Making Transit Work: The Main Ingredients

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Expectations

In a number of Canadian cities, hefty investments in public transit are being promoted, contemplated, promised, and sometimes, even made, as the only way for dealing with congestion, the ills of increasing automobile dependence, sustainability, and global warming.

A perusal of many transportation master plans prepared by municipal and provincial transportation agencies in Canada suggests increasingly widespread acceptance that congestion can only be managed within acceptable limits and sustainable urban development can only be achieved by means of plans and policies characterized by:

- Massive capital investment in transit infrastructure,
- Little or no investment in road improvements,
- Less dependence on private automobiles for most travel,
- Order of magnitude increases in the use of public transit, and
- Significant increases in travel by walking and cycling.

As early as 2000, for example, the federal government's Roundtable on Transportation and the Environment concluded that transit is the most efficient way to move people about an urban area and reduce greenhouse gas emissions, thereby justifying major transit infrastructure programs.

In 2008, *Metrolinx*, the new transportation authority in the Greater Toronto Area and Hamilton (GTAH) region, announced plans to invest more than capital $50 billion over the next 25 years in order to more than triple the system of rapid transit, promising that every resident will be eventually be within 2 km of such transit service.[1]

A year later, York Region, one of the fastest growing regions within the GTAH region, announced transportation master plan revisions based primarily on major transit expansion and transformation of the road network "into more pedestrian-friendly routes that encourage transit use, walking, cycling and carpooling".[2]

These policy statements are predicated on the belief that profound changes in individuals' travel behaviour will result from sizeable investments in new transit infrastructure.

To cite one example, *Metrolinx's Big Move* anticipates growth in transit use over the next 25 years at about 45 percent, comparable to population growth of the same magnitude. To place this optimism in perspective, as shown in Figure 1, during the last 25 year period, transit use increased by only about 13 percent for a 45 percent increase in population.

At the same time as planning authorities are advocating 'transformational' changes that will lead to order of magnitude shifts in travel behaviour, it's worth noting that major operators in Calgary, Ottawa, and Toronto have all recently instituted fare increases, service reductions, or both, in the face of heated debates about their detrimental effects on transit use.

Most of the current attention on transit revitalization is based on technological innovation, in particular, promotion of light rail transit as the most effective means of improving transit competitiveness. The emphasis on 'new' technology, however, is not paralleled by a similar emphasis on providing service that is either more customer oriented or deals effectively with the major complaints so often expressed about transit service.

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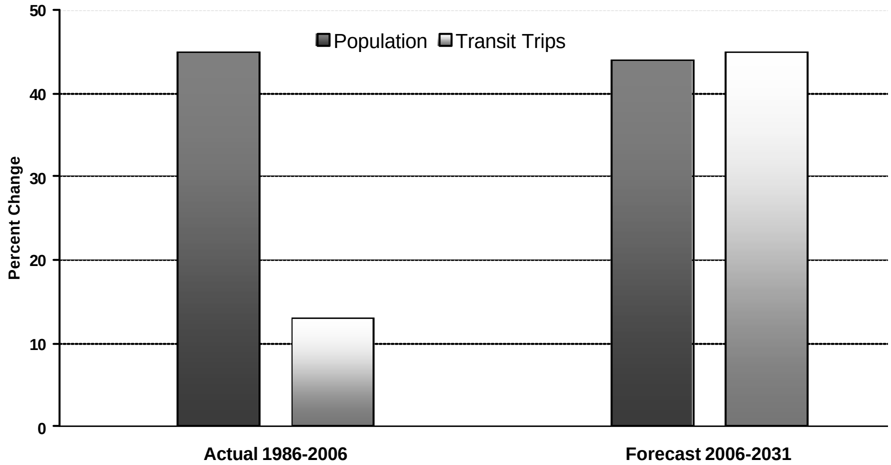
[1] *The Big Move*, Toronto: *Metrolinx*, November 2008.

[2] Regional Municipality of York, *Transportation Master Plan Update*, December 2009.

Clearly, the going-in assumptions for many of these new transit initiatives are premised on the belief that "if you build it, they will come". But will they?

Figure 1 A Comparison of Experience vs Expectations



A Primer on Transit Competitiveness

Without repeating much of the literature on travel demand analysis, the potential for substantial increases in transit modal shares is influenced by two main factors.

First, it is generally recognized that transit users fall into two categories, namely, those who by reason of income or age can be considered as transit 'captive' (perhaps 60 to 65 percent of all riders) and those who can be considered as 'choice' users. The former generally either do not own an automobile or do not have access to an automobile for a particular trip whereas the latter are those who choose transit even though they could make their trips by automobile, either as drivers or passengers.

Second, anticipated changes in overall travel behaviour resulting from major new transit investment derive primarily from large increases in the proportion of choice riders. Variables that affect choice riders largely involve the relative competitiveness of automobile and transit travel in terms of perceived costs and perceived differences in travel times, convenience, reliability, and comfort, all of which are captured under the term 'level of service'.

For choice users, there is reasonable agreement that service attributes are more important than cost considerations. In fact, in most cases, in terms of true, fully allocated relative costs, travel by transit usually wins 'hands down' simply because the real costs of automobile ownership, insurance, operation, maintenance, and parking, are rarely lower than the cost of using public transportation, unless they are subsidized either by employers or income tax inequities.

Transit level of service is what really drives modal choice for other than captive riders. Although level of service is obviously influenced by transit technology, the choice of technology is not the sole determinant of ensuring that service characteristics are properly aligned with the needs and expectations of choice users.

If public transit is really going to be transformed to achieve profound changes in travel behaviour, profound changes will also have to be made in several areas, the most important of which are customer orientation and financial models, as well as governance and decision-making.

Customer Orientation

When a would be transit user loses a twenty dollar bill in a fare vending machine, the usual approach is to press the call button so that the station attendant can basically say "tough luck" and point out that complaints can be made and a refund obtained from the main headquarters, some distance away, during designated times.

This example of not putting the customer first is due to the fact that the attendant is probably not empowered to do more than that and, as some might argue, may not even care about the passenger's predicament.

As unfair as such criticism is to most transit workers, at least three contenders in the current mayoralty race in Toronto have pointed to the lack of customer oriented transit service as a major campaign issue. One candidate thinks "customer service is dismal". If elected, he vows first, to re-establish the pride which workers and managers have in their system, certainly an enviable goal, and second, to appoint himself to the board of directors, certainly a big mistake.

Whenever customer dissatisfaction becomes front page news, the usual knee jerk reaction is to announce new surveys about what's really bothering people and to stress a new focus on hiring frontline workers who are better sensitized to dealing more effectively with the public in order to reduce the 'complaints index'.

Unfortunately, the problem is not that simple. Customer orientation does not begin with frontline staff; it ends there. It begins with senior management and requires top down leadership by example, as well as a cultural change throughout the entire organization that places customers first.

Successful organizations periodically ask "how are we doing?" Successful organizations also continuously monitor the answer to that question. But in order to answer the question, they really need to know what the organization is attempting to achieve in the first place.

What the organization hopes to achieve, in turn, depends upon having some sort of vision to act as a context within which goals and objectives can be set. In modern marketing, it is becoming fashionable to refer the vision as the organization's 'brand', a notion that unfortunately, is frequently the subject of derision by those charged with the responsibility to actually deliver transit service where the "rubber meets the road" or where the wheel meets the rail.

For public transportation, any vision clearly embraces elements related to transit as an 'enabler' of land use planning goals and the efficient management of urban growth, including both intensification and redevelopment. Other elements are customer satisfaction, the efficiency and effectiveness with which public funds are used, and financial accountability.

Without improved levels of customer satisfaction, however, the other attributes of the vision (goals and objectives) simply fall by the wayside. Land use impacts, for example, derive from improved transit accessibility, but without large increases in choice riders due to improved customer satisfaction, those impacts will not be realized.

Simply hiring someone to do surveys and creating user advisory panels isn't going to fix the problem. What is required is a complete transformation of agencies that are traditionally 'supply oriented' into customer-oriented service providers, a process that probably involves five main strategies.

First, as already noted, a vision of the service to be provided is needed to serve as a foundation for everything the organization does. An example of a vision might be as simple as providing:

> *a well-integrated network of reliable, faster, and easily accessible service that supports land use planning and provides for safe, efficient, and cost effective service delivery*.

The important point is that the vision statement or 'brand' must be endorsed by:

- the municipal or regional council to which the transit agency reports,
- the actual commission or body (usually elected or appointed officials) responsible for executive oversight and budget approvals,
- all levels of management within the operating agency itself, and
- remaining employees including ‘frontline’ staff who provide the primary interface with customers.

Second, in support of the vision or brand, a strategic plan is needed to plot the course for achieving the objectives embodied in the brand. Although development of the strategic plan is properly the primary responsibility of the agency’s executive team, it requires buy-in and support of the agency’s governing body.

Such agreement is essential to ensure that all decision-making conforms with both the long term vision and the strategic plan rather than being made on an *ad hoc* basis influenced by short term political expediency. In other words, by endorsing the strategic plan, the governing body relinquishes the right to propose policies and projects that are either inconsistent with the body’s vision or which are inconsistent with the strategic plan.

Third, performance measures are required to gauge progress in achieving clearly identifiable goals and objectives embodied in the strategic plan. Performance measures involve level or quality of service indicators such as reliability and on-time performance, as well as efficiency measures such as costs per passenger and operating ratios.

Fourth, once performance indicators are established, periodic monitoring through well established survey techniques round out the toolkit for determining “how we’re doing”. What this means is that in addition to establishing targets for customer satisfaction, changes in the main indicators of customer satisfaction should be tracked on a regular basis.

Finally, clearly 'outside the box' and perhaps, somewhat wishful thinking for the public sector, now is time to consider compensation schemes in which a significant component of salary increases is performance based.

However difficult it may be to imagine implementation of performance based compensation for employees covered by collective agreements, there is no reason to reject the concept of compensation influenced both by overall performance of the agency (corporate goals), as well as targets for individual managerial positions for excluded (non-union) managers.

Tying salaries to agency goals, objectives, and targets may be the only way of ensuring that all components of the service provider's organization are aligned with a common commitment to deliver the agency's vision.

When all is said and done, until such time as customer satisfaction becomes the distinguishing marker as to what services are offered to choice users and how they are to be delivered, "if you build it", they probably won't come.

Financial Models

Transit finance is dominated by concerns about the growing difficulty of meeting financial needs both for the repair and rehabilitation of existing infrastructure and for infrastructure expansion.

Setting aside the matter of funding operating losses that certainly will grow with system expansion, today's approach to transit funding can be characterized as a chorus of pleas for more dollars from the provincial and federal governments, while lamenting the fact that elsewhere in the world, municipalities have obtained significant funding from national governments. Sometimes, these funding requests have been granted but, in many cases, they have been denied, or even worse, left unanswered.

This 'ask and pray' approach to transit funding has to change if transit authorities are to deliver the kinds of new service implied by many of the announcements noted previously.

Transit funding involves a myriad of issues of which two are probably most important. The first issue concerns federal government participation; the second concerns predictability.

The case for federal assistance has probably best been made by the Federation of Canadian Municipalities (FCM) in arguing that as one of the few western nations without long-term commitments to urban transit, the federal government should adopt a national transit funding strategy.[3]

FCM's position derives from national objectives for reducing greenhouse gas emissions and the belief that the urban infrastructure deficit reduces the competitiveness of Canadian municipalities and stifles nation-wide economic growth.

According to the FCM, the United Nations ranks Canadian cities lower than U.S. and European cities in terms of competitiveness, quality of life, and the business environment. The inference is that increasing investment in urban infrastructure, including transit, is extremely important if Canadian cities are to compete more effectively in a global economy.

The second important issue concerns funding predictability. No organization can function effectively without some estimate of cash flows over a reasonable time period.

Given the long-term nature of transit infrastructure needs, the ability to predict future revenues (including subsidies) and costs is just as important as the amounts themselves. Clearly, there is a need for new financial models that offer predictable estimates of revenue streams.

[3] Federation of Canadian Municipalities, Big City Mayors' Caucus, *National Transit Strategy,* Ottawa: 5 March 2007.

Funding programs that must stand the test of the annual municipal, provincial, and federal budget processes do not provide the predictability needed for effective long-term infrastructure planning. It comes as no surprise, therefore that there is little disagreement on the need to place transit finance on a long-term predictable basis.

Public agencies, of course, can use various financial instruments such as municipal bonds to supplement capital needs. The ability to incur debt, however, depends upon debt servicing capability (for both interest and principal) and this is precisely where the predictability of finance becomes so important.

Long-term predictability requires legislation, not short-term programs. Legislation can provide guaranteed streams of revenue that enhance the capability of public agencies to self-finance long-term infrastructure more effectively. Guaranteed streams of revenue also provide opportunities for financial community participation in the delivery of needed infrastructure.

In this regard, the FCM's recommendation that the federal Gas Tax Transfer, appropriately indexed for inflation and population growth, become enshrined in federal legislation, is precisely on target.[4] Similar action by provincial governments that care about transit would further accelerate the expansion of transit infrastructure and services.

By allowing these guaranteed streams of funding to be pledged as 'revenue covenants' for the issuance of conventional debt instruments, the advantages would be even greater, particularly if some degree of tax exemption were part and parcel of special transit legislation.

For example, if the federal and provincial governments were to enact legislation related to gas tax transfers, municipalities could issue

[4] Louis A. Langlois, *Towards a Permanent Federal Gas Tax Transfer*, Ottawa: Federation of Canadian Municipalities, 23 February 2007.

transit revenue bonds, the repayment of which would be guaranteed from 'revenue' derived from these transfers. Guaranteed funding would essentially become *revenue covenants*.

The use of conventional financial instruments guaranteed by legislated revenue streams generates capital more quickly than the conventional annual budgeting process of public sector organizations and governments. Enhancing such legislation by permitting municipalities to issue tax-free transit bonds would further increase the ability to accelerate the entire process for transit capital investment implied by so many of the new plans.

To place this potential in perspective, 5 cents per litre guaranteed by each of a provincial government and the federal government, supplemented by an annual vehicle tax of $60 (as recently introduced in the City of Toronto) in a region of 6 million residents, would translate into a present value, even without indexing, of about $15 billion in infrastructure investment.

Moreover, if both governments were to combine the right to issue tax-free municipal transit bonds in omnibus transit acts, 3 percent revenue bonds would generate a present value of close to $20 billion.[5]

It should be emphasized that these suggestions for achieving more predictable and accelerated funding for transit are predicated on the assumption that such expenditures are justified in the first place.

Governance

Governance is the single most important matter that affects the decision-making process, the implementation of investment and operating policies, and the overall performance and success of any urban transit agency.

Unfortunately, for several reasons, governance models typical of most Canadian transit agencies present serious challenges for cost-

[5] For purposes of illustration, calculations are based on 3 million averaging, 2,000 litres of fuel consumption annually.

effective, comprehensive planning and decision-making capable of creating a highly satisfied customer base.

First, governance bodies intended to provide executive oversight for management are almost always comprised of political appointees who, in many cases, are themselves elected officials. The fundamental problem with elected officials serving as 'directors' is that, typically, they are influenced by parochial views related to looking after the short-term interests of their constituencies even though, by its very nature, transit investment is very long-term.

This practice is a contradiction of the fundamental tenet of good governance, namely, that all board members have a fiduciary responsibility to make decisions in the best interests of body to which they are appointed.

Voting is just one example that is highly influenced by too short a time horizon. The short-term perspective of governance body members who stand for re-election at a local level minimizes the potential for long-term, comprehensive planning at an area wide scale. In fact, decisions on important long-term issues are often postponed simply to avoid public discussion during a time when they could affect election outcomes.

Second, because transit issues have such a high public profile, governing body members who must stand for re-election, do not lose opportunities for publicity by engaging in matters that are the proper domain of management. Examples of the failure to distinguish between executive oversight and micro-management abound and the demarcation line between the two functions is, at best, blurred.

Third, board members who are also elected officials often reach down directly into the organization regarding matters that relate to individual constituents or, in some cases, even to obtain support that may be helpful to their own election campaigns. Such practices basically constitute abuses of authority and divert staff attention from their main responsibilities.

Finally, most board members who are sitting elected officials, have few, if any qualifications for serving as board members of large transportation organizations that spend tens of millions, if not billions of dollars annually.

Some of these concerns can be eliminated if appointments to governing bodies are restricted to non-politicians. Although the process for political appointments may well be imperfect, it does allow individuals to be appointed who actually have experience or expertise that is germane to the goals and objectives of the agency they are appointed to govern.

In an era where the planning context for transit is dominated by concerns about finance, efficiency, community and environmental 'friendliness', and, increasingly, customer satisfaction, the main features of more effective governance models include the following:[6]

1. Appointees should have expertise and experience in relevant disciplines including engineering, construction, municipal finance, urban planning, environmental assessment, transportation operations, information technology, law, and labour relations.
2. Members should be nominated both by municipal councils and non-governmental organizations, including boards of trade and professional associations for lawyers, engineers, planners, and accountants.
3. Once established, governance bodies should also have flexibility to themselves appoint a limited number of members to fill gaps in necessary expertise and experience.
4. To ensure some degree of continuity and the retention of institutional memory, terms of office should be staggered and should overlap the terms of municipal councils.

[6] Some of these are treated by Harold Dalkie and Richard M. Soberman, "Achieving Sustainable Urban Transportation: The Decision Making Challenge", in the *Annual Proceedings* of the Transportation Association of Canada, Ottawa: 2008.

5. New members should participate in orientation programs that provide background on the goals and purposes of the organization, an appreciation of the issues to be addressed, and a clear understanding of the relative responsibilities of the oversight body and the agency's senior management.
6. To ensure that executive oversight is provided as objectively as possible, members must
   - Accept a fiduciary responsibility to act individually in the best interests of the entity which they govern,
   - Be capable of taking a long term and comprehensive view of major policy and financial alternatives, and
   - Distance themselves sufficiently from any personal conflicts of interest.

In short, the objective of good governance is to make the right decisions. The objective of good management is to do the right things right. There is an important distinction between the two, one that is rarely recognized in the governance of most existing Canadian transit authorities.

Conclusions

Massive investments in transit infrastructure now being planned and programmed in a number of Canadian municipalities are predicated on the assumption that they will generate profound changes in travel behaviour and an optimistically large increase in the proportion of 'choice' riders diverted to public transportation.

The main argument presented in this paper is that "if you build it", they will only come if major investment is paralleled by similarly profound changes in three areas that dictate how these new transit services are to be delivered.

The first challenge is to transform transit organizations in ways that clearly establish a 'customer first' culture as the trademark of service planning and delivery. This transformation requires senior managers to lead by example and embrace the concept of customer orientation through performance targets that derive directly from a clear understanding of the goals and objectives of the transit agency.

The second challenge essentially involves co-opting both the federal and provincial governments to support transit funding through entitlement-based transit legislation that produces predictable cash flows, rather than periodic application-based programs that most provincial and federal governments now appear to favour as last minute ‘bailouts’.

Perhaps the greatest challenge, however, concerns the need for changes in the governance models of most municipal transit operations, changes that reflect a clear distinction between executive oversight and policy direction (as opposed to micro-management). These changes, first and foremost, involve replacing elected officials by individuals with credible expertise and experience who are committed to exercising their duties in the best interests of the agency in the absence of personal conflict of interest.