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# How Existing Budgets could Fund Metro Vancouver's Transit Expansion Plan

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## Main conclusions

- The proposal by the Mayors' Council on Regional Transportation for a $250 million sales tax increase to fund a $7.5 billion transit expansion plan assumes that none of the money currently spent by Metro Vancouver municipalities or TransLink can be spared.
- This is a questionable assumption given the dramatic increase in day-to-day spending over the recent decade. Specifically, from 2003 to 2013 (the latest year of available data), Metro Vancouver municipalities collectively increased their spending by a total of 73.1%. TransLink's spending growth was even more dramatic (at 104.8%).
- By comparison, spending increases were much more modest for British Columbia's provincial government (42.7%) and the federal government (46.2%). The increases in collective municipal and TransLink spending also greatly outpaced the combined rate of inflation and population growth in the region (31.4%).
- Municipal governments and TransLink could scrutinize their own budgets to find savings. A good place to start is by ensuring that wages and benefits for government employees are in line with private-sector norms for similar positions.

Over the next two months, Metro Vancouver residents will decide whether they want to pay $250 million more in sales tax each year to help fund a $7.5 billion capital expansion plan, mainly for public transit (Mayors' Council on Regional Transportation, 2015).[1] Both the tax hike and transit plan sprang from the Mayors' Council on Regional Transportation, which governs TransLink, the authority responsible for planning, financing, and managing public transit and major roads and bridges in the region.[2]

Putting aside whether the transit expansion plan is the best option for the region and the economically damaging effects of increasing the PST, the mayors' call for higher taxes assumes that none of the money currently being spent by municipal governments and TransLink can be spared. This is a questionable assumption. Surely savings could be found in current spending envelopes, especially given the dramatic increases in municipal and TransLink spending over the last decade.

Just how dramatic have those increases been?

As figure 1 shows, from 2003 to 2013 (the latest year of available data), Metro Vancouver municipalities collectively increased their spending on day-to-day operations by a total of 73.1%.[3] TransLink's spending growth was even more dramatic (at 104.8%), with spending more than doubling over the same period. By comparison, spending increases were much more modest for British Columbia's provincial government (42.7%) and the federal government (46.2%).

Figure 1 also shows that the increases in collective municipal and TransLink spending greatly outpaced the combined rate of inflation and population growth in the region (31.4%). As a result, spending per Metro Vancouver resident has marched upward in real terms. Specifically, municipal spending per resident increased to $1,416 from $1,093 while TransLink spending per resident grew to $486 from $318.[4]

Importantly, the type of spending presented above is to pay for day-to-day items such as wages and benefits for government employees and the costs of government administration—not capital projects such as roads and bridges, new transit lines, or more buses. (It includes debt interest payments for improved comparability between governments).

Spending increases of this nature do not always translate into new or improved services for Metro Vancouverites, especially if the spending is simply wasted or spent inefficiently.[5] Inefficient spending by government often stems from its monopoly over service provision and a lack of competing alternatives, whereas in the private sector, competition helps drive more disciplined spending.[6] In addition, taxpayers may not benefit if the new spending is primarily absorbed by existing government employees in the form of higher compensation packages.

In the case of TransLink, employee compensation consumed more than half (52.4%) of its operating budget in 2013 (TransLink, 2014; calculations by authors).[7] A recent report commissioned by the British Columbia government found that from 2001 to 2012, the wages of local government employees—including TransLink—grew by 38% (Ernst & Young, 2014). This growth rate is twice that for their provincial government peers (19%). The report also noted that in 2012, the number of TransLink employees making more than $100,000 increased by 14%.

More generally, research shows that in British Columbia, government workers (including those working for federal, provincial, and local governments) receive wages that are 6.7% higher, on average, than those earned by their private-sector counterparts (Lammam et al., 2015).[8] This is after accounting for education, length of time in the workforce, type of job, and other relevant factors. That wage

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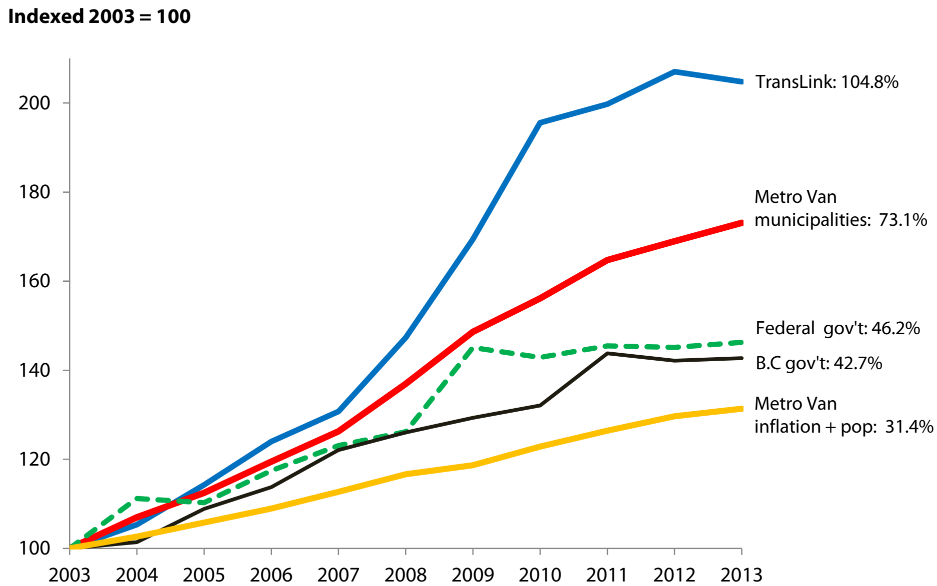
premium, which does not include the more generous non-wage benefits (such as pensions, earlier retirement, and job security) that government workers also enjoy, consumes tax dollars and leaves less money for transit and other public services.

Consider the following hypothetical scenario, illustrated in figure 2, where municipal governments in the region restrained their day-to-day operating spending. Beginning in 2003, had Metro Vancouver municipalities increased their collective operating spending in step with inflation and population growth, together they would have spent $4.7 billion less on their operating budgets over the decade (in 2013 dollars) than was actually the case. More telling, they would have spent $778 million less in 2013 alone, which is more than three times the $250 million that the Mayors' Council wants to collect by raising the provincial sales tax.

Alternatively, consider how TransLink and the Metro Vancouver municipalities could work together to find $250 million in savings, assuming they share the burden based on their proportional spending. In 2013, TransLink's non-capital spending was $1.2 billion, compared to $3.4 billion for the municipalities (TransLink, 2014; British Columbia, Ministry of Community, Sport and Cultural Development, 2014; calculations by authors). This works out to the proportion of total spending equalling 25.7% for TransLink and 74.3% for the municipalities.

## Figure 1: Growth in spending vs. inflation plus population growth, 2003 to 2013




Sources: BC Stats (2014); British Columbia, Ministry of Community, Sport and Cultural Development (2014); British Columbia, Ministry of Finance (2004—2014); Canada, Ministry of Finance (2004—2014); Statistics Canada (2015); TransLink (2004-2014); calculations by authors.

Notes: 1) Spending is defined as operating spending plus debt interest payments excluding amortization and capital-related expenses. Debt interest is included to improve comparability because, due to data limitations, debt interest for municipal governments cannot be disaggregated from the spending figures.
2) Spending for the B.C. and federal government are for fiscal years.

In order to find $250 million within existing budgets, Metro Vancouver municipal governments would have to save collectively $185.6 million while TransLink would have to save $64.4 million (for both, these amounts are roughly five percent of their non-capital spending). Even with these savings, spending by Metro Vancouver municipalities and TransLink would still have grown faster than their senior government counterparts and the rate of inflation plus population growth.

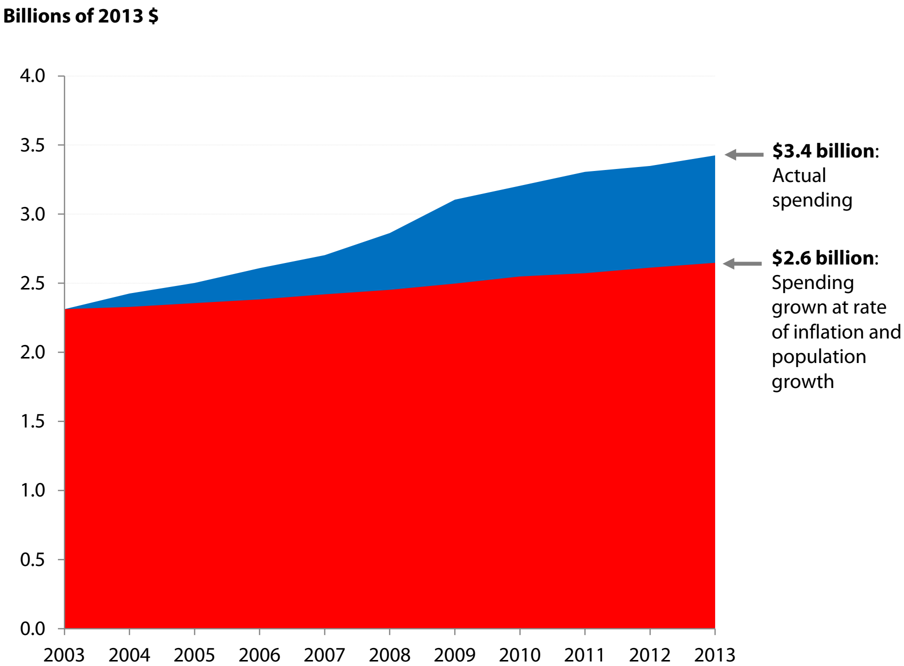
A good place to find savings is by ensuring that wages and benefits for government employees are in line with private-sector norms for similar positions. Before requiring Metro Vancouverites to pay higher taxes, municipal governments and TransLink would do well to scrutinize their existing budgets to fund their transit expansion plan.

## Notes

1 Specifically, over three quarters of the plan is for public transit initiatives with the remainder going to a mix of roads, cycling, and walking schemes.

2 For a description of the role of the Mayors' Council, see http://www.translink.ca/en/About-Us/Governance-and-Board/Governance-Model.aspx. For an overview of TransLink's

## Figure 2: Metro Vancouver municipal spending—actual vs. restrained, 2003 to 2013




Sources: BC Stats (2014); British Columbia, Ministry of Community, Sport and Cultural Development (2014); Statistics Canada (2015); calculations by authors.

Note: Spending is defined as operating spending plus debt interest payments excluding amortization and capital-related expenses.

responsibilities, see http://www.translink.ca/en/About-Us.aspx.

3 Spending here is defined as operating spending plus debt interest payments excluding amortization and capital-related expenses. Debt interest is included to improve comparability because, due to data limitations, debt interest for municipal governments cannot be disaggregated from the spending figures. Figures for municipal governments are the total for the 21 Metro Vancouver municipalities.

4 Municipal spending per resident is based on the population living in municipalities while TransLink spending per resident is based on the entire Metro Vancouver population. In 2013, around 24,000 Metro Vancouver residents lived outside municipalities.

5 Empirical research finds that a government that grows larger by increasing its spending does not always lead to better outcomes (Di Matteo, 2013). For more discussion on how increased government spending does not necessarily translate into new or improved services, see Lammam and MacIntyre (forthcoming).

6 Indeed, artificial monopolies and restricted competition driven by government policies and regulations can arise in the private sector where the efficiency effects are also negative.

7 TransLink's operating spending excludes amortization, capital related spending, and debt interest.

8 The data underpinning the empirical analysis in Lammam et al. (2015) are from Statistics Canada's *Labour Force Survey*, which counts TransLink employees as government workers (Derek Adams, Consulting Analyst, Statistics Canada, personal communication, March 19, 2015).

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