design and construct rapid transit project  June: memorandum of understanding signed between Province and Bombardier Inc.; RTP 2000 told by Province to build SkyTrain, not conventional light rail transit, by 2000–2001, not 2005–2008  November: cost-sharing negotiations begin  December: preferred alignment report released
1999	April: Greater Vancouver Transportation Authority (TransLink) begins operation	June: negotiators' agreement on SkyTrain cost-sharing signed

2000	March: SkyTrain cost-sharing agreement signed
2001	December: first section of Millennium line due to enter revenue service

Source: Compiled by the Office of the Auditor General of British Columbia from various correspondence and public reports

## Expectations about what service and financial results were to be achieved by the new transportation system were clear and agreed on

The provincial government and the GVRD made clear that the ultimate measure of performance for the reorganized transportation system was the success of the region's strategic land use plan. As the negotiators' agreement said, the overall objective was "to promote the development and implementation of transportation plans which meet the objectives of the Province ...and the Greater Vancouver Regional District...contained in ... the Livable Region Strategic Plan." Both parties also agreed that, to make the plan work, transit's ridership and market share would have to increase significantly.

## Expectations about how results would be achieved were also clear, and agreed on

The negotiations resulted in a new agency, the Greater Vancouver Transportation Authority ("TransLink"), that would manage the region's transportation system, including public transit.

The Province and the GVRD agreed on three key points about how the new arrangements were to work:

- the region would have responsibility for managing its own transportation system, including transit;
- the transportation system would be integrated; and
- TransLink's success would hinge on it having secure, adequate and appropriate funding, specifically including the use of new revenue sources.

The provincial government committed to:

- providing continuing provincial funding for transit (through tax transfers), and cooperating with TransLink when it raised regional funding;
- taking responsibility for much of the transit system's existing infrastructure debt; and
- expanding SkyTrain.

The GVRD committed to:

- taking responsibility for the integrated management of transportation;
- expanding transit, with funding from local sources for a substantial part of its operation and expansion; and
- cooperating with the provincial government's SkyTrain expansion.

## **TransLink is responsible for the delivery of a range of regional transportation services**

TransLink's mandate is to plan, finance and operate a regional transportation system that moves people and goods efficiently and supports the regional growth strategy, air quality objectives and economic development of the GVRD.

TransLink oversees the planning, service levels, budgets and financing of several subsidiary companies and contractors. These subsidiaries and contractors are responsible for operations such as staffing, maintenance and scheduling.

TransLink provides most of its services through subsidiary companies:

- Coast Mountain Bus Company Ltd. (operator of the bus and trolley-bus system and SeaBus);
- British Columbia Rapid Transit Company Ltd. (operator of SkyTrain);
- West Coast Express Ltd. (operator of the commuter rail service of the same name);
- Fraser River Marine Transportation Ltd. (operator of the Albion Ferry);
- Pacific Vehicle Testing Technologies Ltd. (managers of AirCare);
- Transportation Property and Casualty Company Inc. (provides insurance liability coverage for TransLink); and
- 592040 BC Ltd. (called Intelligent Transportation Systems; develops ways of using information technology to make transportation systems more cost-effective),

or through contractors, who provide the following services:

- HandyDART
- Community Bus on Bowen Island and in North Burnaby.

In addition, it directly provides the following services:

- **Transportation Demand Management**—TransLink develops trip reduction programs and promotes transportation alternatives such as cycling and carpooling.
- **Major Road Network**—In partnership with municipalities, TransLink helps fund the maintenance, rehabilitation and improvement of the "major road network"—2,100 lane kilometres of roadways within the GVRD—plus the Knight Street, Pattullo and Westham Island bridges.

The scale of TransLink's operations can be seen from the following operating statistics for 2000:

Revenue passengers carried	129,113,441
Service hours transit vehicles were carrying passengers	4,326,074
Service kilometres driven by transit vehicles	97,848, 081
Revenue vehicles in service	1,306

## **A provincially owned company is undertaking the SkyTrain expansion project**

The provincial government set up Rapid Transit Project 2000 Ltd. ("RTP 2000") in 1998, to take charge of planning, designing and constructing new light rapid transit lines in Greater Vancouver. After a technical analysis conducted by consultants to RTP 2000, the Province decided that it would build the lines using SkyTrain, a proprietary technology owned by Bombardier Inc.

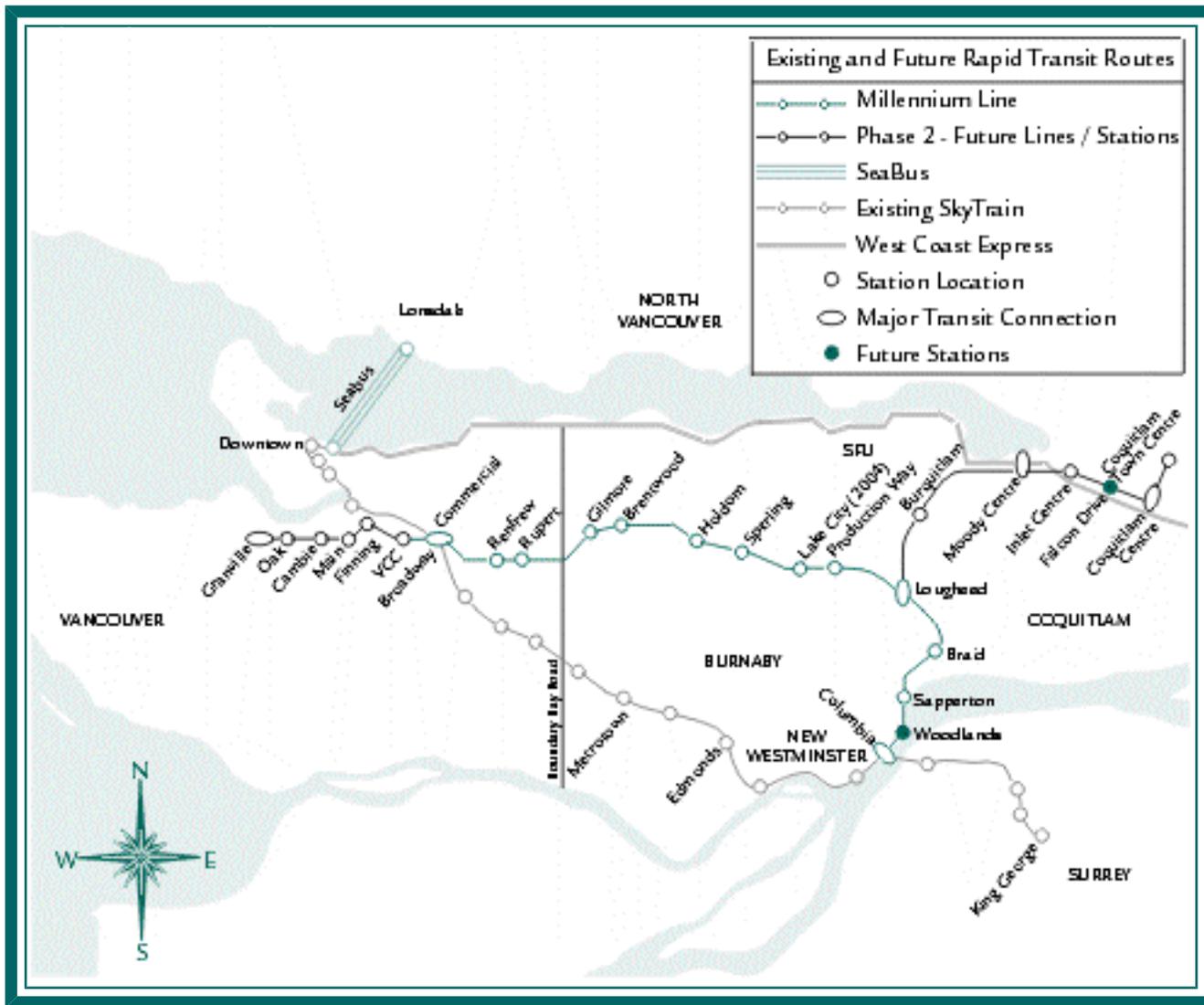
The Province and TransLink have negotiated a cost-sharing agreement for the SkyTrain expansion which calls for it to take place in three phases. The first phase, the Millennium line, with a forecast cost of \$1.17 billion, is being built from Columbia Station via Lougheed Mall to a location near Vancouver Community College. The second phase, the Coquitlam line, with a preliminary estimate of \$730 million, will run from Lougheed Mall to Coquitlam Centre. The Province is paying the expenses incurred in constructing these two phases. When the two phases are complete (or on December 31, 2005, if both phases are completed earlier), under the agreement TransLink will pay the Province \$650million as its share of these costs.

The third phase, the Western line, will run via the False Creek Flats and then down the Broadway corridor from Vancouver Community College to a western terminus somewhere between Granville and Cambie streets. The construction cost of this phase will be borne 33% by TransLink and 67% by the Province, if there is agreement on the end point.

Exhibit 2 shows the location of these new lines in relation to the existing SkyTrain line.

### **Exhibit 2**

**The Millennium line will extend the existing SkyTrain system, and two further extensions are planned**



Source: TransLink and Rapid Transit Project 2000 Ltd.

(Note: This graphic is reproduced clearly on page 15 in the .PDF version of this document)

## This Report: Three Questions We Set Out to Answer

In Part I of this report, we examine whether service and financial expectations for regional transit are being met.

In Part II, we examine whether rapid transit (SkyTrain) expansion in Greater Vancouver will occur as planned and, in particular:

- whether the steps necessary to bring the first phase of the expansion into revenue service are being taken;
- how the start-up costs of the expansion should be allocated between the provincial government and TransLink; and
- whether planning for subsequent phases of the expansion is proceeding as contemplated in the cost-sharing agreement between the provincial government and TransLink.

In Part III, we examine whether the governance structure now in place promotes good governance, accountability and decision-making.

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## **Summary of Recommendations**

### **Part I: Are Service and Financial Expectations for Regional Transit Being Met?**

1. The Province should follow through on its commitment to help TransLink efficiently collect the revenue it needs to maintain and expand its service levels.

### **Part II: Will Rapid Transit Expansion in Greater Vancouver Occur as Planned?**

2. The Province and TransLink should use the start-up cost allocation principles proposed by the Province's consultant. If they are unable to reach timely agreement on the allocation of start-up costs, they should use the arbitration provisions set out in the cost-sharing agreement.
3. The Province should, in a timely fashion, share with TransLink all information that is relevant to the construction of the SkyTrain expansion.
4. The Province should analyze its options for dealing with its commitment to offer Bombardier Inc. a SkyTrain operating and maintenance contract, and work with TransLink to reach agreement on the option that offers best value for money to taxpayers.

### **Part III: Does the Governance Structure Promote Good Governance, Accountability and Decision-Making?**

5. TransLink should prepare an annual report in a manner that is consistent with current public sector expectations, and conduct an annual general meeting at which its performance can be discussed.
6. The GVRD should clearly identify how it will hold TransLink accountable.
7. The Province, TransLink and the GVRD should consider amending the Greater Vancouver Transportation Authority Act so that non-elected members might be included on TransLink's board.

8. The GVRD and TransLink should develop guidelines for nominating potential members to the TransLink board, including a policy on appointment terms, board renewal and the competencies required by the board.
9. The size of TransLink's board should be re-examined and perhaps reduced.
10. The GVRD should identify how it will provide public accountability for its responsibility for TransLink, and consider developing a more complete approach to reporting annually on its transportation-related performance.
11. The Province should reassess its role in the Greater Vancouver regional transportation system with a view to removing impediments to the implementation of TransLink board decisions.
12. The Province should consider changing the Greater Vancouver Transportation Authority Act to eliminate the need for provincially appointed board members.
13. The Province and TransLink should develop oversight arrangements that meet the Province's needs.
14. TransLink should develop and document principles, policies and procedures for the governance of its subsidiaries.
15. TransLink should reassess its approach to making appointments to subsidiary boards.
16. TransLink should document its governance policies and practices in a governance manual.
17. The Province, TransLink and the GVRD should consider amending legislation to clarify the duties of TransLink board members.
18. TransLink should develop comprehensive guidelines that address director duties and conflict-of-interest issues.
19. TransLink should develop a comprehensive program of orientation and continuing education for its board members.
20. TransLink's board should consider establishing the committees needed to support its governance roles, particularly a governance committee and an audit committee.
21. TransLink's board should ensure that a comprehensive risk assessment is carried out and an appropriate risk management strategy developed.
22. TransLink's board should ensure that the internal audit unit's plans and reports meet the board's information needs.

23. TransLink's board should ensure that formal appraisal systems are in place for its CEO, and the CEOs of its subsidiaries.
  
24. TransLink's board should develop a process for regularly evaluating the performance of the board and of its directors.

