

MEETING DATE: November 28, 2005

SUBJECT: 2006 TTC Operating Budget

RECOMMENDATION

It is recommended that the Commission:

1) approve the 2006 TTC Operating Budget (summarized in Exhibit 1) as described in this report and the following accompanying reports:

- TTC 2006 Operating Budget Overview
- TTC 2006 Departmental Goals & Objectives
- TTC 2006 Organization Charts
- TTC 2006 Detailed Operating Budget (Blue Book)

2) Consider this report in concert with:

- (a) the 2006 Wheel-Trans Operating Budget
- (b) the 2006-2010 Capital Program and 10-Year Capital Forecast

3) note that based on estimated City of Toronto operating subsidy levels, the TTC 2006 Operating Budget includes a base budget shortfall of \$66 million as summarized below:

Expenditures	\$1,069 Million
Revenues*	<u>763 Million</u>
Subsidy Needed	306 Million
Estimated City Operating Subsidy	<u>240 Million</u>

Shortfall \$ 66 Million

*Based on current fare structure.

4) forward this report to the City of Toronto requesting approval of the City's 2006 Transit Operating Subsidy to the TTC.

5) forward this report to the Ontario Ministry of Transportation, the Honourable Harinder Takhar, the Ontario Ministry of Public Infrastructure Renewal, the Honourable David Caplan, and to the Ontario Ministry of Finance, the Honourable Dwight Duncan for information.

6) 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 2006 TTC Operating Budget are as follows:

- Continuing growth in the economy and employment is expected in 2006.
- Ridership is expected to be 437 million in 2006, 13 million higher than the 2005 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 the annualized impact of the off-peak improvements introduced in 2005 as part of the Ridership Growth Strategy, certain Commission-directed new services and, the anticipated growth in ridership to 437 million.

- Revenues will increase by about \$21 million over the 2005 budgeted level primarily because of the increased level of budgeted ridership.
- Expenditures will increase by approximately \$92 million primarily as a result of significant energy price escalation, the impact of new 2005 Collective Bargaining Agreements (CBAs), increased service costs to meet demand, and the Ontario Health Premium. Each of these is described in further detail in Part 3 of this report.
- For purposes of this report, subsidy is shown as \$239.5 million. Subsidy has been increased by 2% over the 2005 budgeted level of \$228.48 million to \$233.05 million based on the direction of the City Manager and CFO.
- Year-end workforce will increase by 252 positions: 212 additional TTC operating positions and 19 more in Wheel-Trans, an additional 22 capital positions, offset by the reduction of 1 Toronto Coach Terminal position. See Part 4 of this report for additional details.
- There currently exists an operating budget shortfall of \$66 million.

FUNDING

In 2005, the City of Toronto budgeted an operating subsidy for the TTC conventional system of \$228.48 million (up from \$204.5 million in 2004). In addition, on May 17, 2005, City Council approved an increase to the TTC's operating budget and subsidy to cover the Pensioner dental benefit non-cash expenses (\$6.4 million). For 2006, a subsidy level of approximately \$305.7 million is required to balance the operating budget – assuming no fare increase and no service reductions. The following table illustrates the subsidy levels as discussed.

OPERATING SUBSIDY **(\$ Millions)**

	2005 Budget	2005 Probable	2006 Budget
City	144	144	149

Province	91*	91	91
Subsidy Available - base - long-term***	229 <u>6</u> 235	229 <u>6</u> 235	234 <u>6</u> 240**
Subsidy Required - base - long-term***	229 <u>6</u> 235	230 <u>6</u> 236	300 <u>6</u> 306
Surplus / (Shortfall)	Ø	(1)	(66)

*Provincial subsidy is based on the first 1¢ of Provincial Gas Tax money.

**For purposes of this report, subsidy has been increased by 2%.

***The long-term subsidy is required to cover the Pensioner dental benefit as approved by City Council on May 17, 2005.

Until the 2006 City transit operating subsidy is known, it is not possible to make recommendations on how to address this shortfall.

FARE INCREASE SCENARIOS

As a minimum of six weeks is required to implement a fare increase, the earliest date that a fare increase can be introduced (assuming Commission approval is received by December 14, 2005) is February 1st, 2006.

To cover the entire \$66 million Operating Budget shortfall, a February 1st fare increase of 35¢ on adult tickets/tokens (and pro rata increases on all other fare media) would be required. It is anticipated that approximately 19 million rides would be lost, on an annual basis, as a result.

If a standard 10¢ increase on adult tickets/tokens (with pro rata increases on all other fares) was implemented on February 1st, approximately \$18 million in additional revenue would be generated with a loss of about 3.5 million rides. The remaining \$48 million shortfall would have to be addressed through increased subsidy.

RIDERSHIP

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

Appendix A illustrates how some of these key factors (employment, service levels, fares, and disruptions to service) have affected ridership since 1988. As can be seen from the chart, Toronto employment has almost recovered to pre-recession levels in 1990. At the same time, City of Toronto population grew by over 9% during the 1990's (and even more since then). However, despite increased employment and rising population, TTC ridership is still about 7% lower than the 459 million carried in 1990. This divergence can be attributed to significant fare increases and service cuts in the 1990's required to balance those budgets.

During 2005, ridership continued to grow and year-end ridership is now forecast at 427 million (compared to a budget of 424 million). This is due to a number of factors, including:

- Higher than expected economic growth (GDP and employment) in the City of Toronto through the first nine months of the year. Toronto employment growth through September was 2.0% which was higher than expected;
- Continued strong sales growth of Metropasses reflecting support of the VIP Program and the introduction of transferability and;
- Somewhat lower than forecast ridership loss from the March 2005 fare increase.

A number of positive factors are expected to contribute to ridership growth again in 2006:

- Continued employment and GDP growth in 2006 for the Toronto area economy. Recently published forecasts estimate GDP and employment growth for the Toronto CMA at 3.8% and 2.9% respectively;
- The annual effect of service adjustments introduced in 2005 including off-peak Ridership Growth Strategy (RGS) improvements on major routes; and;
- The annualized impact of making the Metropass and Weekly Pass transferable.

It should be noted that there are numerous risks that could negatively impact ridership growth in 2006 including:

- Sustainability of Toronto employment growth
- The level of energy prices
- Concerns over terrorism and security
- Concerns over the next major health pandemic.

Based on the most recent economic forecasts for 2006 and the impact of improvements to service and fare offerings, TTC ridership is forecast to increase to 437 million in 2006 – up 13 million from the 2005 budgeted level and 10 million over the 2005 probable. All of this is based on current fare and service levels.

2006 OPERATING BUDGET OVERVIEW

PART 1: Revenues

Almost 95% of TTC revenues come from fares. Based on the current fare structure, farebox revenues are budgeted to be about \$18.8 million higher than the 2005 Budget due to the higher projected ridership in 2006 (437 million versus 424 million in the 2005 Budget). The supporting budget documentation reflect ridership and revenue based on 437 million rides in 2006 and includes the annualized impact of making the Metropass and the Weekly pass transferable.

Other revenues are expected to increase by about \$1.9 million, primarily as a result of an increase in the provision of transit services to (and recovery of costs from) York Region.

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 2006 will incorporate: the annualized effect of the off-peak Ridership Growth Strategy improvements on major routes introduced in 2005, increased service to address anticipated ridership growth and overcrowding, certain Commission-directed new services (e.g. blue-night network, Morningside Heights), additional resources to compensate for increased traffic congestion and the reduced carrying capacity of new low-floor buses, and additional resources required to maintain service levels during TTC and City construction projects including the Finch Avenue West diversion until the bridge washed out by the recent storm is restored in the spring.

PART 3: Operating Expenses

The day-to-day expenses associated with running the TTC are budgeted to increase by approximately \$91.4 million in 2006. The increases fall into the following areas:

1. Energy Costs: \$27.1 million. With the expiry of the current two-year fixed diesel fuel contract on March 31, 2006, based on current futures prices, together with the impact of the required utilization of ultra low sulphur diesel fuel by September 2006 and the expansion of bio-diesel usage to three garages, it is expected that diesel fuel costs will rise by \$19.4 million. Natural gas consumption for CNG buses will decline due to the planned retirement of these vehicles for a net reduction \$0.9 million. Other utilities (AC power, heating fuels and water) will increase by \$5.1 million primarily as a result of an estimated 90% increase in the price of natural gas. In addition, traction power costs are expected to increase by \$1.6 million together with the elimination of the previously budgeted \$2.0 million Market Power Mitigation Rebate.

2. Wage and Benefit Increases based on the new CBAs: \$24.6 million. The April 1, 2005 CBAs include wage increases of 2.75% / 3.00% / 3.25% effective April 1 in each of 2005, 2006 and 2007. The annualized impact of the April 1, 2005 wage increase (\$3 million), together with the April 1, 2006 wage increase (\$15 million) have been incorporated into the budget. In addition, the annual Transit Allowance payment (\$1 million), pension contribution increases (\$4 million) and other benefits and improvements (\$2 million) have also been included.
3. Other Employee Costs: \$13.7 million. These costs have risen due to increases for post-employment and post-retirement provisions, the impact of wages and benefit increases included in the new collective bargaining agreements, and higher sick benefit, healthcare and dental costs. Approximately \$6.4 million has been incorporated into the budget for the non-cash expenses for the pensioners dental plan which will be covered through a long-term subsidy receivable from the City.
4. Service Adjustments: \$9.1 million. Costs to support the annualized effect of the 2005 off-peak RGS improvements have been included in the budget. In addition, the budget includes funds to address anticipated ridership growth and overcrowding, Commission-directed new services, increased traffic congestion and reduced carrying capacity of low-floor buses and TTC and City construction projects including the Finch Avenue West diversion.
5. Ontario Health Premium: \$5.2 million. The budget provides for the payment of this premium, on behalf of the Commission's employees, in the event that responsibility for it rests with the TTC. This matter is currently scheduled for a judicial review in December of this year. Including the Wheel-Trans and Capital budgets, the total impact on the TTC's budgets is approximately \$6 million.
6. Fare Media Expense: \$3.0 million. This amount reflects cost increases for the price of fare media product as well as the annualized cost of the new Weekly pass and the acquisition of tokens.
7. Material Price Increases: \$1.9 million. An allowance of 2% for CPI has been provided on purchases.
8. Streetcar Maintenance: \$1.7 million. This increase reflects higher running maintenance costs for the aging streetcar vehicle fleet.
9. Transitional Work Program: \$1.3 million. This incremental cost reflects the impact of returning sick/injured workers to employment as early as possible and is offset by a reduction of approximately \$1.0 million in sick benefit expenses.
10. Training: \$1.3 million. These increased costs are primarily associated with the training of new Operators to meet service requirements as well as technical training for maintenance employees.
11. Other: \$2.5 million. All other changes net out to an increase of about \$2.5 million including expenses related to overtime and other workforce changes.

Exhibit 1 (attached) provides a summary of the Commission's 2006 budgeted revenues and

expenditures and subsidy requirement.

PART 4: Workforce

The Commission's 2006 workforce is budgeted at 10,901 which reflects a net increase of 252 positions due to the following:

(1) 212 additional TTC Operating positions largely required for: service requirements (137), reassignment of janitorial resources (29), Subway Zone Patrol Strategy (21), and various other staffing requirements (25).

(2) 19 additional positions for the Wheel-Trans system: Operator requirements for increased trip demand and modal split (16) and other staffing requirements (3) for the trip demand increase, and to ensure adequate off-shift coverage and training levels. Further details of the Wheel-Trans workforce are outlined in the 2006 Wheel-Trans Operating Budget.

(3) 22 additional Capital Program positions primarily for the following: increased capital project workload for Engineering & Construction Branch (25), temporary Track & Structure personnel reclassified as regular positions (14), Purchase of T2 Subway Cars and LRT Cars (6), CIS Project Network Infrastructure and DOSS (6), ALRV Mid-Life Overhaul Program (4), CCTV Program (4) and various other capital projects (14). These increases are partially offset by reductions in the Bus Overhaul Program (34) and the Y-U-S/B-D Subway Re-insulation Program (17).

(4) A reduction of 1 Telephone Information Clerk position in the Toronto Coach Terminal (TCTI) workforce due to reduced telephone call volumes. The year-end count decreases to 32 positions. Details of the TCTI workforce are outlined in the 2006 TCTI Operating and Capital Budget.

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.

2007 OUTLOOK

For 2007, 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:

- fixed hydro rates expiring December 31, 2006
- future energy prices
- implementation of additional elements of the Ridership Growth Strategy
- changes in the level of services requested by and provided to York Region Transit

November 14, 2005
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Attachments: Appendix A
Exhibit 1

Companion Reports: TTC 2006 Operating Budget Overview
TTC 2006 Detailed Operating Budget (Blue Book)
TTC 2006 Departmental Goals & Objectives
TTC 2006 Organization Charts