

TO: Mayors Council on Regional Transportation

FROM: Olga Kuznetsova, Vice President, Financial Services

DATE: June 27, 2024

SUBJECT: Management Responses to Efficiency Review

EXECUTIVE SUMMARY

TransLink's current funding model is unsustainable beyond the end of 2025, coinciding with the depletion of provincial relief funding. This fiscal cliff results from several challenges, including a regional shift towards electric vehicles reducing gas tax revenue, fare increases held below inflation to ensure affordability as the region was recovering from the pandemic, major expansion project costs and unprecedented inflationary pressures.

As part of addressing these challenges, TransLink initiated an independent Efficiency Review to find opportunities for cost savings and additional efficiencies. The review affirmed that TransLink has a culture focused on responsibility to taxpayers along with a drive toward continuous improvement. With TransLink being a generally efficient organization, the review also highlighted that there are limited opportunities to reduce costs without cutting service. Management accepts these findings and will continue to work on multiple opportunities that are already underway, and we recognize that many recommendations are mid- to long-term opportunities.

TransLink's management is committed to taking immediate action to ensure we continue to operate as efficiently as possible. This report outlines proactive measures beyond the Review's recommendations to ensure uninterrupted, high-quality service for our customers while navigating these financial challenges. Our strategic actions include operational efficiency improvements, cost management initiatives, non-customer facing program reductions, debt management strategies, and revenue enhancement strategies.

TransLink is at a pivotal moment where decisive and strategic actions are essential to ensure financial stability and continuity of essential services. By prioritizing non-customer facing reductions and focusing on long-term efficiency improvements, our aim is to preserve services for our customers. Our commitment is to act with urgency and responsibility, ensuring TransLink continues to serve our community efficiently and reliably, while we work with provincial and federal governments to find a long-term, sustainable funding solution.

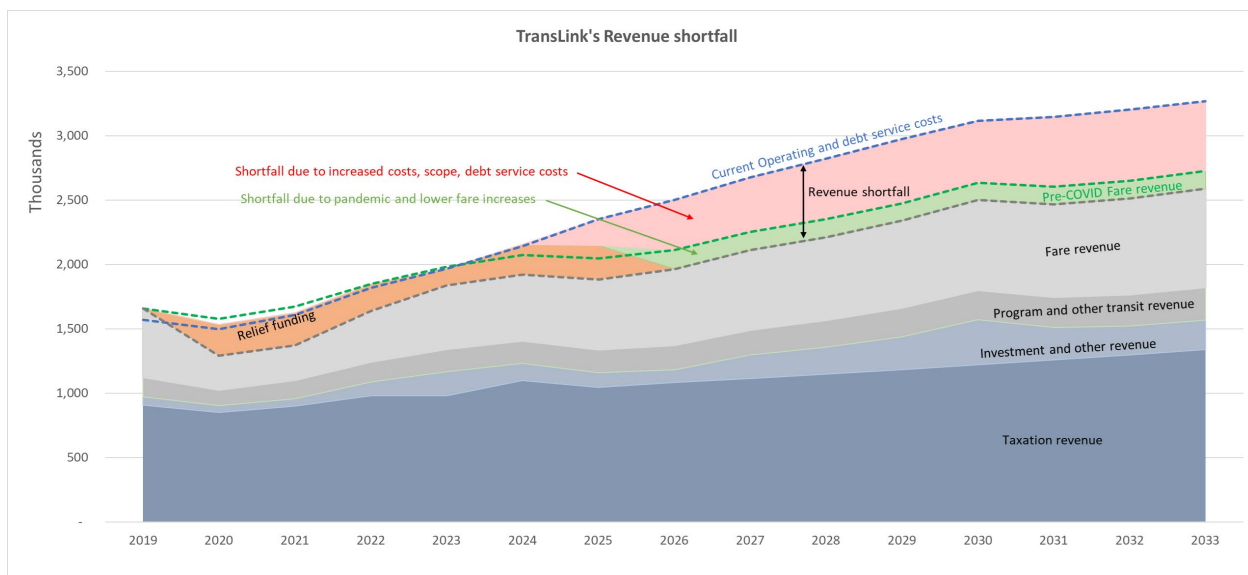
PURPOSE

The purpose of this report is to provide the Mayors' Council with a summary of Management's responses to the Efficiency Review Report issued by Ernst & Young (EY) and an overview of Management's action plan. This Report is for information purposes only.

BACKGROUND

Since the beginning of the pandemic, TransLink has been facing a structural deficit, as expenditures have been outpacing revenues. While Senior Government emergency relief funding has allowed us to maintain services at close to pre-COVID levels throughout the pandemic, lower ridership, declining fuel tax revenues due to adoption of zero-emission vehicles, and significantly higher inflation have all put a strain on TransLink's finances, resulting in a structural deficit, now estimated to reach \$5.3 billion by end of 2033. This equates to an average annual shortfall in funding resources of approximately \$670 million per year, starting in 2026. This is higher than the estimate that was provided in 2023 (total structural deficit of \$4.7 billion and average annual funding gap of approximately \$600 million), due to escalating costs and the cost of additional service added in the 2024 Investment Plan.

Figure 1. Funding Shortfall



In order to mitigate the economic pressures and continue to deliver outstanding quality of customer service, TransLink has been continuously identifying opportunities for cost savings, and searching for new revenue streams.

As part of organizational efforts to reduce the growing structural deficit, and to drive continuous improvement, in December 2023 TransLink announced it was undertaking an independent efficiency review. Following the competitive bid process, EY was selected as the consultant firm to perform an independent efficiency review of TransLink in four core areas:

1. Review of administrative and operating costs (excluding contracted services and Transit Police) and including an analysis of organizational layers and spans of control;
2. Review of the estimated costs for BCRTC expansion and operational readiness;
3. Review of service level planning; and
4. Reliability of operating cost budgets and forecasts.

EY have now completed their final report for presentation to the Board and Mayors' Council which contains a list of their findings and opportunities for Management's consideration. This Report

outlines management's action plan with respect to EY report findings and observations, and also highlights the overarching course of action of the Enterprise with respect to efficiency improvements and structural deficit reductions.

DISCUSSION

Context setting

In order to ensure that we contribute to solving the structural deficit, TransLink initiated an independent efficiency review at the end of 2023 to enhance operational efficiencies and help reduce the impacts of record-setting inflation and the pressure that has been put on TransLink's finances. This is aligned with management's focus on ensuring that we are operating as efficiently as possible, and that we find savings that help us offset the structural deficit.

With customer service quality and providing the region with adequate levels of service being the top priority, management did not consider cost reduction measures or other organizational changes that would negatively impact the level of transit service or customer experience.

EY's report acknowledged that TransLink has been actively finding and improving efficiencies. Overall, TransLink is an efficient organization. For example, TransLink's proportion of administrative expenses (15%) against our cost to deliver services (85%) is already lower than the average across peers in transit systems in North America. EY noted that there are limited opportunities available to TransLink to further reduce costs without impacting levels of service.

Management accepts the observations of EY's report and has created an action plan to address the identified opportunities for efficiency improvement, with the exception of those that might negatively impact transit service or the customer experience.

A number of recommendations identified by EY were already in the process of being implemented by TransLink, such as:

- Transition to proactive maintenance at BCRTC and CMBC
- Changes to internal processes to streamline and improve the efficiency of decision-making.
- Enterprise performance measurement and monitoring program
- Implementation of new HR Information Management System (HRMS)
- Digital Strategy implementation
- Replacement of paper-based systems with electronic processes
- Continuous Improvements program deployed at TransLink and Operating Companies

This is in addition to the efficiency improvements and cost control measures already implemented by TransLink. For example, in just a few recent years, the Enterprise has implemented the following:

- Data-informed service optimization solutions
- Optimized bus service corridor deployment model
- Real estate strategies (optimizing underutilized leased office spaces, operating site management improvements)
- Bringing expertise in-house and reducing reliance on external vendors and consultants

- Realizing efficiencies in managing business technologies
- Fleet and fuel management efficiencies
- Contracting and procurement process improvements
- Lost days of service reduction initiative
- Workforce management improvements
- Energy and environmental initiatives

It is evident that EY's efficiency review is just one piece of the puzzle towards a 2025 Investment Plan, one that will implement new funding sources and will put TransLink on a path of long-term financial sustainability. The tangible benefit has been having a formal, structured approach to find efficiencies and cost savings, which has galvanized the organization in a single direction with one focus.

In creating this action plan, Management carefully considered risks and implications, ensuring that there are no negative impacts on transit service or customer experience. We focused on finding efficiencies and making trade-offs by re-prioritizing work, focusing on our core services, discontinuing certain non-customer facing programs, and making headcount reductions.

This process helps TransLink to set up a firm foundation for the vision laid out by the Board of Directors and the Mayors' Council, and for the next big period of growth. It shows our responsibility for taxpayer funds and further promotes our culture of accountability and transparency.

Action Plan on EY's report

While EY's report acknowledges TransLink's efficiency progress and the enterprise-wide commitment towards continuous improvement, there were opportunities identified within the four areas of review that, if implemented, could improve the overall efficiency and effectiveness in the medium and long term.

Management accepts the observations in the report, and generally agrees with the opportunities identified by EY. As mentioned above, some of the identified opportunities align with initiatives that were already in the process of being implemented at the time of the review, while some others look to expand on existing practices within the organization to achieve greater effectiveness.

The opportunities identified by EY serve as a springboard for Management to do further review and analysis as part of its action plan. Within the four core areas of review, key themes for the opportunities are summarized below alongside Management's action plan.

Administrative and operating costs

Key Theme	Management's Action Plan
Functional and entity responsibilities definition	<p>TransLink has recently completed an internal decision-making process re-design and management committee structure review, which significantly reduced several internal committees, and streamlined the decision-making process.</p> <p>Management will review areas where there are opportunities to clarify specific functional roles and responsibilities.</p>
Enterprise-wide performance management framework	<p>TransLink has commenced a formal program to design and regularly review Enterprise performance metrics.</p> <p>Hierarchy of enterprise performance metrics is under development and targeted to be deployed by the end of 2024.</p>
Benefit realization program	<p>Implement a formal, structured and consistent process to measure and track realization of benefits across projects and initiatives. Benefits will be assessed both in progress of projects and initiatives, as well as upon their completion.</p> <p>Current benefit estimation practices, most formalized for capital projects, will be rolled into this new formal process.</p>
Strategic workforce planning capability	<p>Management at each of TransLink, BCRTC and CMBC agrees with identified opportunities in strategic workforce planning and will develop strategies based on the future talent needs of the business to support the successful delivery of our expanding operations.</p>
Comprehensive HR data accessibility	<p>An HR digital transformation program is underway to implement a new HR system with greater data capabilities to support workforce planning and other HR functions.</p>
Spans of control optimization	<p>TransLink will review the organizational structure, such as spans of control and reporting layers within HR, Finance and Business Technology Services divisions for consistency and appropriateness for the needs of supporting business.</p>
Transportation planning operating model clarity	<p>Management is committed to ensuring fulsome collaboration and communication in the planning and delivery of our transit service. Management performs ongoing review of its delivery model and will continue to assess for opportunities to optimize the process.</p>
Digital strategy and innovation roadmap	<p>Enterprise Digital Strategy will be rolled out before the end of 2024, and work has begun to prioritize technology investments and capability requirements.</p>
IT financial management enhancement	<p>Management will establish IT financial management function to enhance operational and strategic decision making.</p>
Service management & workflow optimization	<p>Continue streamlining and advancing its current technology infrastructure and take a strategic approach to future technology investments.</p> <p>This work closely correlates with work on Digital Strategy.</p>

Key Theme	Management's Action Plan
Maintenance regime transition	Continue working towards more planned and preventative maintenance, and leveraging the new Enterprise Asset Management systems' expanded functionality to achieve this.

Estimated costs for BCRTC expansion and operational readiness

Key Theme	Management's Action Plan
Operational readiness cost estimate reporting standardization	In addition to the current practice of developing estimates for the BCRTC expansion and operational readiness costs, BCRTC will put in place a formal structured process and methodology for regular periodic updates to these estimates. This process will be a part of development of the 2025 Investment Plan.
Risk quantification for budget contingencies	Work is currently underway at BCRTC to address and assess the expansion specific risks with a view of ensuring contingencies are adequate.
Departmental headcount growth review	BCRTC will review the areas where the headcount growth assumptions are different from underlying business drivers, to ensure that headcount budgeted for expansion and operational readiness is appropriate.

Budget and forecast process and reliability

Key Theme	Management's Action Plan
Budget development optimization	<p>TransLink will perform a review with a goal of reductions in manual processes, handovers and further standardizing the underlying processes. A significant opportunity for the improvement in this area will present itself with implementation of new budgeting and forecasting solution, which will support process automation, standardization and streamlining. Management has already commenced the feasibility study for such solution.</p> <p>Examine the opportunities for shortening the duration of the budgeting cycle.</p>

Service Planning

Key Theme	Management's Action Plan
Bus on-time performance targets review	Continue to review bus scheduling and operations through a variety of metrics and are committed to balancing factors such as punctuality and regularity from a customer service lens when designing schedules and assessing operations.
Bus stop consolidation	Continue to undertake bus stop balancing initiatives. Any potential cost savings must be carefully assessed against the impact on customer experience, accessibility and the quality of service we are committed to providing.

Key Theme	Management's Action Plan
Bus Speed & Reliability ("BSR") program effectiveness	<p>Findings from recently completed analysis are being applied to ongoing BSR initiatives and expected to yield more effective results in terms of both time and operational savings.</p> <p>Collaboration with and support from the municipalities continue to be very important in realization of outcomes from BSR program.</p>
Bus and rail schedule adjustment	<p>While Management acknowledges that adjusting schedules to reduce service output may result in savings, it would negatively impact customer experience. This is counter to our customer service objectives and commitment. At this time, TransLink will not be reducing service levels across its modes. Further analysis will be done to assess the overall impact of any proposed changes in service levels.</p>

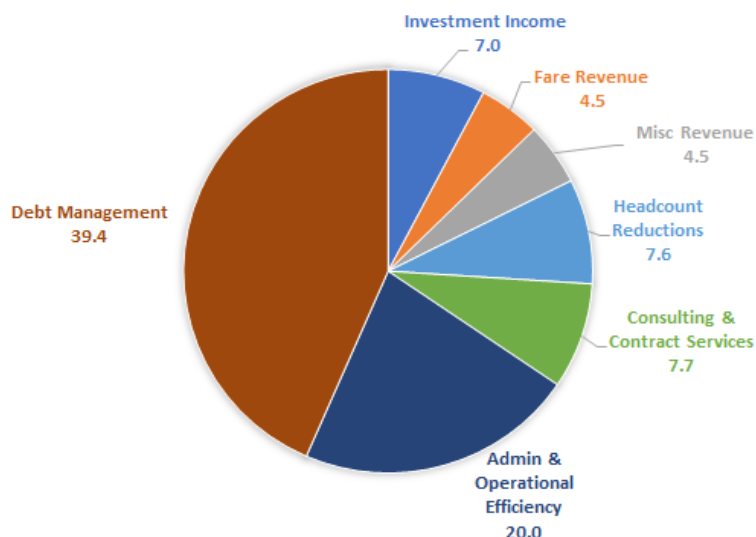
Financial Optimization

While the EY report has pointed us in the right direction, TransLink is committed to doing even more to generate cost savings and additional revenues that help reduce the structural deficit. Accordingly, beyond implementing the review's recommendations, TransLink is committed to advancing our financial optimization efforts further.

Using the EY report as a starting point, Management has looked to further reduce back-office expenditures, find ways of increasing revenue generation, and optimize management of TransLink's finances. Management identified cost reductions to be achieved by eliminating unfilled positions, cutting spending on professional services, and eliminating or reducing certain programs and initiatives that are not at the core of our services. These cost reduction measures will not impact transit services or hinder plans for service expansion. Management also identified additional revenue generating opportunities and ways to optimize debt management. All these measures contribute to reducing the long-term structural deficit.

As a result, Management is committed to achieving average net annual financial benefit to TransLink of \$91 million, as compared to its 2024 budget. These measures will help TransLink reduce the projected structural deficit over 2024-2033 by \$739 million, impacted by the timing and pattern of these savings being realized.

Figure 3: Financial Optimization



Cost Optimization (\$74.7 million):

1. Administrative and operational efficiencies: Management identified opportunity for \$20 million in cost reduction by streamlining administrative processes, optimizing operational workflows, realizing savings from discontinuing certain programs and allocating resources more effectively. For example, proactive software license management, reducing consumption of Cloud services through IT architectural changes, reducing consultant support for certain work and managing internal demand for IT services will allow Business Technology Services to save nearly \$4 million per year. Optimization of bus service is estimated to result in additional \$2 million savings per year, without affecting the quality or level of service. Over \$2 million will be achieved on lower insurance premiums, reduction in property rentals, and securing property tax exemptions.
2. Headcount reductions: Elimination of unfilled and vacant positions will result in nearly \$8 million in savings, aiming to allocate resources more effectively and ensure the long-term sustainability.

As part of 2024 budget process, Management identified a number of new unfilled positions that were put on hold pending the outcome of the independent Efficiency Review. Upon completion of the Efficiency Review, Management re-examined the positions that have been placed on hold, and permanently eliminated some of them. The positions that will be filled are those necessary for continuing delivery of core services and implementation of recommendations of EY report.

3. Consulting & Contract Services: Reducing reliance on external consulting and contract services, and re-prioritizing work, programs and initiatives will result in another nearly \$8 million annual savings. This is driven by several key factors aimed at strengthening internal capabilities and achieving sustainable cost savings. For example, scaling back on specific

programs and reducing or eliminating costs associated with training and miscellaneous external support, resulting in savings of \$2 million.

4. Debt management: TransLink is committed to achieving nearly \$40 million per annum in additional liquidity through optimization of its debt management strategy. Proactive debt management will result in lower overall interest expense and will reduce the requirement for contributions to the sinking funds.

These measures have further reduced the proportion of administrative costs, from 15.4% to 14.5%.

Revenue Optimization (\$16 million):

1. Fare Revenue: TransLink is aiming to achieve an increase in fare revenue of nearly \$5 million, primarily through a reduction in fare evasion.
2. Investment income: through optimization of management of its reserve funds and investment portfolio, TransLink is expecting to derive additional long-term investment income of approximately \$7 million.
3. Miscellaneous revenue: Management identified several opportunities to increase miscellaneous revenue by \$4.5 million, which will contribute to our overall financial health and support our strategic initiatives. These efforts include additional commercial revenues and carbon credit revenue optimization.

CONCLUSION

TransLink stands at a critical juncture, facing an imminent fiscal cliff that demands swift and decisive action. Depletion of the provincial relief funding, combined with fiscal pressures, shifting regional dynamics and major expansion projects, underscores the urgency of addressing our financial challenges. The Independent Efficiency Review has validated our commitment to efficiency, fiscal responsibility and continuous improvement, while also highlighting the limited options for cost reduction without affecting service.

This report has detailed our proactive measures to maintain high-quality, uninterrupted service for our customers. By implementing operational efficiency improvements, cost management initiatives, debt management measures, revenue enhancement strategies, and non-customer facing program reductions, we are taking immediate and strategic actions to help us navigate this financial crisis.

Our dedication to fiscal responsibility and service excellence requires us to act with both urgency and careful consideration. We will continue to work closely with provincial and federal governments to develop a sustainable funding model that secures the future of TransLink and the essential services we provide for our communities.