MEETING DATE: October 23, 2002

SUBJECT: 2003-2007 Capital Program and 10-Year Capital Forecast

RECOMMENDATION

It is recommended that the Commission:

1. Approve the 2003-2007 Capital Program in the amount of $1.97 billion as detailed in this Commission Report and its attachments, as well as in the following accompanying documents:

- TTC 2003-2007 Capital Program Overview

- TTC 2003-2007 Capital Program (Blue Books)

1. Approve the 10-Year Capital Forecast in the amount of $3.77 billion as shown in the attached report;
2. Consider this report in concert with the following:

a. the 2003 TTC Operating Budget
b. the 2003 Wheel-Trans Operating Budget
c. the 2003 Departmental Goals and Objectives
d. the 2003 Organization Charts

1. Forward this report to the City of Toronto for Council approval of the 2003-2007 Capital Program and approval of the 10 year forecast;
2. Forward this report to the Province of Ontario for confirmation of funding eligibility of the projects contained within the 2003-2007 Capital Program and 10-Year Capital Forecast;
3. Forward this report to the Government of Canada for confirmation of funding eligibility of the projects contained within the 2003-2007 Capital Program and 10-Year Capital Forecast.

REPORT OVERVIEW

The TTC's 2003-2007 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 2003-2007 Capital Program Overview", which provides a comprehensive overview of the budget, highlights key changes from last year, and discusses funding issues and the operating impacts of the programs.

- The "Blue Books", which describe every project in detail, including project justifications.

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BUDGET PRIORITIES

The Commission's capital budget priorities remain:

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

Table 1 below provides dollars and a pie chart of budgeted expenditures for the base program over the next five years.

<u>TABLE 1</u>

CAPITAL PROGRAM

2003 TO 2007

<u>By Major Category</u>

($ millions)

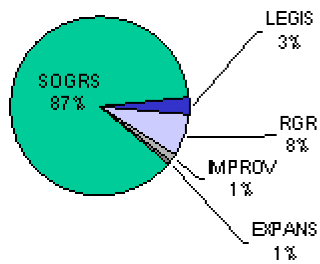
CAPITAL PROGRAM

2003 TO 2007

By Major Category

($ millions)

SOGRS	1,714	87%
Legislative	60	3%
Ridership Growth	152	8%
Improvement	30	1%
Expansion	10	1%
Total	1,966	



As can be seen, almost 90% 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 $9 billion in TTC Capital assets in proper working order. The companion report entitled "TTC 2003-2007 Capital Program Overview" and the Capital Program "Blue Books" describe each project in detail.

BUDGET COMPARISON

In looking at the overall Capital Program, it is important to note that it is a "status quo" budget. Table 2 illustrates this.

TABLE 2

($ Millions)

		2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2002-2011**

	2002										
Approved	276	309	262	320	443	478	489	531	478	241	3,827
Proposed	244	323	330	384	454	475	469	458	454	231	3,822
Change	(32)	14	68	64	11	(3)	(20)	(73)	(24)	(10)	(5)

As can be seen from the table, capital expenditures over the 10-year period 2002-2011 are virtually unchanged. This reflects an increase of $125 million during the 5-year period 2002-2006 which is more than offset by a $130 million decrease during the 5-year period 2007-2011.

The increase in the initial 5-year period is primarily related to safety critical work on track and signals ($31 million), moving forward the new bus facility to reduce the need for costly expansion at Birchmount and Queensway garages ($42 million), vehicle overhaul programs ($18 million) and, slippages from 2001 ($38 million). The decrease in the latter 5-year period is primarily related to the spreading out of the fire ventilation project over a longer period of time – 19 years instead of 12 years ($68 million), the advancement of the new bus garage into the 2002-2006 timeframe ($40 million) and the cancellation of the 18-year GM Classic rebuild ($14 million). Details of the specific changes in each envelope are contained in the 2003-2007 Capital Program Overview.

FUNDING ISSUES

Capital funding available from government funding partners is 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. It has significant investments in transit infrastructure including vehicles that must be addressed through a predictable and sustained stream of funding year after year. This section describes possible funding sources for the TTC Capital Budget.

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City Funding

The City of Toronto is responsible for funding 100% of the TTC’s Capital Program. Historically, Provincial funding has reduced the City’s contribution by as much as 75%; however, in recent years, no funding has been available from the Provincial government. In addition, the TTC’s depreciation charges form a nominal source of funding toward the Capital Program. Net City funding is financed as best determined by the City, most often through the issuance of long term debt instruments.

Several Provincial and Federal announcements have been made in recent months and funding programs are in various stages of being rolled out. The specific nature, level and duration of this transit funding support has yet to be confirmed. This funding, will, by virtue of the municipal act, flow through the City for TTC Capital needs.

Provincial, Federal and TTC Funding are discussed in the following sections.

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, then Premier Mike Harris announced the Province would resume capital funding for transit projects, both for State-of-Good-Repair and expansion projects providing $1.1 billion 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:

i. Cost-sharing of municipal transit capital renewal requirements (State-of-Good-Repair) under the Ontario Transit Renewal Program (OTRP).
ii. Cost sharing of certain inter-regional or advanced transit technology projects through the Golden Horseshoe Transit Investment Partnerships (GTIP).

i. Ontario Transit Renewal Program (OTRP)

In February 2002, the Province announced funding of $62.3 million in 2002 for TTC capital under the OTRP. At this time the eligibility criteria for capital expenditures are under review with the Province. As a result, the precise amount to be received in 2002 and future years is uncertain. TTC and City staff are attempting to negotiate a multi-year funding agreement with the Province in order to provide funding certainty in the future.

ii. Golden Horseshoe Transit Investment Partnerships (GTIP)

In August 2002, the Province announced GTIP funding for certain TTC projects with a total estimated cost of $39.9 million. Of this amount, only $25.2 million is for projects included in the Commission's State-of-Good-Repair budget for which a one-third funding share of $8.4 million will be provided under GTIP over a four year period as follows: $1.5 million in 2002, $2.2 million in 2003, $3.7 million in 2004 and, $1.0 million 2005. The balance of the $39.9 million is for projects not included in the Commission's Base Capital Program.

Federal Funding

In April 2002, the Federal government announced $76 million funding for the TTC under the Canada-Ontario Infrastructure Program (COIP). Funding of $62.3 million was committed immediately to match the Ontario Transit Renewal Program allocation to the TTC. A further $14 million, to match the Provincial GTIP funding, is anticipated. At this time, discussions are ongoing re eligibility criteria and it appears that the $76 million will be received in 2002 and 2003. The current best estimate is that $46 million will come in 2002 and the balance next year.

In the Federal Budget of December 2001, the government announced the creation of the Canada Strategic Infrastructure Fund (CSIF) with a minimum federal contribution of $2 billion. In August 2002 the parameters of the CSIF were released. The CSIF includes Local Transportation Infrastructure as one of the investment categories. This fund will contribute up to a maximum of 50% of total eligible costs for large-scale projects (at least $75 million) and the projects can involve any combination of funding with Provincial, Municipal and/or private partnerships. TTC staff are currently working with City staff to develop an appropriate request to the Federal Government through the CSIF for funding of projects from the TTC Capital Program.

Recently, on September 30, 2002, the Federal Government Speech from the Throne noted that "modern infrastructure is key to the prosperity of our cities and the health or our communities. Working with provinces and municipalities, the government will put in place a ten-year program for infrastructure to accommodate long-term strategic initiatives essential to competitiveness and sustainable growth". It is anticipated that this statement of intent will result in a long-term Federal funding commitment for transit to be outlined in the Federal budget in February 2003.

TTC Funding

The Capital Program is also partially funded through the TTC's Operating budget. Specifically, depreciation charges (budgeted at $16.6 million in 2003) which are based on amortizing the net cost (after capital subsidies) 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, computers, non-revenue vehicles and shop equipment. It should be noted that the direct contribution to capital (budgeted at $17.6 million in 2002) has been eliminated in 2003. Also, certain funding amendments have been made as a result of the Provincial and Federal capital funding participation noted above.

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BUDGET CONTEXT

Two things characterize the 1970-1990 period: continuous investment in transit capacity expansion 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 is 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 in excess of $2 million each.

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Expenditure Profile

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

TABLE 5

($MILLIONS)

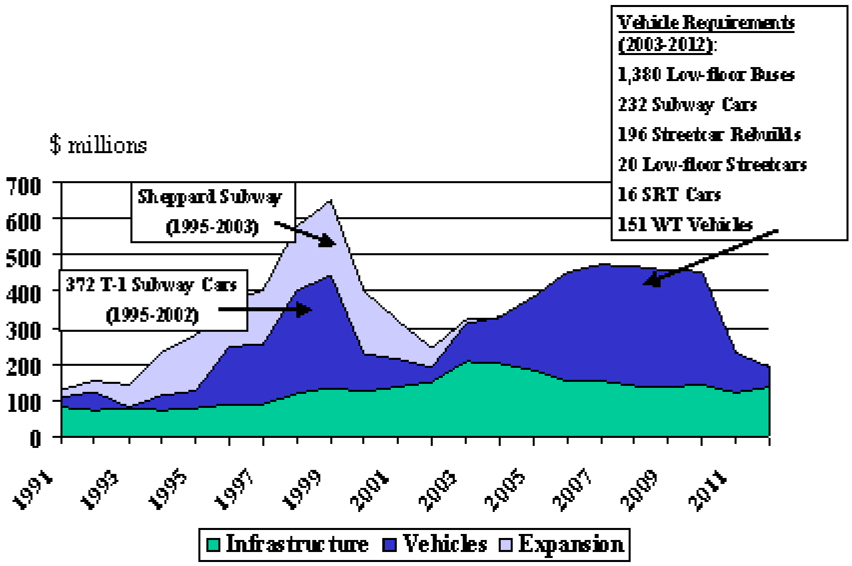
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2003-2012
Infrastructure	218	203	184	154	154	141	137	143	121	136	1,591
Vehicles	105	127	200	300	321	328	321	311	110	57	2,180
TOTAL	323	330	384	454	475	469	458	454	231	193	3,771

Figure 1 shows the expenditure profile from 1991 to 2012.

Figure 1

EXPENDITURE PROFILE

1991 TO 2012



Factors in ridership growth of 1% per year.

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 ($145 + million over the next 10 years) and completion of the program to make all remaining subway stations accessible ($157 million over next 10 years) also need to be undertaken.

The $3.8 billion shown in the chart over the next 10 years provides for no subway/SRT/streetcar rail system expansion – it is a status quo budget that includes $197 million in Ridership Growth projects to support modest ridership growth of 1% per year. Specifically, the Capital Program does not include any provision for the TTC's highest priority for rapid transit expansion for the future extension of subway service in the Sheppard and Spadina corridors. The extension of the Sheppard Subway from Don Mills Station to Scarborough Centre is estimated to cost over $2.1 billion in escalated dollars. The Spadina Subway extension from Downsview Station to Steeles Avenue is estimated to cost approximately $1.5 billion in escalated dollars. Details on these and various other transit initiatives to pursue government expansion funding is included in the 2003-2007 Capital Program Overview.

Finally, no provision has been made in this Capital Program to address the City's Official Plan currently under consideration by Council. Due to the critical nature of the Plan to the future direction and development of transit, a Ridership Growth Strategy Report will be developed for presentation to the Commission in early 2003. Capital requirements to support the City's Official Plan will be incorporated as part of the 2004-2008 Capital Program.

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October 18, 2002

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Attachment: TTC 2003-2007 Capital Program Overview

TTC 2003-2007 Detailed Blue Books