

MEETING DATE: October 23, 2002

SUBJECT: 2003 TTC Operating Budget

RECOMMENDATION

It is recommended that the Commission:

1. approve the 2003 TTC Operating Budget (summarized in Appendix A) as described in this report and the following accompanying reports:
 - Toronto Transit Commission 2003 Operating Budget Overview
 - Toronto Transit Commission 2003 Departmental Goals & Objectives
 - Toronto Transit Commission 2003 Organization Charts
 - Toronto Transit Commission 2003 Detailed Operating Budget (Blue Book)
1. Consider this report in concert with:
 - a. the 2003 Wheel-Trans Operating Budget
 - b. the 2003-2007 Capital Program and 10-Year Capital Forecast
1. note that the TTC 2003 Operating Budget includes a budget shortfall of about \$78 million, based on City of Toronto 2002 budgeted operating subsidy levels as summarized below:

Expenditures \$918.5 million

Revenues \$688.1 million

Subsidy Needed \$230.4 million

Operating Subsidy \$152.2 million (2002 budgeted level from City)

Shortfall \$78.2 million

- 4) approve the implementation of the Plan to address the 2003 \$78.2 million operating budget shortfall as follows:
 - i. implementation of TTC cost reductions of \$3.7 million in the 2003 operating budget.
 - ii. elimination of the \$17.6 million operating contribution to capital.

- iii. request additional operating subsidy of \$35.2 million bringing the 2003 base operating subsidy to 20% of operating expenses, in the amount of \$179.451 million and \$8.0 million ramp up operating subsidy for the Sheppard Subway (just as the Spadina subway and the SRT received during their first years of operation).
- iv. implementation of a 10¢ fare increase on the adult ticket/token to bring it to \$1.90 (pro rated on other fares) effective January 2003 noting that it is anticipated that it will generate up to \$21.0 million annually with a potential ridership loss of 3 to 5 million, resulting in a year-end budgeted ridership for 2003 of 412 million. The new fare structure is detailed on Appendix B.
- v. noting that on September 30, 2002, the Commission approved the elimination of free parking after 3:00 p.m. weekdays effective January 2003, generating net annual revenue of \$0.7 million.

5) forward this report to the City of Toronto for Council approval of the City's 2003 Transit Operating Subsidy to the TTC.

6) forward this report to the Province of Ontario for approval of the "ramp up" subsidy for the Sheppard Subway.

BUDGET SUMMARY

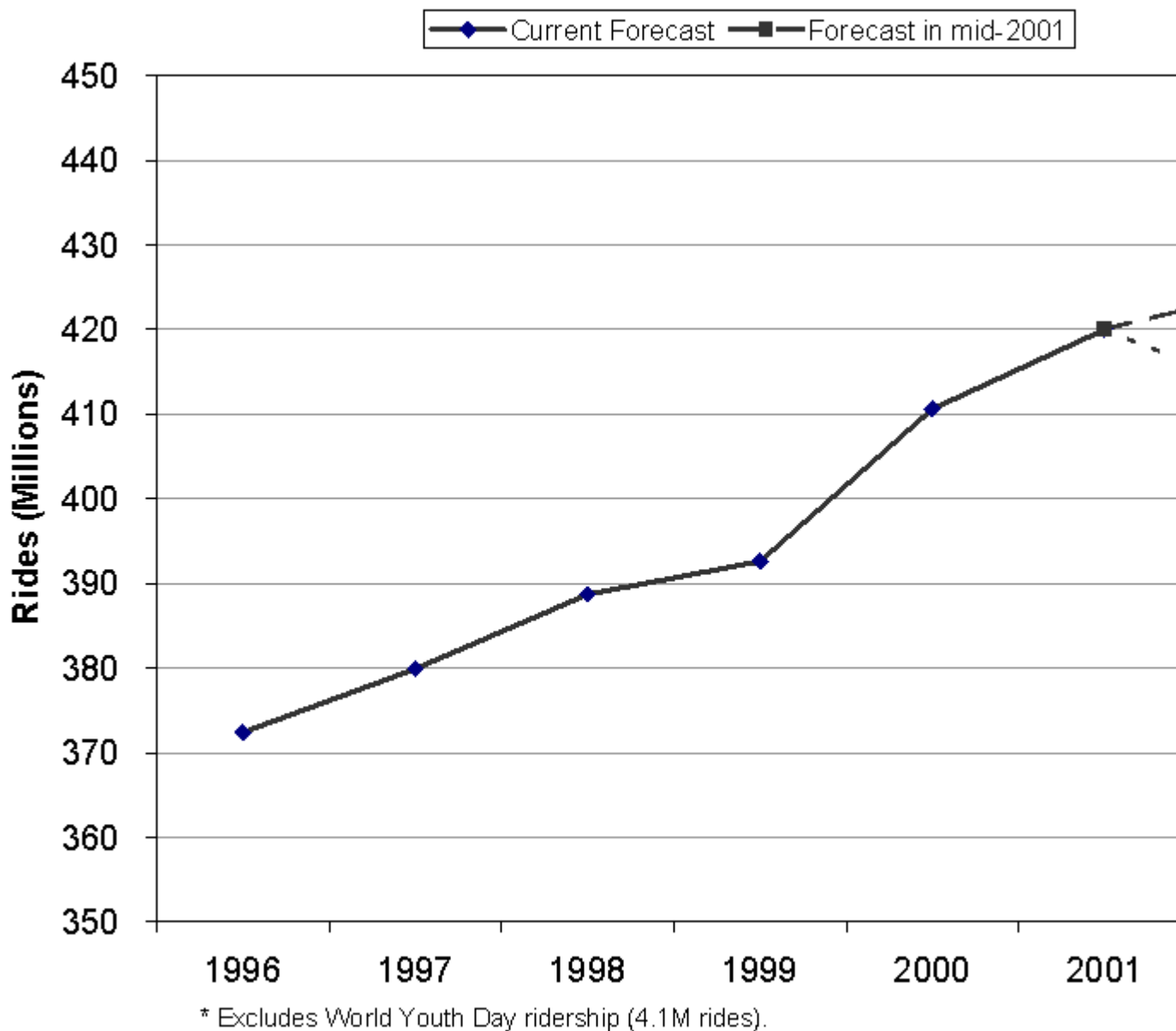
Continued economic and employment growth in the Toronto area is forecast for 2003; however, the historical positive relationship between job growth and increased ridership has not yet materialized. Since September 11, 2001, ridership continues to be down. As a result, there still exists a significant degree of uncertainty as to the projected level of ridership for 2003. Consequently, other than factoring in the annualized impact of the opening of the Sheppard Subway in November 2002 and the impact of operational and facility changes, base service levels have been flatlined for 2003 at 2002 levels (which, in turn, were essentially flatlined to September 2001 levels).

RIDERSHIP

Ridership is affected by a great many factors such as employment levels and location, demographics, retail trade activity, travel patterns, service levels, transit fares, income levels, gasoline and automobile prices, parking availability and price. Some of these affect ridership in the long-term, such as demographics. Others such as employment levels, retail trade and significant world events have had more immediate impacts.

As shown in Chart 1 on the following page, in mid-2001 ridership projections for 2002 and 2003 were as high as 425 and 431 million respectively.

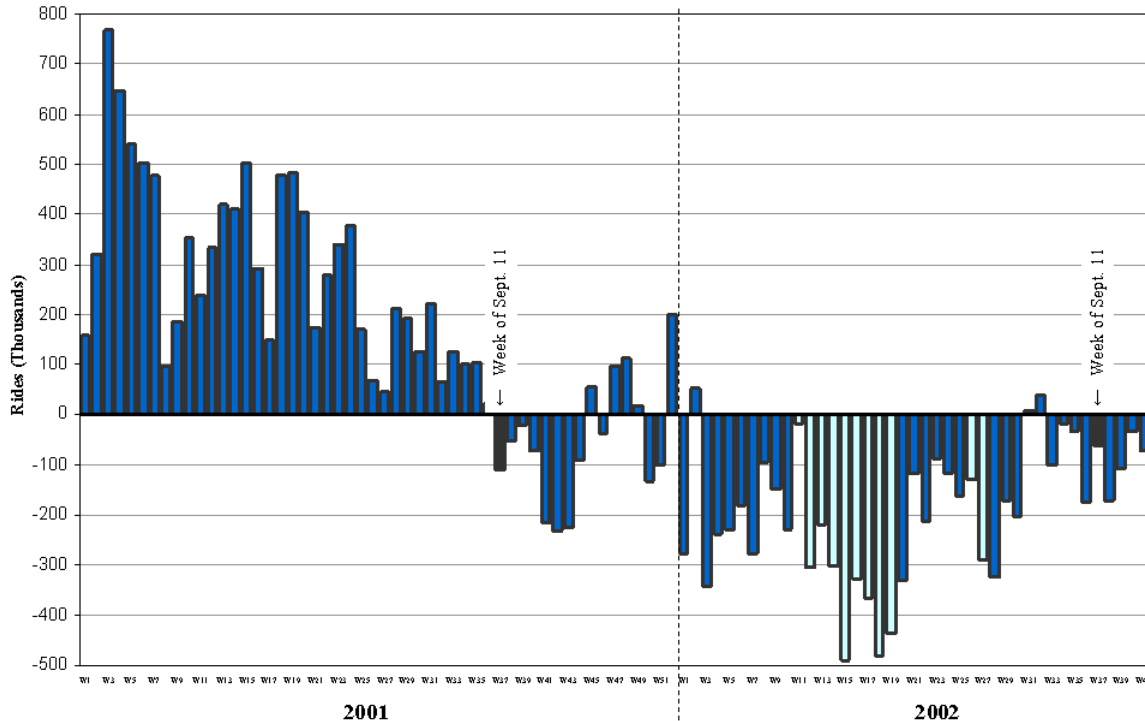
CHART 1



1996 – 2003 TTC RIDERSHIP

Then September 11 hit. The impact on ridership was immediate.

CHART 2



2001 **2002**
 Note: OPSEU strike - March 13 to May 5, 2002
 CUPE strike - outside June 26, 2002; inside July 4, 2002
 Weeks 30 and 31 do not include WYD

WEEKLY RIDERSHIP VARIANCE - TO PREVIOUS YEAR

As can be seen from Chart 1 and Chart 2, five years of steady ridership growth was abruptly halted on September 11. A year of declines has followed. During the summer of 2001, we were on target to carry up to 425 million riders in 2002. After September 11, we budgeted to carry 418 million. We now expect to carry between 411 and 412 million riders by year end. Based on economic growth forecasts for 2003, we are hopeful that ridership will grow to 415 million next year before a fare increase: 412 million with the recommended 10¢ fare increase in January 2003 as shown in Chart 1.

While we are budgeting for modest growth in 2003 (3 million extra riders), actual ridership results for September and October continue to be soft. Should those trends continue through the balance of this year and next, year 2003 ridership could fall to 405 million or lower. The 412 million budget (415 million before the 10¢ fare increase) is within a reasonable range, but should not be considered firm.

The decline in ridership compared to 2001 levels is not unique to the TTC, as almost all of the other GTA transit properties have also experienced a decline in ridership since September 11 (see Appendix C attached).

Transit properties in the United States have also experienced significant declines with an overall decline in U.S. ridership of 2.4% in the first quarter of 2002 – the first decline since the fourth quarter of 1995. Based on year-to-date actual ridership and forecasts for the remainder of the year, TTC ridership for 2002 is estimated at between 411 and 412 million (excluding the impact of World Youth Days).

Although the City of Toronto and the GTA has experienced strong economic and employment growth during the first nine months of 2002, the historical relationship between job growth and increased transit ridership has not materialized, and ridership has been consistently below 2001 levels. Even though the Toronto economy has shown signs of growth in terms of employment, other indicators of economic performance have shown weakness including lower passenger volumes at Pearson International (down by

11%), lower downtown hotel occupancy rates (down to 75% compared to 79% last year), a lower number of major events (down by over 5%) and higher downtown office space vacancy rates (9% vs 5%).

Toronto area economic forecasts for 2003 project continued employment and economic growth for the region. Although there is general consensus on the economic prospects for next year, there remains a number of risk factors which could curtail forecast growth including interest rate increases, oil prices, consumer debt levels, corporate profitability and capital spending, and stock market performance. Based on forecast economic performance for 2003, TTC ridership is expected to remain relatively flat over the near-term at the 412 to 415 million level as shown in Chart 1.

2003 OPERATING BUDGET SHORTFALL

At the time of approval of the new Collective Agreement in April 2002, it was estimated that the 2003 shortfall would be in the order of \$78 million. The current shortfall continues to be in that order as follows:

TABLE 1

	(\$ Millions)
One-time Rider Reserve Draw in 2002	24

CBA: 3% April 2002, 3% April 2003	28
Sheppard Subway	4*
Vehicle Energy	5
Other Employee Costs	9
Accident Claims and Insurance	6
Other Net	2
TOTAL	78

*The net increase in operating coss for the Sheppard subway are in the order of \$8 - \$10 million during the first 12 months of operation (varies depending on ridership). Included in the 2003 figures are \$5 million in expenses and \$1 million in revenues for a net increase of \$4 million in 2003. Table 6 on page 10 shows information concerning the "ramp up" subsidies the Spadina Subway and the Scarborough RT have received.

BUDGET HIGHLIGHTS

The highlights of the 2003 TTC Operating Budget are as follows:

- Moderate growth in the economy is expected in 2003.
- Ridership is expected to be 412 million in 2003 (415 million before the impact of the 10¢ fare increase).
- Service will reflect the continuation of the Fall 2002 Service level throughout 2003. This includes the annual impact of service changes associated with the Sheppard Subway.
- Revenues will increase by about \$3 million over the 2002 budgeted level primarily because of the recovery of costs from transit services operated by the TTC under contract to York Region.
- Expenditures will increase for items such as the new collective agreement, the full year's impact of the Sheppard Subway opening in the fall of 2002, vehicle energy and utilities cost increases, increased costs for accident claims and insurance, increases in comprehensive medical and dental costs, higher legislated Canada Pension Plan contributions, and general inflation on material purchases. These

increases are partially offset by the elimination of the operating budget contribution to capital. Each of these is described in further detail later in this report.

- Year-end workforce will grow by 116 positions: 66 for capital projects; 50 in operating; 2 in Wheel-Trans and 2 fewer at the Toronto Coach Terminal. See Part 4 of this report for additional details.
- There currently exists an operating budget shortfall of \$78 million. This report will provide options for funding that shortfall.

FUNDING

In the year 2002, the City of Toronto budgeted an operating subsidy for the TTC conventional system of \$152,162,000. The following table shows TTC operating subsidy levels since 1992. In addition, it also provides operating subsidy per rider and the Revenue/Cost ratio figures for the TTC since 1992. These two figures are generally accepted in the transit industry as the best overall measures of efficiency (percentage of operating costs covered by revenues) and cost-effectiveness (taxpayer cost/rider).

TABLE 2

YEAR	OPERATING SUBSIDY (\$millions)			REVENUE/COST RATIO	SUBSIDY/RIDER
	PROVINCE	CITY	TOTAL	(percentage)	(cents/rider)
1992	117	128	245	66%	61¢
1993	117	117	234	66%	59¢
1994	112	95	207	66%	53¢
1995	104	111	215	69%	55¢
1996	90	79	169	76%	45¢
1997*	78	81	159	80%	42¢
1998	0	149	149	80%	38¢
1999	0	149	149	80%	38¢
2000	0	144	144	82%	35¢

2001	0	148	148	82%	35¢
2002 Budget	0	152	152	81%	37¢

*Note: Provincial operating subsidy contributions to the TTC ended in 1997.

As can be seen from this table, the TTC has substantially improved both the R/C (Revenue/Cost) ratio and the subsidy/rider, while in real terms reducing the overall requirement for operating subsidy by about \$100 million annually. The methods for achieving these operational improvements have been well documented in previous TTC Operating Budget reports.

While the subsidy per rider has been cut from 61¢ in 1992 to 37¢ in 2002, the cut is even more dramatic if the figures are adjusted for inflation over that decade. Restated in 2002 dollars, the 1992 subsidy per rider would be 74¢. From that figure, subsidy per rider has fallen by 50% to 37¢.

The following table compares the TTC with other major multi-modal mass urban transit systems in North America:

TABLE 3

CITY	OPERATING SUBSIDY (\$Millions)	REVENUE/ COST RATIO	RIDERS (Millions)	OPERATING SUBSIDY/RIDER
TTC (2002 Budget)	152	81%	418	\$0.37
Montreal	254	56%	348	\$0.73
Vancouver	254	54%	129	\$1.97
Atlanta	319	31%	79	\$4.03
Chicago	653	52%	283	\$2.31
Los Angeles	695	31%	241	\$2.88
New York	1,768	61%	1,691	\$1.05
Philadelphia	597	50%	216	\$2.76
Washington	434	53%	260	\$1.67

Dollars shown are in \$CDN.

Source: CUTA, FTA, individual U.S. transit authorities

TTC figures – 2002 budget; all other cities – 2000 figures

Overall comparisons can be made on a world-wide basis:

TABLE 4
REVENUE/COST RATIOS

TTC (2002 Budget)	81%
Ontario Systems	76%
Canadian Systems	62%
France	55%
Sweden	44%

United States	41%
Netherlands	28%

Source: Moving Forward (CUTA February, 2002)

The R/C ratio is the most widely accepted single overall measure of transit efficiency. You can't have a high R/C ratio without a good, safe, clean, expansive system in a densely populated city that has a high level of customer satisfaction and, for which, appropriate fares are charged. On whatever comparison basis you want to take, the TTC's R/C ratio of 80% + is remarkable.

RIDERS RESERVE

The current balance of the Riders Reserve fund (which was built up through in-year TTC excesses of revenues over expenses less subsidies during the years 1998, 1999 and 2000) is approximately \$24 million. The full amount will be used in 2002 as a one-time draw to balance the 2002 Operating Budget. The reserve will have a zero balance at December 31, 2002.

PLAN TO ADDRESS THE 2003 \$78 MILLION SHORTFALL

The following table outlines the Plan to address the 2003 Operating Budget shortfall of \$78 million.

TABLE 5

	(\$ Millions)
<p><u>Lower Costs</u></p> <ul style="list-style-type: none"> • Eliminate Contribution to Capital • TTC Reductions 	<p>17.6</p> <p>3.7</p>
<p><u>Additional Subsidy</u></p> <ul style="list-style-type: none"> • 20% Operating Subsidy (\$27.2) • Transitional Subsidy for Sheppard Subway (\$8.0) 	<p>35.2</p>
<p><u>Increased Revenue</u></p> <ul style="list-style-type: none"> • Eliminate Free Parking (already approved) • 10¢ Fare Increase 	<p>0.7</p> <p><u>21.0</u></p> <p><u>78.2</u></p>

Each of these items is discussed below:

(i) Eliminate Contribution to Capital

The TTC has for several years made a direct operating contribution to the capital program in the amount of \$17.6 million to help fund certain projects. With the renewed participation of the Provincial government and the involvement of the Federal government in the funding of the TTC's capital program, and in view of traditional annual underspending of 5% or more, this TTC operating contribution should be discontinued.

ii. TTC Reductions

Management has revised certain estimates incorporated into the 2003 budget for an overall net reduction of \$3.7 million.

(iii) Additional Subsidy

(a) 20% Operating Subsidy

At the time of approval of the 1999 TTC Operating Subsidy, City Council also approved that "the City of Toronto strive to ensure that the TTC operating budget cost of 80 percent supported by its ridership will not be exceeded".

A 20% subsidy on expenses of \$897.254 million, would result in a subsidy of \$179.451 million in 2003. This would represent a \$27.289 million increase over the 2002 subsidy level of \$152.162 million.

(b) Transitional Subsidy for Sheppard Subway

During the first several years of operation, the Sheppard Subway will experience sizeable operating losses as costs exceed incremental passenger revenues. This deficit will place substantial additional pressure on the operating budget shortfall. Consequently, additional subsidy is required.

With the commencement of operation of the Spadina Subway and the Scarborough Rapid Transit Line, the Provincial government provided special transitional "ramp up" subsidies during the initial years of operation for these services as shown in the table below:

TABLE 6

SPECIAL PROVINCIAL "RAMP UP" OPERATING SUBSIDIES

(\$ MILLIONS EXPRESSED IN 2002 \$)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YE 1
Spadina	8.3	7.4	7.3	7.1	8.3	7.5	5.4	4.9	4.4	6.7	5.
SRT	4.1	4.7	4.9	3.9	1.7	1.8					

With the commencement of operation of the Sheppard Subway in November, the Province should be vigorously pursued to provide similar transitional "ramp up" operating subsidy to ease the impact of this new service on the TTC's already strained operating budget.

(iv) Eliminate Free Parking

Currently, most of the TTC's commuter parking lots are free to users after 3:00 p.m. on weekdays. At its meeting of September 30, 2002, the Commission approved the elimination of the "free after 3:00 pm" policy and agreed to extend the daily cash rate on an all day basis effective January 2003. It is anticipated that this change will generate net revenues of \$0.7 million annually.

(v) Fare Increase

A January 2003 fare increase would be the first one in over 18 months. Given the cost increases in diesel fuel, hydro, CPP, medical costs and insurance (all beyond the TTC's control) as well as the 3% annual wage increases in the current Collective Bargaining Agreement, a 10¢ fare increase would seem reasonable.

A 10¢ fare increase on the adult ticket/token (pro-rated on other fares) – bringing it to \$1.90 per rider - would generate up to \$21 million per year, with an associated annual ridership loss of approximately 3 to 5 million. The budget assumes only 3 million rides will be lost.

The new fare structure is detailed on Appendix B.

2003 OPERATING BUDGET OVERVIEW

PART 1: Revenues

Almost 95% of TTC revenues come from fares. Farebox revenues are budgeted to be \$4.0 million lower than the 2002 Budget due to the lower projected ridership in 2003 (415 million versus 418 million in the 2002 Budget). The supporting budget documentation reflect ridership and revenue based on 415 million rides in 2003. The impact of a 10¢ fare increase will be to increase revenue by up to \$21 million while ridership will fall by 3 million to 412 million.

Other revenues are expected to grow by over \$7 million, to offset the passenger revenue loss. This includes a \$5.5 million increase for outside city services and charters as well as a \$1.4 million increase in transit advertising revenues.

PART 2: Service

Over the past several years, while ridership was increasing, the TTC followed a strategy of "leading ridership growth" by providing slightly more service than standard in an effort to ensure that the necessary capacity was on the road as more people chose to ride transit. That was an effective strategy over the past 5 years.

With the slowdown in the economy and the loss of ridership following September 11, that service strategy changed. Overall daily service levels have not increased since September 2001. Current service levels are commensurate with 2003 budgeted ridership of 412 to 415 million. If ridership falls below this, then the TTC should react to it. The TTC should not drive people away from transit by cutting service. Ridership will be closely monitored and if ridership falls beyond the budget projections, service adjustments will be investigated.

As a further complicating factor, most of the recent drop in ridership continues to be in the "cash" category (although most other fare categories are also down) suggesting the drop is focused on discretionary (and consequently off-peak) rides. The problem with a drop in off-peak ridership is that service levels are much lower during those periods than in peak periods (i.e. rush hour). As a result, the removal of a single bus from a route (the smallest cut that can be made) could represent a dramatic cut in service. For example, the 75 Sherbourne mid-day bus route has 3 buses operating on it. The smallest cut to that route would be to remove one of those buses. That would be a 33% cut in service. Under none of the ridership scenarios shown above, is a drop of that magnitude anticipated.

As a result of the ridership projections, service for 2003 has been effectively flatlined at Fall 2002 levels. The most significant service changes included in this budget are those related to the annualized impact of the opening of the Sheppard Subway and the bus route changes associated with it. In addition, certain operational and facility changes (the opening of the new Eglinton Garage and the re-opening of Davisville Yard) have been factored in. Further, an allowance for increased contracted services to York Region – on a full cost recovery basis – has been included. Finally, additional resources required to compensate for the slower operation of TTC surface vehicles due to road congestion and the reduced carrying capacity of the new low floor buses being introduced in 2003 have been factored in. These changes are detailed in the Operating Budget "Blue Book" in the section entitled "Service Budget."

From the perspective of the transit rider, no change will be noticed in service provided (other than the new Sheppard Subway and the outside City Services which are operated by the TTC under contract to those municipalities and for which they fully reimburse the TTC for its costs).

PART 3: Operating Expenses

The day-to-day expenses associated with running the TTC are also budgeted to increase by approximately \$67.8 million. The increases fall into the following areas:

1. Wage Increases: \$32.0 million. The April 1, 2002 Collective Agreement included wage increases of 3% effective April 1 in each of 2002 and 2003. The impact of the Collective Agreement (\$28 million), together with step rates, wage progression and job upgrades (\$4 million), have been incorporated into the budget.
2. Sheppard Subway Opening: \$5.0 million. Represents the annualized impact of the November 2002 opening. While expenses are up by \$5 million, revenues are also up by \$1 million for a net increase of \$4 million in 2003 vs 2002. Overall net operating costs will increase to between \$8 and \$10 million for the Sheppard Subway during the first 12 months of operation.
3. Service changes: \$3.3 million. Includes \$1.6 million for outside City Services and \$1.7 million for traffic congestion, smaller capacity of low floor buses and the annualized impact of the additional mileage resulting from the new Eglinton bus garage.
4. Vehicle Energy: \$5.5 million. About \$3.4 million of this increase can be attributed to the anticipated increase in diesel fuel prices. A further \$2.1 million has been included for increased electricity rates.
5. Accident Claims and Insurance: \$5.6 million. Increases in insurance premiums for recently renewed policies account for \$2.6 million. An additional \$3.0 million has been included for the higher cost of accident claim settlements resulting from courts lowering the threshold for claims and from higher medical/rehabilitation expenses as experienced throughout 2002.
6. Other Employee Costs: \$9.3 million. These costs have increased by a total of \$12.9 million as follows: (i) increased pension, EHT, sick and other benefits resulting from the April 1, 2002 Collective Agreement - \$5.3 million, (ii) expected increases of 15% in drug and 9% in dental costs - \$4.0 million, (iii) legislated C.P.P. contribution rate increase from 4.70% to 4.95% - \$1.2 million (iv) increase in the WSIB utilization - \$0.9 million and, (v) various other benefits - \$1.5 million. Approximately \$3.6 million of this increase has been reflected above in the Wage Increases and Sheppard Subway change items.
7. Workforce Changes: \$1.8 million. The TTC operating budget workforce changes described in Part 4 of this report add about \$1.8 million in costs.
8. Divisional Stores: \$1.5 million: The one time credit for previously expensed material taken into inventory in 2002 will not be repeated.
9. General Material Price Increases: \$2.4 million. An allowance of 2.5% for CPI has been provided on purchases.
10. Overtime: \$1.1 million. A change in the Employment Standards Act has made more employees eligible for overtime pay. Also, increased hours have been included to reflect workload requirements.

11. Depreciation: \$1.3 million. A higher TTC share of capital costs in 2002 and 2003 has resulted in increased depreciation charges.
12. Various Maintenance Programs: (\$4.0) million. Resulting from completed or revised maintenance programs (primarily related to vehicles).
13. Other: \$3.0 million. All other changes net out to an increase of \$3.0 million.

Appendix A (attached) provides a summary of the Commission's 2003 budgeted revenues and expenditures and subsidy requirement.

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PART 4: Workforce

The Commission's workforce is budgeted at 10,349. The 116 increase is due to the following:

1. 66 additional Capital Program positions primarily for the Subway Car Overhaul, Tunnel Liner and Speed Control programs. This increase includes 3 additional IT positions to replace existing contracted positions at lower cost.
2. 50 additional TTC Operating positions for: increased service (31) (fully recovered from surrounding municipalities under contract), increased service (5) to compensate for road congestion and reduced carrying-capacity of low-floor buses and for the annualized effect of operational changes related to the opening of the new Eglinton bus garage, coverage because of additional vacation entitlement (16), training requirements (10), replacement of existing contracted IT positions at a lower cost (3), increased workcar inspection work (3), UWE outside bus storage (3), additional Revenue Collectors (3), ongoing IT support for completed capital projects (4) and other business requirements (3). These increases are partially offset by 31 fewer maintenance positions due to program changes.
3. 2 additional Wheel-Trans Operating maintenance positions due to an increased bus fleet.
4. 2 fewer positions at the Toronto Coach Terminal (TCTI).

Each revenue and expenditure element shown above, as well as the workforce changes, are described in detail in the companion reports to this Commission Report.

October 18, 2002

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Attachments: Appendix A

Appendix B

Appendix C

TTC 2003 Operating Budget Overview

TTC 2003 Departmental Goals & Objectives

TTC 2003 Organization Charts

TTC 2003 Detailed Operating Budget (Blue Book)