

MEETING DATE: November 28, 2001

SUBJECT: 2002-2006 Capital Program and 10-Year Capital Forecast

RECOMMENDATION

It is recommended that the Commission:

1. Approve the 2002-2006 Capital Program in the amount of \$1.61 billion as detailed in this Commission Report and its attachments, as well as in the following accompanying items:

- TTC 2002-2006 Capital Program Overview
- TTC 2002-2006 Capital Program (Blue Books)

(2) Approve the 10-Year Capital Forecast in the amount of \$3.8 billion as shown in the attached report;

(3) Forward this report to the City of Toronto for Council approval of the 2002-2006 Capital Program and approval of the 10 year forecast.

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REPORT OVERVIEW

The TTC's 2002 to 2006 Capital Program is described in detail in the following:

- The Commission report that provides a discussion of the major policy issues.
- The accompanying document entitled "TTC 2002-2006 Capital Program Overview", which provides a comprehensive overview of the budget, highlights key changes from last year, and discusses funding issues and the operating budget impacts of the programs.
- The "Blue Books", which describe every project in detail, including project justifications.

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BUDGET PRIORITIES

As has been the case since the August 11, 1995 subway accident, the Commission's capital budget priorities remain:

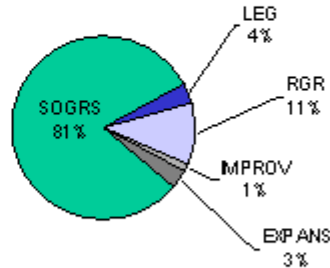
1. State-of-Good-Repair and Safety
2. Legislative
3. Ridership and Growth Related
4. Improvement
5. Expansion

Successive TTC capital budget documents since that time have documented the on-going need for substantial and continual re-investment in the replacement and/or major rehabilitation of the Commission's fixed assets and vehicle fleets. This budget continues that approach. Table 1 below provides dollars and a pie chart of budgeted expenditures for the next five years.

TABLE 1

CAPITAL PROGRAM
2002 TO 2006
By Major Category
 (\$ millions)

State of Good Repair & Safety	1,302	81%
Legislative	58	4%
Ridership Growth Related	175	11%
Improvement	22	1%
Expansion	53	3%
<i>Total</i>	1,610	



As can be seen, over 80% of the capital budget for the next five years is committed to State-of-Good-Repair/Safety projects.

In establishing these budgets, a life-cycle approach is used. Detailed system inventories of each class of capital asset are kept. Budgets are set to replace or rehabilitate assets based on condition assessments, engineering standards, legislative requirements or safety/environmental implications. Five and ten-year programs are developed: all designed to keep the estimated \$8 billion in TTC Capital assets in proper working order. The companion report entitled "TTC 2002-2006 Capital Program Overview" and the Capital Program "Blue Books" describe each project in detail.

FIVE-YEAR BUDGET COMPARISON

In looking at the budget, it is important to note that it is in large measure a "status quo" budget. The most significant change in the 2001-2005 period is the bus fleet plan changes that have been well-documented in recent months. Table 2 below illustrates this:

TABLE 2
(\$MILLIONS)

	2001	2002	2003	2004	2005	2001- 2005
Commission Approved 2001-2005 Capital Budget	366	284	331	276	246	1,503
Budget Proposed in this Report	353	276	309	262	320	1,520
Change	(13)	(8)	(22)	(14)	74	17
Bus Fleet Changes	0	(2)	(29)	(13)	71	27
All Other Changes	(13)	(6)	7	(1)	3	(10)

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As can be seen, the capital expenditures for the 5-year period 2001-2005, are increasing by \$17 million. However, the years 2001-2004 are collectively \$57 million

lower than in last year's Commission approved 5-year Capital Budget. Almost all of the increase is associated with the bus fleet changes and all of it comes in 2005.

A somewhat similar picture is portrayed in the 10-year period 2001-2010, as shown in the companion reports. In large measure, it too is a "status quo" 10-year forecast.

FUNDING ISSUES

Capital funding available from government funding partners always has been, and always will be, of paramount importance in any transit capital budget. Transit capital budgets throughout the world are largely dependent upon direct capital funding from government. The TTC is no exception. The next section describes possible funding sources for the TTC Capital Budget.

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City Funding

In approving the overall City of Toronto 2001 Capital Budget, City Council set funding targets for the TTC for the years 2001-2005 as follows:

TABLE 3

(\$MILLIONS)

	2001	2002	2003	2004	2005	2001-2005
City Target	366	235	218	189	203	1,211

In setting these targets, the City based them on a City-wide overall capital affordability level of \$650 million in annual capital expenditures.

Taken over the 10-year period 2001-2010, last year's City approved targets left the TTC \$1.6 billion short of overall needs, as shown below:

TABLE 4

(\$MILLIONS)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2001-2010
10-YR Program	366	284	331	276	246	419	438	487	549	410	3,806
City Target	366	235	218	189	203	200	200	200	200	200	2,211
Shortfall	0	(49)	(113)	(87)	(43)	(219)	(238)	(287)	(349)	(210)	(1,595)

At this time, the City of Toronto has not determined the actual funding level for TTC capital expenditures for 2002.

Provincial Funding

Historically, the Province paid for up to 75% of net capital expenditures based on detailed eligibility criteria. On October 4, 1996, the TTC, Metro and the Province executed Capital Subsidy Agreements under which the Province agreed to pay \$511 million towards the construction of the new Sheppard Subway and \$915 million towards the TTC's State-of-Good-Repair Budget covering the period January 1, 1996 to December 31, 2000. Projects committed to at that time continued to receive 75% funding and new projects received the reduced 50% provincial subsidy.

On September 27, 2001, Premier Mike Harris made two transportation announcements. The first concerned a 10-year \$10 billion highway investment plan. He also announced the Province would resume capital funding for transit projects, both for the State-of-Good-Repair and expansion projects. While specific figures and application procedures have yet to be established, TTC staff are led to believe that about \$1.1 billion will be available over the next 10 years towards the state of good repair portion of the budget.

The Province's Transit Investment Plan has the following elements which could impact favourably on the TTC:

- Cost-sharing up to 1/3 of municipal transit capital renewal requirements (State-of-Good-Repair).
- Province assuming responsibility for GO Transit operating and base capital freeing up over \$.5 billion in costs for the City.
- GTIP (Golden Horseshoe Transit Investment Partnerships).

Over the coming weeks, staff will be reviewing the project list to assess how the TTC's capital projects can fit into the programs to maximize Provincial funding.

Federal Funding

Traditionally, the Canadian federal government hasn't funded transit. However, most federal governments throughout the world provide substantial capital funding for transit expenditures. The federal government in the United States for example has funding legislation known as TEA-21 (Transit Equity Act for the 21st Century) under which it's providing almost \$7 billion (\$US) in direct capital funding for transit agencies in 2001 and about \$30 billion (\$US) for highway projects. TTC staff, working with staff from APTA (American Public Transportation Association), calculate the TTC would have received \$290 million (\$CDN) under TEA-21 legislation, were it in effect in Canada.

Given the Federal Government Kyoto commitments, mass public transit may prove to be one of the most effective tools available for controlling green house gases. One subway line equals 27 lanes of highway (or Highways 400, 401 and 403 combined). It also takes about 53,000 automobiles/hour off the road.

The Liberal Red Book noted "A new Liberal government will work with provincial and municipal partners to help improve public transit infrastructure." In response to the Premier's September 27 announcement, the Federal Minister of Transport noted in his September 27 news release entitled "Transport Minister Welcomes Ontario Government Decision to Resume Funding for Municipal Transit" that "the Government of Canada is committed to work with provincial and municipal partners to help improve public transit infrastructure." He also stated that he proposes "to seek an early meeting with my Ontario counterpart, Mr. Clark, to explore how we can move forward. As an interim financial measure, consideration might be given to using unallocated funds for the Canada-Ontario infrastructure program for urban and commuter transit to complement today's initiative announced by the province. Of the \$680 million over five years contributed by Ottawa, only \$300 million has been committed."

Discussion continues with the Federal government to secure the needed capital funding for transit capital expenditures.

TTC Funding

The Capital Program is also partially funded through the TTC's Operating budget. Specifically depreciation charges (budgeted at \$15.5 million in 2002) which are based on amortizing the net cost to the TTC of certain assets are charged against the TTC Operating Budget. They form a source of funding for certain capital programs such as Surface Track, computers, non-revenue vehicles and shop equipment. As well, there is a direct contribution to capital charges (budgeted at \$17.6 million in 2002).

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BUDGET CONTEXT

Two things characterize the 1970-1990 period: continuous investment in transit capacity and almost 70% growth in ridership. That investment came essentially in two forms: substantial subway and RT expansion, and significant investment in revenue vehicles: subway cars (400 cars purchased), streetcars (196 CLRVs and 52 ALRVs), SRT cars (28), and a 69% increase in the size of the bus fleet.

The State of Good Repair and Safety projects contained in the Commission's capital program provide for the reinvestment and rehabilitation of that physical (fixed) plant, as well as the replacement of those revenue vehicles (rail cars have a useful life of 30 years, while buses have a useful life of 18 years). Approximately \$3.8 billion in investment will be needed over the next 10 years, exclusive of any subway expansion.

In addition, it's important to remember that the price of transit vehicles has increased significantly faster than the normal rate of inflation. For example, an H2 subway car cost about \$165,000 in 1971. Assuming a normal rate of inflation, a subway car could cost about \$800,000 in today's dollars. The recently completed order for T1 subway cars cost approximately \$2 million each.

Expenditure Profile

Table 5 identifies the \$3.8 billion capital investment required over the next 10 years.

TABLE 5

(\$MILLIONS)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-2011
Expenditures	276	309	262	320	443	478	489	531	478	241	3,827

Figure 1 shows the expenditure profile from 1991 to 2011.

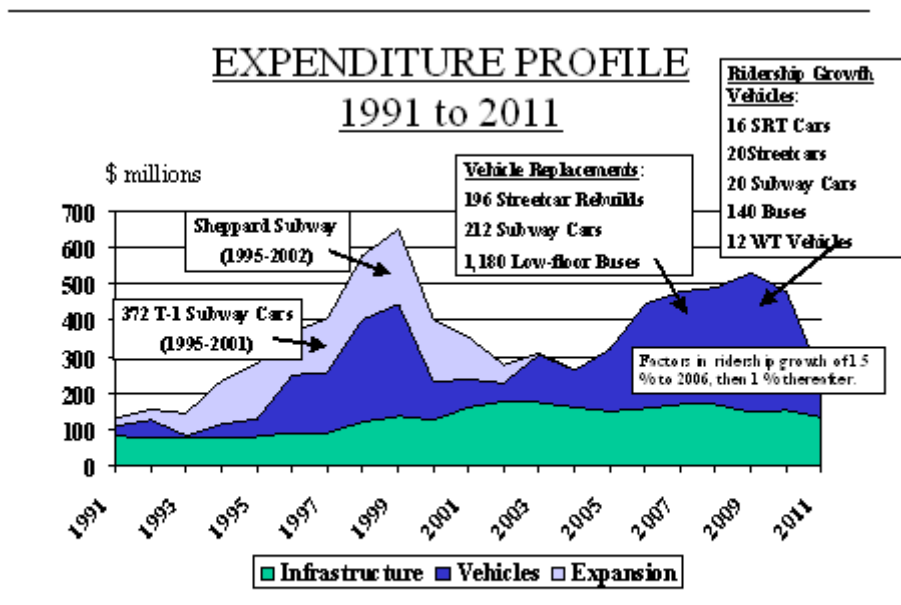


Figure 1

Expenditures for the next decade continue to be dominated by: (i) the need to replace aging buses and subway cars and provide growth vehicles, (ii) the need to rebuild and purchase additional streetcars and undertake almost \$300 million in streetcar track rehabilitation, (iii) major structural rehabilitation of the Commission bridges, tunnels, buildings and structures, (iv) the need to expand the SRT fleet to accommodate

increasing demand, and (v) the need to modernize the Commission IT assets. In addition, major projects to enhance fire ventilation equipment (\$226 + million over 10 years) and completion of the program to make all remaining subway stations accessible (\$220 million over 15 years) also need to be undertaken. It is also worth noting, the \$3.8 billion shown in the chart over the next 10 years provides for no subway/SRT/streecar rail system expansion once the new Sheppard Subway is completed.

November 22, 2001

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Attachment: TTC 2002-2006 Capital Program Overview