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**SUBJECT: Three Year Service and Financial Strategy**

**PURPOSE**

The purpose of this report is to provide the Victoria Regional Three Year Service and Financial Strategy to the Victoria Regional Transit Commission (the Commission) for **APPROVAL**.

**BACKGROUND**

BC Transit is required to submit an annual operating projection and long term capital plan request to the Province for approval. This submission forms the basis for the provincial budget request and for the development of the *2014/15 – 2016/17 Service Plan*.

As part of this annual process, BC Transit works with all local government partners to validate the financial and operational feasibility of existing and proposed service levels. Local government partners are requested to identify service expansion plans for the following fiscal year to allow BC Transit to accurately project provincial funding requirements in its provincial budget request. In addition, this information allows for more accurate vehicle and transit infrastructure planning and guides detailed service planning.

In September, the Commission was presented a draft Three-Year Service and Financial Strategy (2014/15 – 2016/17) for information (see attachment 1). The report presented:

- Base operating expenditures required to maintain existing service levels;
- Operating expenditures associated with service hour expansion; and
- Capital expenditures that are required to maintain existing service levels and to allow for future service growth.

The requirement for significant capital investment was highlighted in this report. The most significant requirement is the need for a new transit center. Without the expansion of transit storage and maintenance facilities no more than an additional **15** buses can be accommodated within the system. As a result of this constraint, the service expansion scenario previously considered by the Commission and supported by the CRD Board was limited to this level of increase over the next three years. Beyond that level of increase, no expansion of service would be feasible without additional expense and inefficiency.

In addition to the need for an additional transit center for conventional service, there is a need for a new custom facility, exchange improvements at several locations to accommodate increasing service and technological upgrades that are required to advance transit in the region as well as on-going fleet renewal. The capital budget prepared by BC Transit identifies over \$125M in capital investment required over the next five years.

As a result, the Commission identified that an increase to the local motor fuel tax of 2 cents may be appropriate to address these increases and requested that staff seek CRD Board endorsement prior to the December meeting. The CRD has endorsed this motion and Report #10 provides more detail and requests approval from the Commission to seek this increase from the Province.

## DISCUSSION

The three year service and financial strategy has been updated since the September meeting to reflect the pressure identified on local funding as a result of increased capital expenditures required to support infrastructure needs and service expansion in the Region.

Until an alternative funding strategy can be determined, the three year service and financial strategy has been adjusted to stay within existing inflation rates and reflect the existing funding levers available to the Commission. In addition, an alternative service expansion scenario has been created that would reduce the service expansion to two conventional buses and 5,000 hours in 14/15 (see page 3 for cost details). Any expansion beyond 2014/15 will be dependent on local affordability which may include additional fuel tax revenue.

The budget presented has also been updated to adjust the 14/15 forecasts based on the most recent ridership predictions. As always, a more cautious and conservative approach (i.e, worst case scenario) has been used in the future years to provide a conservative estimate of costs and revenue.

Specifically, the following adjustments have been made to the three year service plan:

- The ridership and revenue forecasts have been adjusted to reflect the most recent ridership predictions. A 1% increase has been assumed; and
- The Transit Fund balance in 2014/15 has been used to fund the Commissions share of the Douglas Street Bus Lane project (\$1.5 million) and to reduce the impact on local property taxes (\$1.17 million). Accordingly, the 2014/15 balance is forecast to be \$5.62 million.

## BASE BUDGET (not including expansion)

|   | Approved<br>Base Budget | Projection       | Projection       | Projection       |
|---|-------------------------|------------------|------------------|------------------|
|   | 13/14                   | 14/15            | 15/16            | 16/17            |
| <i>(figures in thousands)</i>               |                         |                  |                  |                  |
| <b>Expenses</b>                             |                         |                  |                  |                  |
| Operating Costs                             | \$97,639                | \$100,068        | \$101,362        | \$103,192        |
| Lease Fees (local share)                    | 14,662                  | 15,329           | 16,048           | 16,692           |
| <b>Total</b>                                | <b>\$112,301</b>        | <b>\$115,398</b> | <b>\$117,410</b> | <b>\$119,884</b> |
| <b>Total % Increase</b>                     |                         | <b>2.8%</b>      | <b>1.7%</b>      | <b>2.1%</b>      |
| <b>Op Cost % Increase</b>                   |                         | <b>2.5%</b>      | <b>1.3%</b>      | <b>1.8%</b>      |
| <b>Local Contribution</b>                   | <b>\$28,976</b>         | <b>\$31,077</b>  | <b>\$32,224</b>  | <b>\$33,496</b>  |
| <b>Service Hours</b>                        | <b>927</b>              | <b>928</b>       | <b>928</b>       | <b>928</b>       |
| <b>Passengers</b>                           | <b>25,103</b>           | <b>25,700</b>    | <b>25,957</b>    | <b>26,217</b>    |
| <b>Estimated Property Tax per Household</b> | <b>\$130.50</b>         | <b>\$134.45</b>  | <b>\$146.12</b>  | <b>\$158.84</b>  |
| <b>Incremental Increase</b>                 |                         | <b>\$3.95</b>    | <b>\$11.66</b>   | <b>\$12.72</b>   |
| <b>% Increase</b>                           |                         | <b>3.0%</b>      | <b>8.7%</b>      | <b>8.7%</b>      |

## Transit Fund Balance:

| <b>VICTORIA REGIONAL TRANSIT SYSTEM</b> |                              |                             |                             |                             |                             |
|---|------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>TRANSIT FUND</b>                     |                              |                             |                             |                             |                             |
| <i>(figures in thousands)</i>           | <b>Base Budget<br/>13/14</b> | <b>October<br/>Forecast</b> | <b>Projection<br/>14/15</b> | <b>Projection<br/>15/16</b> | <b>Projection<br/>16/17</b> |
| <b>Fund Beginning Balance</b>           | <b>\$8,461</b>               | <b>\$8,461</b>              | <b>\$8,294</b>              | <b>\$5,622</b>              | <b>\$4,196</b>              |
| <b>Commission Sources of Revenue:</b>   |                              |                             |                             |                             |                             |
| Conventional Revenue                    | 36,848                       | 36,573                      | 37,216                      | 37,589                      | 37,965                      |
| Custom Revenue                          | 353                          | 341                         | 354                         | 354                         | 354                         |
| Advertising                             | 585                          | 605                         | 605                         | 605                         | 605                         |
| Fuel Tax                                | 11,850                       | 11,650                      | 11,650                      | 11,650                      | 11,650                      |
| Property Tax                            | 27,592                       | 27,592                      | 28,346                      | 30,740                      | 33,352                      |
| Interest                                | 100                          | 100                         | 100                         | 100                         | 100                         |
| <b>Total available funds</b>            | <b>\$85,789</b>              | <b>\$85,322</b>             | <b>\$86,566</b>             | <b>\$86,660</b>             | <b>\$88,221</b>             |
| <b>Commission Share of Expenses</b>     | <b>(78,654)</b>              | <b>(77,028)</b>             | <b>(80,944)</b>             | <b>(82,464)</b>             | <b>(84,111)</b>             |
| <b>Fund Ending Balance</b>              | <b>\$7,135</b>               | <b>\$8,294</b>              | <b>\$5,622</b>              | <b>\$4,196</b>              | <b>\$4,110</b>              |

Note: A review of the transit fund is underway and will be presented at the January meeting.

## Base Budget assumptions:

- No change in assessments or occurrences
- Fuel price is budgeted at \$1.30/L; 5% increase thereafter
- Victoria Custom RFP in 2016/17
- PTP funding (federal gas tax funding) ending March 31, 2017
- Lease fees associated with capital projects are included in the Commission's base budget. These projects are required to maintain the existing transit system, such as regulatory requirements, asset replacement, or corporate projects (e.g. IT investments)

## SERVICE EXPANSION

As identified above, the need for new infrastructure and service expansion has put pressure on the ability of the Commission to fund their local share. As a result, until a formal funding strategy can be developed, an alternative service expansion has been developed that includes two conventional vehicles in 2014/15, with no expansion thereafter. Similar to previous years, these two vehicles would be used to address passups and overloads.

| <i>(figures in thousands)</i>              | <b>Projection<br/>14/15</b> | <b>Projection<br/>15/16</b> | <b>Projection<br/>16/17</b> |
|--|-----------------------------|-----------------------------|-----------------------------|
| <b>Expenses</b>                            |                             |                             |                             |
| Operating Costs                            | \$248                       | \$436                       | \$447                       |
| Lease Fees (local share) - Vehicle         | 138                         | 237                         | 237                         |
| <b>Total</b>                               | <b>\$386</b>                | <b>\$673</b>                | <b>\$684</b>                |
| <b>Local Contribution</b>                  | <b>\$308</b>                | <b>\$535</b>                | <b>\$542</b>                |
| <b>Service Hours</b>                       | <b>3</b>                    | <b>5</b>                    | <b>5</b>                    |
| <b>Passengers</b>                          | <b>80</b>                   | <b>148</b>                  | <b>159</b>                  |
| <b>Property Tax Increase per Household</b> | <b>\$1.54</b>               | <b>\$1.11</b>               | <b>\$0.00</b>               |

## RECOMMENDATION

It is recommended that the Victoria Regional Transit Commission receive the three year service and financial strategy (2014/15 – 2016/17) and **APPROVE**:

1. The 2014/15 base budget
2. The 2014/15 service expansion (5,000 hours and 2 vehicles) to allow for vehicle acquisition and service planning for implementation in September 2014.

Respectfully,



Manuel Achadinha  
President and Chief Executive Officer

Attachment 1: Three Year Service & Financial Strategy (September 2013 Draft)