

**MEETING DATE:** November 17, 2004

**SUBJECT:** 2005 TTC Operating Budget

**RECOMMENDATION**

It is recommended that the Commission:

1) approve the 2005 TTC Operating Budget (summarized in Exhibit 1) as described in this report and the following accompanying reports:

- TTC 2005 Operating Budget Overview
- TTC 2005 Departmental Goals & Objectives
- TTC 2005 Organization Charts
- TTC 2005 Detailed Operating Budget (Blue Book)

2) Consider this report in concert with:

- (a) the 2005 Wheel-Trans Operating Budget
- (b) the 2005-2009 Capital Program and 10-Year Capital Forecast

3) note that based on City of Toronto 2004 budgeted operating subsidy levels (net of GST savings), the TTC 2005 Operating Budget includes a base budget shortfall of \$15 million as summarized below:

Expenditures*	\$960 Million
Revenues**	<u>726 Million</u>
Subsidy Needed	234 Million
2004 City Operating Subsidy	<u>219 Million</u>
Base Shortfall	<u>\$ 15 Million</u>

\*No provision for impact of the next Collective Bargaining Agreements (CBAs)

\*\*No provision for a fare increase

4) note that staged implementation of the balance of the initial phase of the off-peak service improvements identified under the Ridership Growth Strategy has been included in the budget at a net cost of \$4 million in 2005 (\$2 million previously committed).

5) note that implementation of a weekly pass effective in May, and the introduction of the Sunday Day Pass conditions for the Saturday Day Pass with a net impact of \$3.1 million in 2005, have been included in the budget.

6) forward this report to the City of Toronto requesting:

(a) approval of the City's 2005 Transit Operating Subsidy to the TTC.

(b) approval that the TTC be permitted to retain the additional 3/7ths GST rebate without adjustment to the 2004 budgeted operating subsidy level.

(c) that the City take steps to provide a property tax exemption for all Commission properties and that for 2005 and beyond (until an exemption is in place) the TTC be provided with additional operating subsidy to compensate for the impact of new or increased property tax assessments (estimated at \$3.8 million for 2005).

7) forward this report to the Ontario Ministry of Transportation, the Honourable Harinder Takhar and the Ontario Ministry of Public Infrastructure Renewal, the Honourable David Caplan, for information and to the Ontario Ministry of Finance, the Honourable Gregory Sorbara, requesting immediate relief from the road tax assessed on vehicle fuel purchases (which cost the TTC approximately \$8 million annually).

8) forward this report to the Minister of Transportation of Canada, the Honourable Jean-C. Lapierre and to the Minister of State (Infrastructure and Communities), the Honourable John Ferguson Godfrey, for information.

## **BUDGET HIGHLIGHTS**

The highlights of the 2005 TTC Operating Budget are as follows:

- Continuing growth in the economy and employment is expected in 2005.
- Ridership is expected to be 422 million in 2005, 12 million higher than the 2004 budget.
- Service will reflect base levels increased to compensate for traffic congestion and the reduced carrying capacity of new low-floor buses as well as off-peak improvements as part of the Ridership Growth Strategy.
- Revenues will increase by about \$17 million over the 2004 budgeted level primarily because of the increased level of budgeted ridership, partially offset by lower advertising revenues.
- Expenditures will increase by approximately \$27 million for items included in the 2002 collective agreement, increased vehicle and facility maintenance costs, increased costs for accident claims increases in comprehensive medical and dental costs, new property tax assessments on bus terminals, increased hydro costs, and general inflation on material purchases. These increases are offset by the additional 3/7ths GST rebate. Each of these is described in further detail in Part 3 of this report. No provision has been included for the impact of the next CBAs effective April 1, 2005. It should also be noted that the 2005 budget reflects the provision of meal breaks to TTC employees in accordance with existing Employment Standards Act requirements.
- For purposes of the calculations in this report, subsidy is shown to be flatlined at the 2004 budgeted level except for an anticipated decrease of \$5 million (to \$219.6 million) as a result of the City's intent to recapture the additional 3/7ths GST rebate introduced by the Federal Government effective February 1, 2004.
- Year-end workforce will increase by 219 positions: 133 additional TTC operating positions and 1 more in Wheel-Trans, an additional 86 capital positions, offset by the reduction of 1 Toronto Coach Terminal position. See Part 4 of this report for additional details.
- Off-peak service improvements identified in the initial phase of the Ridership Growth Strategy, have been provided for. Also, implementation of the weekly pass has been incorporated in the budget (effective early May) together with the introduction of Sunday Day Pass conditions for the Saturday Day Pass.
- There currently exists a base operating budget shortfall of \$15 million. This consists of a \$17 million increase in revenues, a \$27 million increase in costs and, a \$5 million reduction in subsidy as a result of the City's "recapture" of the additional GST rebate. Until the 2005 operating subsidy is known, it is not possible to make recommendations on how to address this shortfall.

- The Commission approved initiatives for implementation of off-peak service improvements under the Ridership Growth Strategy and the introduction of a weekly pass in May 2005 which contribute approximately \$7 million to the base shortfall. In addition, the first-time property tax assessments on TTC bus terminals by the Municipal Property Assessment Corporation (MPAC) commencing in 2005 are anticipated to result in increased costs upwards of \$3 million. If these items were excluded, the base operating budget shortfall (before allowing for any impact of the next CBAs effective April 1, 2005) would be as low as \$5 million as shown in the chart below:

Revenues + \$17 Million  
 Expenses - \$27 Million  
 Subsidy - \$ 5 Million

Base Shortfall \$15 Million

Ridership Growth \$ 4  
 Weekly Pass 3  
 Property Taxes 3

Revised Shortfall \$ 5 Million

The \$5 million shortfall represents an increase of about ½ of 1% of 2004 expenses.

## **FUNDING**

In 2004, the City of Toronto budgeted an operating subsidy for the TTC conventional system of \$224.5 million (up from \$182.2 million in 2003). The City has since confirmed its intention to recapture the benefit from the additional 3/7ths GST rebate announced by the Federal Government effective February 1, 2004. This will have the effect of reducing the operating subsidy by about \$5 million to \$219.5 million in 2004. Despite this reduction in subsidy, as a result of more favourable ridership results in 2004 than budgeted (417 million projected versus the budget of 410 million), approximately \$10 million will be available to be contributed to the TTC Stabilization Reserve Fund. For 2005, a subsidy level of approximately \$234 million is required to balance the operating budget (before factoring in the impact of the next CBAs) – assuming no fare increase and no service reductions. The following table illustrates recent subsidy levels as discussed.

### **OPERATING SUBSIDY** (\$ Millions)

	<b>2003 Actual</b>	<b>2004 Budget</b>	<b>2004 Probable</b>	<b>2005 Budget</b>
City	182	154	149*	149
Province	-	70	70	70
Subsidy Available	182	224	219	219**
Subsidy Required	182	224	209	234

Surplus / (Shortfall)	Ø	Ø	10***	(15)
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\*after City recapture of 3/7ths GST rebate

\*\*for purposes of this report, subsidy is shown as flatlined to 2004 levels

\*\*\*to TTC Stabilization Reserve Fund

Until the 2005 City transit operating subsidy is known, it is not possible to make recommendations on how to address this shortfall.

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 (percentage)	SUBSIDY/RIDER (cents/rider)
	PROVINCE	CITY	TOTAL		
1992	117	128	245	66%	61¢
1993	117	117	234	66%	59¢
1994	112	95	207	69%	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	0	152	152	81%	37¢
2003	0	182	182	78%	45¢

2004 Probable*	70	149	219	78%	53¢
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\*Note: Provincial operating subsidy contributions to the TTC ended in 1997 and recommenced in 2004.

As can be seen from this table, the TTC has substantially improved both the R/C (Revenue/Cost) ratio and the subsidy/rider, while reducing the overall requirement for operating subsidy by about \$26 million annually.

### **Efficiencies**

While the subsidy per rider has been cut from 61¢ in 1992 to 53¢ in 2004, the cut is even more dramatic if the figures are adjusted for inflation over that decade. Restated in current dollars, the 1992 subsidy per rider would be 77¢. From that figure, subsidy per rider has fallen by about 30% to 53¢. Over the same period of time, after adjusting for inflation, the total subsidy has been reduced by over \$90 million from \$310 million to \$219 million. The methods for achieving these operational improvements have been well documented in previous TTC Operating Budget reports.

Staff continue to seek cost savings or ways to avoid cost increases. For example, over the past decade, the Materials & Procurement Department has implemented several process improvements. These initiatives include: direct delivery, bar coding, larger contracts, master orders, system contracts and, reduced dependency on vehicle manufacturers (OEM). These improvements have resulted in price/cost reductions in the order of \$7 million in the annual operating budget. In addition, through the introduction of controlled stores, lower inventory levels and better inventory control have been achieved. The TTC has lowered its vehicle spares ratios – lowest in the transit industry – despite the advanced age of our vehicle fleets with a corresponding reduction in capital budget requirements.

Most recently, in November of 2003, a decision was made to lock-in diesel fuel prices for a new two-year contract. At the time of writing of this report, it is estimated that the Commission will save approximately \$20 to \$25 million (or the equivalent of a one-time 10¢ fare increase) for the period April 2004 to March 2006.

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

**TABLE 3**

<b>CITY</b>	<b>OPERATING SUBSIDY (\$Millions)</b>	<b>REVENUE/ COST RATIO</b>	<b>RIDERS (Millions)</b>	<b>OPERATING SUBSIDY/RIDER</b>
TTC (2004 Probable)	219	78%*	417	\$0.53
Montreal	269	56%	363	\$0.74
Ottawa	111	59%	87	\$1.28
Vancouver	289	56%	129	\$2.24
Atlanta	312	35%	69	\$4.53
Chicago	697	54%	254	\$2.75
Los Angeles	968	29%	204	\$4.75
New York	2,463	60%	1,825	\$1.35
Philadelphia	639	50%	204	\$3.13

Subsidy figures are expressed in \$Cdn.

Source: CUTA, FTA, individual U.S. Transit authorities  
TTC figures - 2004 probable; all other cities - 2002 figures

\*If a 10¢ fare increase had been implemented in January 2004, the revenue/cost ratio would have been 80%.

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

**TABLE 4**  
**REVENUE/COST RATIOS**

		<b>EXCLUDING TTC</b>
TTC (2004 Probable)	78%*	
Ontario Systems	76%	66%
Canadian Systems	62%	56%
France	55%	
Sweden	44%	
United States	41%	
Netherlands	28%	

Source: Moving Forward (CUTA February, 2002) - 2000 data

\*Note: In 2000, the TTC's Revenue/Cost (R/C) ratio was 82%. The Ontario and Canadian figures are buoyed by the TTC results. After removing the TTC data, the non-TTC R/C ratio drops the Ontario result to 66% and the Canadian result falls to 56%.

The R/C ratio is the most widely accepted single overall measure of transit efficiency. You cannot 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 nearly 80% for most of the past decade is remarkable. Having said that, the ability to retain such a high R/C ratio is severely constrained during periods of increasing costs and flat or declining ridership.

### **RIDERS RESERVE**

The City of Toronto established a TTC Stabilization Reserve Fund ("Riders Reserve") in 1998. The reserve fund is built up through in-year excesses of revenues over expenses (less subsidies). The fund received contributions during 1998, 1999 and 2000 and reached a peak of approximately \$24 million. The full amount was used in 2002 as a one-time draw to balance the 2002 Operating Budget and no contributions were subsequently made to the reserve.

Primarily as a result of favourable ridership results in 2004 – ridership is currently projected to be in the range of 417 million versus a budget of 410 million – it is anticipated that there will be an operating surplus of approximately \$10 million in 2004. City Council, at its meeting of October 26, 2004, approved that any 2004 operating surplus be allocated to the TTC Stabilization Reserve Account.

### **RIDERSHIP**

Ridership is affected by numerous factors including employment levels and location, demographics, retail trade activity, travel and tourism patterns, service levels, transit fares, income levels, gasoline and automobile prices and parking availability and rates. Some of these affect ridership in the long-term such

as demographics and income level. Others such as employment levels, retail trade and significant world events can have both short and long-term ridership consequences. Other than service levels and fares, the key variables that impact ridership are largely beyond the control of the TTC.

Chart 1 shows TTC ridership levels for the period from 1990 to 2005.

**CHART 1**  
**1990 - 2005 TTC RIDERSHIP**



As can be seen from the chart, ridership plummeted from 1990 to 1996 (as a result of the combined impact of a poor economy, service cuts and, fare increases) and was on a slow, but steady, rebound prior to September 11, 2001.

Since the terrorist attacks in the United States on September 11, 2001, the TTC has had to deal with a very uncertain operating environment where many non-controllable events have impacted ridership. Recent major events that have had a significant impact on TTC ridership include OPSEU (March 13 to May) and CUPE (June 26 to July 11) strikes in 2002. This was followed in 2003 by a TTC \$0.10 fare increase (January 1), the SARS outbreak (March 23 to July 5) and the Hydro blackout and provincial state of emergency (August 14 to 22). Ridership in 2004 was budgeted at 410 million after declining to 405 in 2003.

During 2004, the TTC has experienced a strong rebound in ridership from 2003 levels and year-end ridership is now forecast at 417 million. This was due to a number of factors including:



- A stronger than expected recovery from the economic impacts of SARS in 2003. External forecasters had originally predicted that the recovery from SARS would be spread over a minimum of 2 years;
- Continued economic growth (GDP and employment) in the Toronto CMA and particularly the City of Toronto. Toronto CMA employment growth through September was 2.7% versus a budget of 1.8%; and
- A significant increase in the sale of Metropasses that has stimulated ridership.

Chart 2, on the following page, summarizes the growth or decline in weekly ridership since 2001.

## WEEKLY RIDERSHIP VARIANCE - TO PREVIOUS YEAR



2001

2002\*

2003

2004

\* Excludes World Youth Day

2001

2002

2003

\* Excludes WYD ridership

There are a number of positive factors which will contribute to continued ridership growth in 2005:

- Continued employment and GDP growth in 2005 for the Toronto area economy. Recently published forecasts have moderated 2005 projections reflecting the uncertainty associated with oil prices and the level of interest rates;
- Ridership gains from Ridership Growth Strategy (RGS) service improvements to be implemented in 2005; and
- Ridership gains from implementation of the Adult and Senior/Student Weekly Pass in May 2005.

Based on the most recent economic forecasts for 2005 and the impact of planned improvements to service and fare types, TTC ridership is forecast to increase to 422 million in 2005 – up 12 million from the 2004 budgeted level and 5 million over the 2004 probable.

### **RIDERSHIP GROWTH STRATEGY IMPLEMENTATION**

The Ridership Growth Strategy (RGS) was approved at the March 19, 2003 Commission meeting. The strategy recommended a three-phased approach to investing in ridership growth that included both service improvements and fare incentives and, ultimately, an ongoing program of subway expansion. The Ridership Growth Strategy was based on the principle that the recommendations in the Strategy were only to be implemented when current system funding requirements were satisfied and the system was maintained in a state of good repair.

The Ridership Growth Strategy initiatives were prioritized using a series of criteria including cost-effectiveness, passenger needs/behaviour and risk. Based on the evaluation performed, service initiatives were ranked as the first priority with fare initiatives being secondary.

For 2005, two elements of the RGS have been incorporated into the budget: off-peak service improvements and weekly passes. The off-peak service improvements introduced this fall will have a \$1.2 million impact on the 2004 operating budget. These improvements will have an annualized impact of \$2.0 million in 2005 and will be supplemented by additional off-peak service improvements scheduled to be introduced in June and September of next year. These additional improvements will have an impact of \$2.7 million in 2005. In total, these off-peak improvements will have a net impact of \$4.0 million in 2005 which will increase to \$6.7 million in 2006 and, and when ridership related to these improvements matures, will have a net impact of \$5.8 million in 2007.

At its meeting of October 20, 2004, the Commission approved the implementation of the weekly pass effective early May 2005 together with introduction of Sunday Day Pass conditions, for the Saturday Day Pass. It is anticipated that the combined impact of these fare initiatives (in terms of increased costs and lost revenues) will be approximately \$3 million in 2005. This amount has been factored into the 2005 operating budget.

Additional fare and service initiatives identified in the Ridership Growth Strategy will be brought forward to the Commission in 2005 for consideration.

## **2005 OPERATING BUDGET OVERVIEW**

### **PART 1: Revenues**

Almost 95% of TTC revenues come from fares. Farebox revenues are budgeted to be about \$24.5 million higher than the 2004 Budget due to the higher projected ridership in 2005 (422 million versus 410 million in the 2004 Budget) and a higher average fare. The supporting budget documentation reflect ridership and revenue based on 422 million rides in 2005 and includes the impact of the weekly pass implementation.

Other revenues are expected to decrease by about \$7.8 million, partially offsetting the passenger revenue gain. This is primarily the result of a decrease in transit advertising revenues as a result of a new contract (\$5.7 million), a reduction in the provision of transit services to York Region (\$1.5 million) and, the discontinuation of interest accrual for a long outstanding receivable.

### **PART 2: Service**

In the late 1990s, 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 until 2001. With the slowdown in the economy and the loss of ridership following September 11, that service strategy changed. Overall daily service levels were essentially flatlined thereafter (other than the service changes associated with the Sheppard Subway opening in 2002). Service levels for 2005 will incorporate: the annualized effect of service adjustments introduced in 2004; additional resources to compensate for increased traffic congestion and the reduced carrying capacity of new low-floor buses, and; additional resources for the Ridership Growth Strategy improvements planned for 2005.

### **PART 3: Operating Expenses**

The day-to-day expenses associated with running the TTC are budgeted to increase by approximately \$26.8 million in 2005. The increases fall into the following areas:

1. Wage Increases based on current CBAs: \$5.2 million. The April 1, 2002 CBAs included wage increases of 3% effective April 1 in each of 2002, 2003 and 2004. The annualized impact of the April 1, 2004 wage increase (\$4.0 million), together with step rates, wage progression and job upgrades, have been incorporated into the budget. No provision has been included for the impact of the next CBAs. The current CBAs expire March 31, 2005.
2. Other Employee Costs: \$7.5 million. These costs have increased as follows: (i) increases in

post-retirement/post-employment benefits; (ii) increased pension, EHT, sick and other benefits primarily resulting from the April 1, 2002 CBAs; (iii) inflationary increases and higher utilization for health care (mainly prescription drugs) and dental costs; (iv) C.P.P. contribution increase, and; (v) increases in Sick Benefit and WSIB costs because of increased claims/utilization. It is important to note that no provision has been included in the budget for the Pensioners dental benefit. The estimated \$6.4 million cost will result in an operating deficit which will be written off against retained earnings.

3. Maintenance Programs: \$2.8 million. An increase of \$1.2 million for running maintenance on several bus fleet types, \$0.8 million corrective maintenance on the SRT cars, and the balance for the TTC's various facilities and infrastructure.

4. Material Price Increases: \$2.6 million. An allowance of 2% for CPI has been provided on purchases.

5. Accident Claims: \$2.0 million. An additional \$2.0 million has been included for the higher cost of accident claim settlements resulting from a recent actuarial forecast based upon 2003 and 2004 actual claims experience.

6. Ridership Growth Strategy: \$4.7 million (including \$0.7 million for Other Employee Costs). Off-peak service improvements commenced in the Fall of 2004 will have an annualized impact of \$2.0 million in 2005. Additional off-peak service improvements will be implemented in June and September of 2005 at a cost of \$2.7 million in 2005.

7. Calendar Impact: (\$3.0 million). Relative to 2004, 2005 will have one less day (2 less weekdays and one more Saturday) resulting in decreased costs (and decreased revenues).

8. Property Tax Increases: \$3.8 million. The budget incorporates approximately \$3.0 million for new property tax assessments (payments in lieu) on bus terminals that have never previously been assessed. An additional \$0.8 million has been included for the anticipated impact of increased assessments on other properties.

9. Hydro Costs: \$5.3 million. The budget contemplates a \$1 million reduction in the rebate from Hydro under the Market Power Mitigation Agreement. In addition, a further \$2.6 million is required to address forecasted increases in hydro rates and another \$1.7 million is required for increased power consumption.

10. Goods & Services Tax (GST): (\$5.6) million. The budget has been reduced by the impact of the additional 3/7<sup>th</sup> GST rebate announced by the Federal Government effective February 1, 2004.

11. Other: \$1.5 million. All other changes net out to an increase of about \$1.5 million including expenses related to the introduction of the weekly passes (approximately \$1 million).

Exhibit 1 (attached) provides a summary of the Commission's 2005 budgeted revenues and expenditures and subsidy requirement.

#### **PART 4: Workforce**

The Commission's 2005 workforce is budgeted at 10,649 which reflects a net increase of 219 positions due to the following:

(1) 133 additional operating positions are largely required as a result of: the continued implementation of the Ridership Growth Strategy (104), other 2005 service adjustments primarily to deal with the reduced capacity of low-floor buses and, increased traffic congestion (34) and less service requested by York Region (-12).

(2) 1 additional Wheel-Trans position for information technology projects for the Wheel-Trans System.

(3) 86 additional Capital Program positions primarily for the following programs: Tunnel Liner Rehabilitation (30), Asbestos Removal (27), ALRV Mid-Life Overhaul (18), SRT Overhaul (9), CLRV Overhaul (5) and, various other capital projects (12). These increases are partially offset by reductions in the Subway Car Overhaul Program (9) and the Bus Overhaul Program (6).

(4) 1 fewer Toronto Coach Terminal (TCT) position as a result of reduced telephone call volumes.

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.

## **2006 OUTLOOK**

For 2006, it is anticipated that costs will increase in line with inflation for most elements of the budget before incorporating any impact from the following items:

- the Collective Bargaining Agreements effective April 1, 2005
- fixed hydro rates expiring December 31, 2006
- the future availability of existing hydro rebates
- future diesel fuel prices (contract expires March 31, 2006)
- implementation of additional elements of the Ridership Growth Strategy
- changes in the level of services requested by and provided to York Region Transit

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November 5, 2004

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Attachments: Exhibit 1

TTC 2005 Operating Budget Overview

TTC 2005 Departmental Goals & Objectives

TTC 2005 Organization Charts  
TTC 2005 Detailed Operating Budget (Blue Book)