



Base Governance and Operating Model For a Regional Transportation Service

Capital Regional District

KPMG LLP

September 2024

Background & purpose:

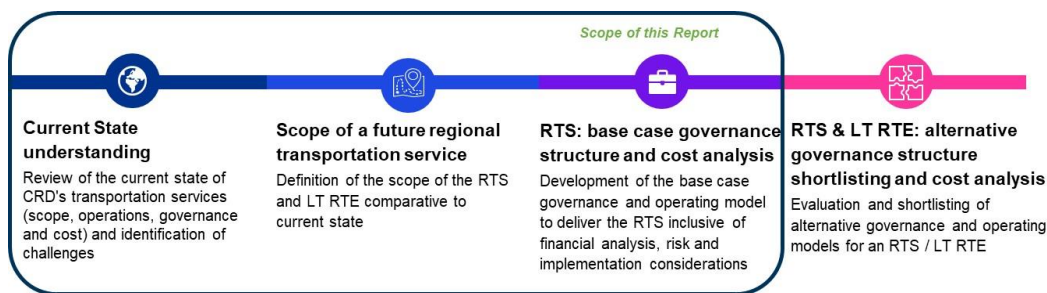
KPMG has been engaged to support the Capital Regional District (“CRD”) in developing governance and operating models to deliver a transportation service for the Region (the "Project"). The service is intended to accelerate the adoption of, and enhance coordination, among the member jurisdictions towards the outcomes and objectives of the Regional Transportation Plan (“RTP”). This includes the development of:

- 1 A base case governance and operating model to deliver the scope of a Regional Transportation Service (“RTS”), intended to be a first step towards formalizing delivery of a coordinated regional service. The RTS expands the depth and breadth of the existing transportation service, delivered by the CRD, within the bounds of the existing CRD legislation. Not all outcomes of the RTP will be delivered through the scope of the RTS.
- 2 A concept operating and governance model for RTS and alternate models to deliver the scope of a Long-Term Regional Transportation Entity (“LT RTE”). The scope of services delivered by the LT RTE will require legislative change and cannot be delivered within the existing CRD authorities. All outcomes of the RTP can be achieved through the scope of an LT RTE.

The overview of the Project is shown in Figure 1 below, with the scope of this Report outlined. This Report provides an overview of the scope of the RTS, the required base case governance and operating model for delivery of the RTS and the cost analysis undertaken to estimate the steady state operational cost of the service and the maximum requisition. It has been estimated to support the RTS Establishment Bylaw submission to the Board in September.

Further analysis is ongoing to shortlist and evaluate the alternative governance and operating models for the scope of an RTS and LT RTE and will be submitted for Board consideration at a future date.

Figure 1: Overview of the Project



RTS: scope and base case governance structure

The RTS consolidates the existing transportation activities performed through both the Regional Parks and Regional Planning Services whilst increasing the breadth and depth of these activities. Expansion of activities is limited by the bounds of existing legislation (i.e., CRD's current authorities). Whilst not all outcomes of the RTP can be fully realized through the scope of an RTS, the increased scope and focus on regional transportation activities will enable greater ability to deliver on multi-modal priorities. Implementing the RTS does not require legislative change and can be delivered within a similar design to the current governance and operating model.

Scope

The scope of the RTS was defined by the CRD to span eight transportation service categories. These categories expand the breadth and depth CRD's transportation activities within current legislation and forms the foundation for achieving the multi-modal priorities within the RTP. An illustrative summary of the expansion of activities across each transportation category, from current state to the RTS, is shown in Table 1.

Table 1: Summary of the expansion of breadth and depth of activities in RTS across the pre-established transportation categories *

Standard transportation activities \ Transportation categories	Active Transportation & Road Safety	New Mobility	Behaviour Change	Transit & Mobility Hubs	Multi-modal Network & Connectivity	Transportation Plans
Develop Regional Strategy	Current State	Current State	Current State	Current State	Current State	Current State
Define standards and levels of service	Current State	RTS	RTS	RTS	RTS	RTS
Coordinate policy / bylaws	Current State	RTS	RTS	RTS	RTS	RTS
Develop multi-modal bylaws	Current State	RTS	RTS	RTS	RTS	RTS
Develop and monitor policy	Current State	RTS	RTS	RTS	RTS	RTS
Prioritize & agree on priorities	Current State	RTS	RTS	RTS	RTS	RTS
Design & execute projects	Current State	RTS	RTS	RTS	RTS	RTS
Operate & maintain assets	Current State	Not within the bounds of the CRD legislation	Not within the bounds of the CRD legislation	Not within the bounds of the CRD legislation	Not within the bounds of the CRD legislation	Not within the bounds of the CRD legislation

* The current state transportation activities are also to be performed in the RTS.

The additional transportation categories of Data Management & Traffic Analysis, and Funding & Grants, are enabling categories to deliver the other six categories noted. Data Management & Traffic Analysis predominantly increases in depth through the expansion of the existing activities performed such as increased data collection and accessibility, whilst Funding & Grants is envisioned to support new activities such as funding partnerships and joint procurement.

Governance model to deliver the proposed RTS

The proposed RTS governance model leverages existing transportation-related committees (e.g., Transportation Standing Committee) and supporting structures from the current state governance model. For the purposes of this Project's base case definition, the RTS is established as a new division reporting to the existing Transportation Standing Committee.

The consolidation of the existing CRD transportation activities into one division with a single governance body will support the CRD to achieve the goals of the RTP. The Transportation Standing Committee will provide transportation recommendations to the Board based on a single, coordinated transportation vision for the Region.

Operating model to deliver the proposed RTS

The proposed RTS expands the depth and breadth of the existing transportation service delivered by the CRD. Through discussions and working sessions with the CRD, it was estimated that the additional support required to deliver the RTS scope equates to approximately a 40% uplift in the number of full-time equivalents ("FTEs"), when compared to current state resources. An increase in funding is also required for the provision of goods and services to implement and run the expanded breadth and depth of transportation activities. This is captured in the cost analysis below.

The uplift of 40% was determined in consultation with the CRD and through analyzing the expected increase in effort for each of the proposed activities and programs across the eight transportation categories. This uplift reflects the steady state FTE requirement to sustain the RTS.

Cost analysis of the RTS

An indicative and directional exercise was conducted with CRD inputs and guidance to develop a high-level cost analysis that estimates a range for the:

- approximate steady state cost of the RTS operating under the base case operating and governance model; and
- maximum requisition* of the RTS for the purposes of CRD creating a new service establishment bylaw, with a contingency included.

* Maximum requisition represents the legal upper limit amount the CRD can levy in taxes from member jurisdictions each year.

The basis of the RTS cost comprises four broad segments of cost categories (see **Error!** Reference source not found. for details):

- 1 operating expenditures;
- 2 growth contingencies;
- 3 capital expenditures; and
- 4 one-time implementation costs to manage the process of establishing the service.

RTS Maximum Requisition	Reference costs for RTS
RTS operating expenditure	Capital expenditure – not considered in the RTS maximum requisition. Funded through a combination of capital reserve funds, equipment reserve funds, and debt servicing
Salaries and benefits	
O&M (excluding labour)	One-time implementation cost – not considered in the RTS maximum requisition. Amount captured by the 'growth contingency' in the maximum requisition calculation.
Provision of Goods & Services	
Other operating costs	
Future governance costs	
Reserve funds: ORF, CRF, ERF	
Debt servicing costs	
Cost-sharing regional significant projects	
RTS Growth contingency	

Figure 2: Overview of RTS cost categories

Note: Only #1 operating expenditures (includes reserve funds and debt servicing costs) and #2 growth contingency contribute to the maximum requisition calculation. The #4 one-time implementation cost is assumed to be captured under the #2 growth contingency amount. #3 Capital expenditures are funded through #1 operating expenditures, either through capital reserve funds ("CRF"), equipment replacement funds ("ERF") or debt servicing costs. As such, #3 capital expenditures and #4 one-time implementation costs are not separately accounted for in the RTS maximum requisition calculation; instead, their costs are captured under #1 operating expenditures and #2 growth contingency, respectively.

Estimations developed for this Project are illustrative in nature and relied on cost information provided and assumptions validated by the CRD. Summary values are presented in ranges to reflect the illustrative nature of estimates presented as an order-of-magnitude reference for the purposes of this Project. Variability of actual costs incurred within each year reflect fluctuations of these cost items over the past five years of cost information reviewed.

Limitations of this analysis

All information and data used in the development of this cost analysis was either provided by the CRD finance team, developed iteratively in conjunction with the CRD finance team and other key staff, or gathered from publicly available resources. The information was continuously reviewed, refined, and validated with relevant CRD staff throughout the analysis. As such, inputs gathered and used for this Project represent a point-in-time assessment of the cost estimations. The reader is advised that variability will exist year-to-year, and will change subject to macro- and micro-economic shifts in the political, commercial, and public realms.

KPMG did not independently verify information provided by the CRD for this analysis, and, accordingly, the analysis and results presented herein do not constitute auditable results or forecasts. KPMG expresses no opinion regarding the accuracy of the cost and operational information provided by the CRD. CRD management has been responsible for directing KPMG on inputs used and adjustments applied for this analysis.

Methodology

Three methodologies were used to derive the cost inputs for the RTS, where applicable.

1 Use CRD's historical averages as the base, apply a factor of current state to scale up.

This methodology is applicable to cost categories where historical financial data is considered sufficiently representative to serve as a basis for future projections. Therefore, the 5-year historical averages between 2019 and 2023 are used as the starting point, and the RTS cost input is determined based on the effort required to deliver services in comparison to the current state.

2 Use CRD's planned future cost, or industry benchmarking price.

In certain instances, planned future costs were available and provided by the CRD, which was deemed to serve as a more accurate benchmark for the RTS cost input. Hence, a 5-year average cost between 2024 and 2028 was taken to estimate a steady state annual cost for the RTS. For staff paygrades, benchmarking rates from the Canadian Union of Public Employees ("CUPE") were applied.

3 Use CRD's directional input.

For cost items where neither of the first two approaches (i.e., method #1 or method #2) were applicable or deemed representative for the RTS projection, the CRD's directional input was used to generate a more realistic estimate.

Analysis

As presented in Figure 2, eight (8) cost items make up the total estimated operating costs for the RTS. These eight items plus growth contingency make up the total estimated maximum requisition to be considered for establishing the RTS. Below, a description of input sources, adjustment factors, and rationales for adjustments applied for each of the cost categories are described.

Salaries and benefits

This cost item includes salaries and wages, including benefits paid to staff. The annual costs for the RTS have been derived using the *2024 Staffing Cost Estimate for High Level IBC's*, based on the 2025 rates for managers and CUPE rates for non-management staff. Non-management staff costs are divided into CUPE paygrades J13-17, and J18-21 to reflect the pay difference between lower-level staff responsible for operations and maintenance related work for trails, and senior-level non-management staff responsible for planning and strategy related activities.

From the current state, an estimated 40% uplift in total FTE is required to deliver the expanded breadth and depth of activities of the RTS. To support the 40% increase in the number of FTE required, a 55%* uplift in salaries and benefits is required to support this. Refer to notes above on how the uplift amounts were estimated and validated with CRD.

Salaries and benefits	# FTE	RTS estimated annual cost ('000s and rounded to nearest thousand)	Compared to Current State
Management staff	3	\$483	↑ 55%
Non-management staff CUPE J13-17	13	\$1,326	
Non-management staff CUPE J18-21	10	\$1,316	
Seasonal staff	2	\$85	
Total salaries and benefits	28	\$3,210	↑ 55%

* 55% increase due to hiring more senior level staff. As well, average paygrades calculated using industry benchmark, which are slightly higher than current CRD pay rates.

Operations and Maintenance ("O&M") (excluding labour)

O&M encompasses costs related to vehicles & equipment, maintenance & repairs, excluding labour-related costs (captured under *Salaries and benefits*). Historically, O&M spending has been operating at a deficit due to constrained funding, as indicated by CRD staff (i.e., actual annual O&M for the service exceeds annual budget). Hence, a 20% uplift has been applied in the RTS, at CRD's directional input, to reflect both the historic deficit and increase in O&M required to support the shift of trails from recreational to active transportation corridors.

O&M (excluding labour)	RTS estimated annual cost ('000s and rounded to nearest thousand)	Compared to Current State
O&M (excluding labour)	\$209	↑ 20%

Provision of goods and services

The provision of goods and services is comprised of contracts for services, program development costs, and the Traffic Safety Commission. Consistent with the estimated 40% uplift in FTE required to support the increased breadth and depth of activities, a 40% uplift is also applied to contract for services for the RTS.

Program development costs encompass costs for existing and new programs to be delivered. The CRD finance and regional planning teams have constructed a bottom-up plan that outlines the uplift for program development cost based on the eight transportation categories.

Provision of goods and services	RTS estimated annual cost ('000s and rounded to nearest thousand)	Compared to Current State
Contract for services	\$213	↑ 40%
Traffic Safety Commission cost	\$75	.*
Program development cost	\$1,024	↑ 445%
Total provision of goods and services	\$1,312	↑ 216%

*The Traffic Safety Commission has no additional uplift in cost as the additional breadth and depth of its scope in the RTS is captured in the bottom-up planning for program development costs.

Other operating costs

Other operating costs consists of all other operating costs, including allocations, insurance, utilities & disposal, operating supplies, legal, and more. Similar to FTEs and contract for services, a 40% uplift has also been applied to capture the increase in cost required to deliver the increased breadth and depth of new activities in the RTS.

Other operating costs	RTS estimated annual cost ('000s and rounded to nearest thousand)	Compared to Current State
Other operating costs	\$1,014	↑ 40%

Future governance costs

In consultation with the CRD and consistent with the current state, members of existing advisory committees, commissions and working groups are not compensated separately as related costs are captured in their salaries. As the current state governance is adopted for the RTS governance model, no additional *future governance costs* are estimated to be incurred in the RTS.

Future governance costs	RTS estimated annual cost ('000s and rounded to nearest thousand)	Compared to Current State
Future governance costs	-	n/a

Reserve funds

There are three categories of reserve funds: Operating Reserve Fund (“ORF”), CRF and ERF. The ORF is designed to build up a reserve to fund future one-time initiatives, cyclical and unexpected program costs, and leverage cost-share grant opportunities for non-capital projects and programs. The CRF and the ERF, along with debt servicing costs, will fund the RTS capital expenditures.

The ORF for the RTS has been based on the *CRD Operating Reserve Guidelines*. For the CRF, the CRD’s Regional Parks Service provided planned figures for 2024-2028 and the 5-year average, with additional contingency to build up a long-term reserve as the projection for the RTS.

Similar to the CRF, the ERF also uses a 5-year average of the planned 2024-2028 expenditures provided by the Regional Parks Service, plus the 5-year historical average from 2019-2023 provided by the Regional Planning Service. An additional contingency has also been added to the ERF for the RTS. The magnitude of contingency defined with guidance by the CRD.

Costs are indicative only and based on historical planning with no major trail or leasehold improvements included. Future reserve transfers will be determined based on future capital and program planning activities.

Reserve funds	RTS estimated annual cost ('000s and rounded to nearest thousand)	Compared to Current State
ORF	\$100	.*
CRF	\$1,500	↑ 44%
ERF	\$250	↑ 63%
Total reserve funds	\$1,850	↑ 32%

*For comparison purposes, the Current State indicates no budgeted ORF transfers due to sufficient Regional Planning ORF balance. Past transfers from 2019-2023, comprising of surplus budget and grant funds, are inconsistent and unreliable for future planning.

Debt servicing costs

Debt servicing costs are dedicated to capital costs of leasehold improvements, specifically the expansion and widening of regional trails for active transportation. The average annual cost for debt servicing in the current state is \$5.6 million and this is expected to remain consistent in the RTS, as directed by the CRD finance team.

Debt servicing costs	RTS estimated annual cost ('000s and rounded to nearest thousand)	Compared to Current State
Debt servicing costs – trails	\$5,600	-

Cost-sharing regional significant projects

This is a new cost category, identified by the CRD, to leverage future capital cost-sharing projects or initiatives for regionally significant projects as identified in the RTP. The CRD has advised that \$5 million should be set aside annually to contribute to cost-sharing initiatives.

Cost-sharing regional significant projects	RTS estimated annual cost ('000s and rounded to nearest thousand)	Compared to Current State
Cost-sharing regional significant projects	\$5,000	↑ new cost category

Summary

The annual steady state expenditure for the RTS in 2030 and onwards ranges between \$18.0 million and \$18.4 million. For the purposes of this summary, the average annual steady state operating cost of RTS is assumed to be approximately \$18.2 million.

Cost categories	RTS ('000s and rounded to nearest thousand)
Annual expenditure at steady state (annual operating expenditure)	
Salaries and benefits	\$3,210
O&M (excluding labour)	\$209
Provision of goods and services	\$1,312
Other operating costs	\$1,014
Future Governance costs	-
Reserve funds	\$1,850
Debt servicing costs	\$5,600
Cost-sharing regional significant projects	\$5,000
TOTAL annual operating expenditure	\$18,195 (\$17,953 - \$18,418)

The maximum requisition is calculated as the highest value from the annual steady state RTS cost range (i.e., total annual operational expenditure cost range), plus additional costs allocated for *growth contingency*. *Growth contingency* is incorporated into the calculation of the maximum requisition to accommodate for any unforeseen capital or operating expenses and ensure there is room for future growth of the new RTS. A 5 – 10% amount of the annual operating expenditure was recommended by the CRD for the *Growth contingency* to round the maximum requisition to the nearest million.

Makeup of maximum requisition	RTS ('000s and rounded to nearest thousand)
Maximum steady state annual expenditures	\$18,418
Growth contingency*	\$1,582
Maximum requisition	\$20,000

*In practice, the growth contingency could range between \$1.6 million and \$2 million, depending on the actual steady-state annual expenditures within the projected range (i.e., range of \$18.0 - \$18.4 million).

Limitations to the RTS

This Report focuses on the estimated financial implications to deliver the RTS. The figures presented in this Report reflect the approximate, associated steady-state operating costs for the purposes of understanding a potential maximum requisition for CRD's service establishment bylaw. Whilst the RTS is expected to drive an integrated and consolidated transportation service for the region, it is limited by existing legislation and is unable to deliver on all the outcomes of the RTP. Further analysis is being conducted to explore longer-term governance and operating models to support the delivery of the scope of an LT RTE, which will require legislative change. Analysis on options of governance and operating models for an LT RTE will be submitted for Board consideration at a future date.

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