

CALGARY TRANSIT ZERO-BASED REVIEW AND ADMINISTRATION'S RESPONSE

EXECUTIVE SUMMARY

This report provides the results of an independent consultant's (Morrison-Hershfield's) Zero-Based Review (ZBR) of Calgary Transit, as well as Administration's response to Morrison-Hershfield's recommendations. In the first stage of the ZBR, Administration (Corporate Initiatives) reviewed all services provided by Calgary Transit, at a high level, and identified opportunities with the greatest potential for efficiency improvements for the in-depth analysis. Morrison-Hershfield then reviewed four subject areas in-depth. The areas that were subject to an in-depth review comprised approximately 32% of Calgary Transit's operating expenditures.

Administration expects that the ZBR recommendations, once fully implemented, will result in operating financial benefits of \$9.2 million annually, made up of \$5.3 million in savings and \$3.9 million in revenues. Administration also expects that Calgary Transit will realize (on average) another \$5.0 million per year in capital cost avoidance over five years. In addition, there are a number of improvements in service effectiveness related to improved service reliability, equity and reduced environmental impact.

Transit expects to begin implementation of the proposed changes in 2016. Because some of the changes have associated up-front implementation costs, Transit proposes to draw on a share of contributions to the Budget Savings Account to support initiation of implementation this year.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee recommend that Council:

1. Approve Administration's response (Attachment 2) to the recommendations in the Morrison-Hershfield Report;
2. Receive for information the Opportunity Identification Report (Attachment 1) and the Morrison-Hershfield report Calgary Transit ZBR Final Report (Attachments 3 and 5);
3. Direct Administration to report back to Council by June 2017 with a detailed implementation plan as well as an update on any progress already achieved;
4. Approve the transfer of one-time funds from the Budget Savings Account to Calgary Transit Operating Budget as follows:
 - a) \$350 thousand in 2016, to begin implementation of business cases related to Fleet Reliability (Service Lanes and Fleet Maintenance), and Janitorial and Outside Maintenance; and
 - b) \$1.55 million in 2017 to continue implementation of the business cases noted above and to support implementation of the business case related to Rail System Communications.
5. Direct that Attachments 4 and 5 remain confidential pursuant to Sections 24(1)(a)&(b) of the Freedom of Information and Protection of Privacy Act until the end of 2026.

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PREVIOUS COUNCIL DIRECTION / POLICY

On 2014 September 15, at a Special Strategic Planning Meeting, Council approved the recommendations to improve the Zero-Based Review Program (PFC2014-0554). This report included two specific changes:

- The process was changed to increase the role of internal staff vis-a-vis external consultants, so that Administration conducts the initial high-level analysis to identify opportunities for change, which are then pursued with the assistance of an external consultant with subject matter expertise in the service area under review;
- The ZBR purpose statement was clarified to identify an expectation of changes to service efficiency in order to reduce costs, mitigate future cost increases or accommodate growth within existing resources.

On 2015 March 30, Council Approved the creation of the Budget Savings Account (PFC2015-0181). It provided an incentive to Business Units to efficiently manage their service delivery and benefits from the resulting savings. Among its terms and conditions was that a portion of operating budget savings (estimated at 50%) were to be used to fund initiatives at a corporate level, and the balance would be available to business units to fund initiatives of importance to their services. Council approval is required to use funds from the Budget Savings Account.

BACKGROUND

The ZBR program was created in response to Council's direction to Administration to increase the focus on the effectiveness and efficiency of City services. It is an ongoing program designed not only to achieve service improvements in the short term, but also to develop and enhance the organization's culture and capacity with respect to continuous improvement. It does this by providing a method, tools and process to systematically and thoroughly investigate City services, using best-practices research, data analysis and expert opinion. The ZBR process looks at what is done (service scope and level) and how it is done (service delivery method). The objective of each review is to provide recommendations to address two fundamental service delivery questions:

- **Efficiency:** What changes could be made to services that would help to achieve greater results within available resources?
- **Effectiveness:** What changes could be made to improve the achievement of service goals or outcomes?

Calgary Transit is the largest Business Unit in the City of Calgary with over 3000 employees providing service 365 days a year for over 110 million riders per year. It has an annual operating budget of \$389 million (2014) and approximately \$189 million (2014) in non-mill rate supported revenues. Through four garages, a fleet of over 1000 buses and almost 200 light rail vehicles, Calgary Transit provides service to over 160 bus routes and two rail lines with 44 stations. The largest single service cost is the operation of bus and train services (\$165 million, or 42% of the 2014 operating budget).

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

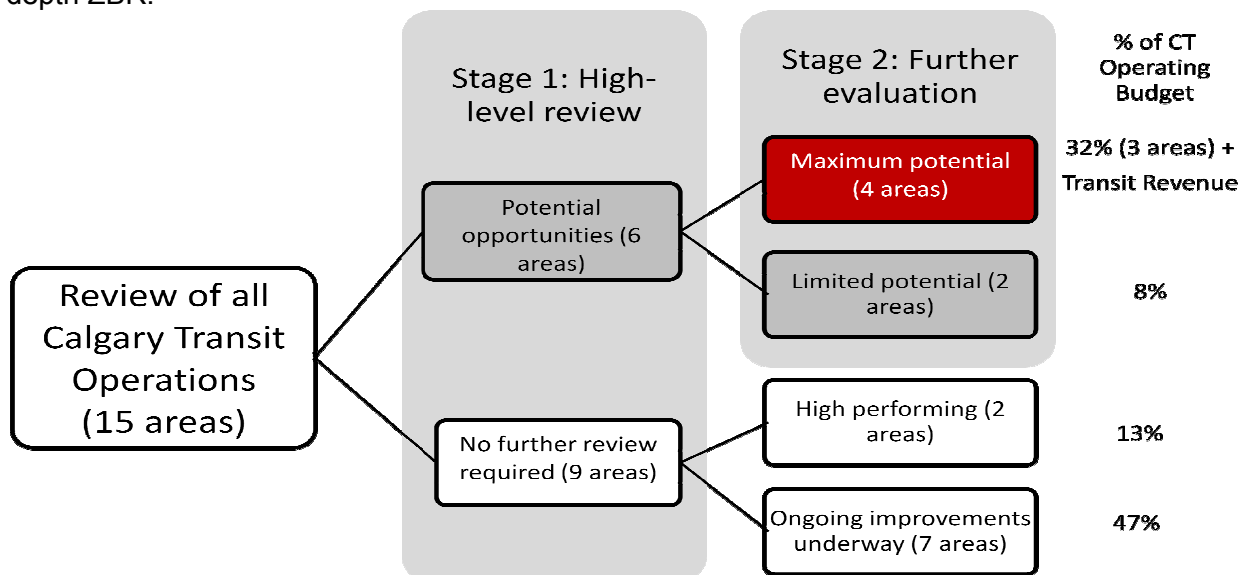
Initial Analysis to Identify Areas for In-Depth Review

Consistent with the approved ZBR method, Corporate Initiatives conducted an initial high level review of all of Calgary Transit's services in order to identify areas with the greatest potential for efficiency and effectiveness gains. A comprehensive summary of the opportunity identification work has been provided with this report (Attachment 1).

Of the fifteen potential areas for investigation within Calgary Transit, the initial review determined that nine would not benefit from an in-depth review, either because they are currently performing very well, or because work is already underway to address any emerging issues (a hallmark of a continually improving organization is that such efforts will be initiated within the organization, on an ongoing basis).

- No priority improvement opportunities were found in two areas: Calgary Transit Access, and Transit Safety and Enforcement. Both had high levels of customer satisfaction and service effectiveness. A recent performance review of Calgary Transit Access had found it to be efficient and effective and considered a best practice in the industry.
- In seven other areas, ongoing improvements are already underway, and were unlikely to benefit from further review. Included in these are several initiatives that will have an impact on the cost and effectiveness of bus and train operations that comprise the majority of the Calgary Transit's budget – specifically bus route system optimization and employee safety and accommodation.

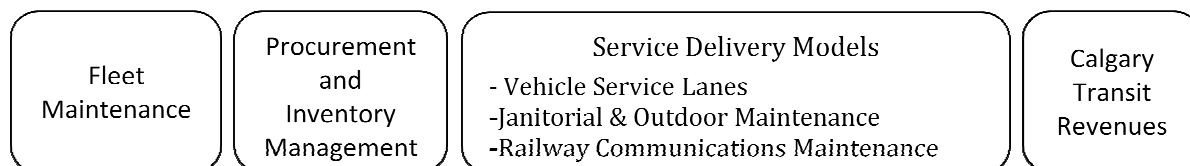
The remaining six service areas were then evaluated to identify those with the greatest potential for improvement, reflecting criteria such as potential for improved efficiency or effectiveness, budget size and data availability. Based on this analysis, four topics were selected for the in-depth ZBR.



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Details of the areas that were reviewed and not reviewed, and the rationale, are provided in Attachment 1.

The four subject areas that underwent an in-depth review are:



The first three of these areas comprise about 32% of total Calgary Transit expenditures, measured as a proportion of the 2014 operating budget. The final area, Transit Revenues, is equal to about 45% of Calgary Transit's total operating expenditures.

The opportunities identified were used as the basis for an external consultant to undertake an in-depth review and develop business cases and recommendations for change. This approach is used to ensure that the resources (in time, effort and dollars) of the ZBR process are used in the most effective way possible.

Confidential and Public Reports

It is a principle of the ZBR process to be transparent in reporting results. However, both the external consultant's report and Administration's response contain some sections that must be held confidential. The potential harm in disclosing confidential sections includes:

- Negative impact to the economic interests of The City, and
- Reduced ability to effectively implement changes.

In order to balance these interests with transparency, two versions of each the Morrison Hershfield final report and the Administration's response have been provided:

- A public version, which provides as much information as possible, but has a few sections redacted; and
- A confidential version, provided to Council members but not to the public, which shows the complete text.

	Public (some sections redacted)	Confidential (complete text shown)
Opportunity Identification Report	Attachment 1 (no redactions)	n/a
Morrison Hershfield Report	Attachment 3	Attachment 5
Administration's Response	Attachment 2	Attachment 4

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External Consultant's Recommendations

Morrison-Hershfield, an external consultant with expertise in transit services, was retained to conduct the in-depth review. Their report (Attachments 3 and 5) proposes a number of ways to improve the efficiency and effectiveness of Calgary Transit's operations. Each of the business cases includes an assessment of potential options for how the services could be improved and recommendations to improve service efficiency and/or effectiveness. Each business case also addresses some of the risks associated with the recommendation as well as other implementation considerations.

Morrison-Hershfield's recommendations for each subject area, as well as the expected efficiency and effectiveness benefits are outlined below

1. *Procurement and Inventory*: The consultant speaks to improving the alignment of the leadership objectives between Calgary Transit and Supply Management to reduce carrying costs, reduce inter-location transfers and improve inventory data. The consultant does not quantify efficiency savings for this case but instead notes that the recommended changes support the drive for a lower spares ratio (i.e. the ratio of spare vehicles to those required for service) outlined in the Fleet Maintenance business case.
2. *Fleet Maintenance*: The consultant outlines a series of internal improvements related to a more rigorous planning, execution and measurement of fleet maintenance activities, processes, workforce allocation and maintenance philosophy. The consultant recommends implementing these changes to achieve an annual net operational efficiency savings of \$1.8 million as well as (on average), another \$5 million per year over a period of five years in capital cost avoidance.
3. *Service Delivery Models*
 - A) *Vehicle Service Lanes*: The consultant recommends that The City outsource the vehicle service lane function (daily cleaning and refuelling of buses) to an external private contractor to achieve an annual efficiency savings of \$3.1 million.
 - B) *Janitorial and Outdoor Maintenance*: The consultant recommends that The City increase the use of external contractors to achieve an annual efficiency savings of \$2.7 million
 - C) *Railway Communications Maintenance*: The consultant provides an outline of key considerations and implementation issues that should be addressed as Calgary Transit moves the maintenance of its railway communications system from an external provider (ENMAX) toward a self-performed internal function.
4. *Calgary Transit Revenues*: The consultant examines four changes that Calgary Transit could take with its approach to revenues that could stabilize or improve the current downward trend of the revenue to cost ratio. These are:
 - A) *Low Income Transit Subsidy*: The consultant recommends assigning low-income transit funding responsibility to Calgary Neighbourhoods and developing a low-income transit pass revenue recovery plan.

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- B) *Senior Fares*: The consultant recommends aligning Seniors' fares (not low income) pricing with Youth fares, eliminating the seniors annual pass and offering senior cash fares, tickets and monthly passes to achieve an additional \$2.9 million in revenues.
- C) *Transit Advertising Revenue*: The consultant recommends that The City act on recommendations in a February 2015 report on advertising revenue to achieve an additional \$1.0 million in revenues.
- D) *Transit Parking Revenue*: The consultant recommends that The City move to a demand based pricing model for parking, by converting free stalls into monthly reserved stalls, in lots that have waiting lists. It is estimated that this would achieve an additional \$1.0 million in revenues.

It should be noted that on page 135 of the Consultant's report, Morrison-Hershfield notes that: *"Proceeding with Route Ahead targets presents challenges to maintaining the R/C [Revenue/Cost] ratio in the 50 – 55% policy range. Targeting fare increase in line with inflation plus targeted reductions in deep fare discounts as modeled here will produce R/C results by 2044 that are close to the target range (46%)"*.

Morrison Hershfield also concludes that:

"...there is no need to amend the R/C Ratio policy target of 50 – 55% if recommendations 1 – 4 are adopted."

- 5. *Business Planning*: The consultant recommended some enhancements to Calgary Transit's business planning process.

Administration's Response

Attachments 2 (public) and 4 (confidential) provide Administration's proposed responses to all of Morrison-Hershfield business cases and recommendations. Of the 10 recommendations provided by Morrison-Hershfield, Administration recommends acceptance of 9 recommendations; 6 without amendment, 3 with amendment. Administration recommends not accepting one of Morrison-Hershfield's recommendations. The three cases where Administration recommends to 'accept with amendment' as well as the case where Administration recommends to 'not accept' are noted below along with a brief explanation of the reasons for it. Full details are in Attachment 4.

Service Delivery Model –Vehicle Service Lane: Do Not Accept

In its response Administration has grouped two business cases that are intrinsically linked to one another (Fleet Maintenance and Service Lanes) under the heading 'Fleet Reliability'. Both functions work closely together and are best understood and discussed as parts of a larger Fleet Reliability service area, since changes in one of these functions could affect the effectiveness and efficiency of the other.

Administration agrees with the recommended solution for Fleet Maintenance, which includes improved workforce planning and processes, along with a reduction of the overall fleet size resulting from a lower fleet spares ratio. It has expected financial benefits in the form of reduced operating and capital costs.

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However, Administration does not recommend accepting the consultant's proposal to contract out Vehicle Service lanes. The Service Lane function works closely beside the Fleet Maintenance function and both are integral to the day-to-day reliability of Calgary Transit's fleet and to achieving a low spares ratio. One risk of contracting out service lanes is that the potential savings within Fleet Maintenance (both operating and capital costs) would not be realized. This concern was also raised by the Peer Review Panel. Administration's reasoning is explained in more depth in Attachment 4, pages 5-6.

Rather than contracting out Vehicle Service Lanes, Administration recommends pursuing the consultant's Option 2 (internal performance improvement), which still holds out the potential for achieving \$750,000 in efficiency gains.

Calgary Transit Revenues – Low Income Transit Subsidy: Accept with Amendment

Administration agrees with the direction of this proposal. However, Administration believes it is not advisable to transfer funding responsibility to Calgary Neighbourhoods without also addressing the question of ongoing funding sources and clarifying roles and responsibilities. Administration therefore recommends that this matter be referred back to Calgary Transit and Calgary Neighbourhoods to address the management and funding for Low-income transit passes and to report back to the SPC on Community & Protective Services no later than Q4 2017.

Calgary Transit Revenues – Advertising: Accept with Amendment

Administration agrees with the recommendation to expand advertising revenues, but does not believe that the projected additional revenues are achievable in the current economic climate or the near future.

Calgary Transit Revenues – Park and Ride: Accept with Amendment

Administration agrees with the recommendation to amend the Park and Ride Policy to permit a demand-based approach in selected lots that have a monthly reserved waiting list by converting free stalls to monthly reserved stalls. However, Administration recommends that this matter be referred to the June 13, 2016 meeting of Council to be addressed with the recommendations from TT2016-0319 "A Review of Calgary Transit Park and Ride"

Stakeholder Engagement, Research and Communication

The Calgary Transit ZBR, like others, included consultation with a number of internal and external stakeholders to ensure that their knowledge and experience was considered in developing the recommendations. This included interviews with senior staff (both internal and external to Calgary Transit), performance measure workshops with key staff and benchmarking against other Canadian Transit organizations where appropriate. Citizen satisfaction surveys were also considered during the analysis. Finally, Supply, whose operations interact with Calgary Transit were also consulted at several stages during the project, and have concurred with the Administration recommendations in areas that affect their operations and mandates.

Consultation with Council will continue. As is standard for the ZBR process, Administration will report back within one year of this report going to Council (i.e. by June, 2017) with a detailed implementation plan.

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Strategic Alignment

The ZBR recommendations will help to ensure that Calgary Transit can continue to make progress towards achieving its strategic goal of becoming the preferred mobility option for Calgarians. The ZBR program supports Council's Priority to be a "Well-Run City", and specifically the direction to be "as efficient and effective as possible, reducing costs and focussing on value for money." It also supports the Leadership Strategic Plan approved by Council on 2014 September 14, as part of the Integrated Performance System.

Social, Environmental, Economic (External)

Calgary Transit contributes to social outcomes by connecting people and places. Calgary Transit also contributes to environmental outcomes through reducing greenhouse gas emissions, lower land consumption and reduced energy consumption. The ZBR recommendations will support Calgary Transit in continuing to achieve these outcomes.

Financial Capacity

Current and Future Operating Budget:

The recommendations of the Calgary Transit ZBR (Administration's Response) will ultimately yield operating budget efficiencies about \$9.2 million. In considering the impact on current and future operating budgets, it should be noted that:

- The operating cost efficiencies and capital cost avoidance identified in this review are expected to be realized over the next five years.
- Implementation of the proposed changes may require some funding. In order to begin work, Calgary Transit is proposing to start implementation in 2016, drawing on funds from the Budget Savings Account, as outlined in Recommendation 4. The proposed withdrawal of \$1.9 million over two years is within Calgary Transit's allocation of 50% of its contributions to the Budget Savings Account.

Current and Future Capital Budget:

The recommendations of the Calgary Transit ZBR (Administration's Response) will ultimately yield an average capital budget savings of about \$5 million per year over a period of 5 years, through the avoidance of purchases of transit fleet vehicles.

Risk Assessment

Morrison Hershfield's business cases include sensitivity analyses that address the potential impact that certain elements may have on the successful implementation of a specific option. These may include external contractor pricing, labour costs, inflation, growth in fleet commitment etc. This allows Transit to improve the certainty of their decisions by identifying the elements that should be more tightly managed in order to increase the likelihood of achieving the benefits of the preferred option.

Administration's response to Morrison-Hershfield's recommendations included consideration of acceptable risks. Administration believes that there are minimal risks to implementing the supported recommendations save for those already identified in the Morrison Hershfield report

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and in Administration's response. Outlines of these risks were provided in Attachments 2 through 5.

REASON(S) FOR RECOMMENDATION(S):

Approval of Administration's recommendations will make it possible for Calgary Transit to proceed with implementation, and to achieve the benefits described in the report. Administration will report back in one year with a detailed implementation plan.

ATTACHMENT(S)

1. Calgary Transit Zero-Based Review Opportunity Identification Report
2. Administration's Response to Calgary Transit ZBR Report from Morrison-Hershfield
3. Calgary Transit Zero-Based Review Final Report (Morrison Hershfield)
4. Administration's Response to Calgary Transit ZBR Report from Morrison-Hershfield (Confidential)
5. Calgary Transit Zero-Based Review Final Report (Morrison Hershfield) (Confidential)