

Chief General Manager's Report Period 6 June 1 To July 5, 2008

Meeting Date: August 27, 2008

Subject: Chief General Manager's Report Period 6 June 1 To July 5, 2008

Recommendation

It is recommended that the Commission forward a copy of this report to each City of Toronto Councillor for information noting that the detailed CGM's Report is available upon request from the Office of the General Secretary of the Commission.

Discussion

The purpose of the Chief General Manager's (CGM's) Report is to provide the Commission with information about the activities of the Toronto Transit Commission over the course of the year.

Ridership Results

Ridership to July 5 was 660,000 (-0.3%) below budget and 2,465,000 (-1.0%) below the same period in 2007. These results largely reflect the impact of the April strike and, to a lesser extent, the effects of the continuation of the Metropass trip rate reduction (which was initiated in July 2007) and the November 2007 fare increase. Restating the 2007 results to reflect the impact of the Metropass trip rate adjustment in 2008, indicates that ridership for the first six periods of the year is approximately 4 million higher than 2007 on a fully comparable basis.

Based on the ridership results to the end of Period 6, and moderate growth anticipated for the balance of the year, the forecast for year-end ridership remains on target with the budget of 464 million rides.

Financial Results

2008 TTC Operating Budget

Appendix A represents the TTC's Income Statement and provides information on Revenues, Expenses and Subsidies. The statement includes the Commission's approved subsidy of \$282.6 million which reflects a reduction of approximately \$2.8 million made by the City during its review of the proposed budget. It should be noted, however, that this approved subsidy level will be adjusted to incorporate the City's allowance for the 2008 impact of the April 2008 collective bargaining agreements once they have been finalized.

The following table provides a summary of year-end projections for ridership, expenses, revenues and subsidy requirements. It should be noted that the year-end projected shortfall has increased by \$1 million since the last report.

2008 TTC Operating Budget

| Millions | Budget | Projection | Change |
|-------------------|-----------|------------|--------|
| Ridership | 464 | 464 | - |
| Revenues | (\$879.3) | (\$872.1) | (7.2) |
| Expenses | \$1,167.7 | \$1,154.7 | \$13.0 |
| Subsidy Required | \$288.4 | \$282.6 | \$5.8 |
| Subsidy Available | \$282.6 | \$282.6 | - |
| Shortfall | \$5.8 | - | \$5.8 |

Note: Expenses and Subsidy Available are excluding the impact of the collective agreements currently under arbitration.

Year-end expenses are currently projected to be about 1.1% (\$13 million) over budget. This is largely due to the following: (1) the \$2.8 million budget cut from the City, (2) \$2.7 million in increased snow removal requirements (including overtime work and additional mainline storage and late-ins), (3) \$2.2 million in increased employee benefit expenses resulting from higher absenteeism, (4) \$1.1 million for the unplanned safety critical Orion V rear axle bolt replacement program, (5) a \$1 million deductible payment on the insurance claim for damages incurred from the two subway train collision and derailment that occurred in April at the Wilson Yard, (6) \$1 million for increased accident claims costs based on a recent actuarial projection, (7) \$0.8 million for additional structural/collision repair work on the bus fleet to address a shortage of vehicles available for service resulting from the late delivery of new buses, (8) \$0.7 million for safety initiative work and (9) \$0.4 million for unbudgeted training resources (11 Instructors and 1 Chief Instructor) required to meet 2009 Operator training requirements.

It should be noted that the Municipal Property Assessment Corporation (MPAC) has assessed certain TTC properties despite the new City of Toronto Act exemption which became effective in January 2007. TTC and City staff continue to pursue the resolution of this matter through MPAC's appeals process. However, in 2008, the Commission has incurred approximately \$1.5 million in unbudgeted

property taxes paid to the City. Given that these payments represent an unanticipated gain to the City, it is expected that the TTC will be held harmless for these additional costs and consequently, they have not been reflected in the projected year-end expenses in this report.

Passenger revenues are currently projected to be slightly above budget (\$2 million) by year-end. This positive variance incorporates anticipated ridership growth and reduced counterfeiting for the balance of the year, and an adjustment for deferred revenue for old tickets which will be partially offset by the ridership loss and pass refunds associated with the April strike. In addition, advertising revenues are expected to exceed budget by about \$2 million and other revenues are projected to be about \$3.2 million better than budget primarily due to the assessment of liquidated damages on a current vehicle procurement contract.

Overall, a shortfall of \$5.8 million is currently projected at year-end. Essentially, this shortfall can be attributed to three key items: (1) the \$2 million net loss associated with the strike, (2) the City's \$2.8 million budget reduction and (3) the \$1 million deductible related to the insurance claim for damages resulting from the subway train collision and derailment. Staff will continue to closely monitor ridership, revenues and expenses in an effort to balance the budget by year end.

Service Related Results

For the first six months of 2008, the subway and the SRT mainly performed as expected. Overall, service performance levels for the Yonge-University-Spadina Line were on target while the Bloor-Danforth Line has performed somewhat below target. Performance on streetcar routes continued to be hindered by vehicular congestion and parking. A number of solutions have been implemented to address this, particularly on the 501 Queen Street route and will be reported at the October Commission meeting.

Customer Satisfaction Results

To July 5, complaints increased by approximately 20% while compliments declined by about 7%, over the comparable period last year. The biggest increase in complaints related to the strike in April. In addition, continuing negative feedback regarding surface delays is consistent with some overcrowding conditions on surface vehicles and the worsening traffic congestion conditions prevalent in the city.

2008 TTC Capital Program Budget

Appendix B contains a table that shows actual 2008 expenditures based on results available to Period 6 and year-end projections for the TTC's capital projects. City Council approved an overall budget of \$692.5 million for the base capital program on December 11, 2007. Current projected 2008 expenditures for the base program are \$804.3 million, representing an over expenditure of \$111.8

million. A carry forward adjustment of \$168.5 million has been approved by City Council on July 15, 16 and 17 to address contract delay impacts from 2007 which have resulted in the deferral of approved expenditures to 2008. The result is a net 2008 under variance of \$56.7 million for the base capital program.

The primary drivers of this \$111.8 million variance are outlined in the table below and details of all major variances are provided in a summary provided in Appendix B.

2008 TTC Operating Budget

| Millions | Budget | Projection | Change |
|-------------------|---------|------------|---------|
| Total Capital | \$804.3 | \$692.5 | \$111.8 |
| Bus Order | 272.4 | 148.4 | 124.0 |
| Surface track | 39.3 | 61.5 | (22.2) |
| Wheel-Trans Buses | 0.1 | 17.6 | (17.5) |
| Other projects | 492.5 | 465.0 | 27.5 |

Bus Order - late delivery of 161 hybrid buses contractually scheduled for delivery in 2007.

Surface Track - Mainly due to deferral of St. Clair West and 2008 Tangent and Special Projects as a result of required City water main work and Hydro undergrounding.

Wheel-Trans Buses - delivery of buses expected to slip into 2009.

Also, an under expenditure of \$40.5 million is projected on the Toronto York Spadina Subway Extension project based on the status of the current project activities. An over expenditure of \$9.6 million is now reflected for Transit City Projects, based on current projections of project work as approved by the Commission on April 23, 2008.

Contribution Agreements have recently been signed for funding under the Canada Strategic Infrastructure Fund (CSIF) and the Transit-Secure programs and staff is following up on Federal claim requirements. The announcements in the March 2008 Provincial budget have resulted in additional funding commitments including subway capacity projects, bike racks and Transit City Plan work. The resultant impact is a reduction of the five-year funding shortfall from \$1.503 billion to \$1.085 billion. Further commitments are required in the coming months in order to proceed with the LRV and SRT rail car fleet replacements and are being pursued with the Federal and Provincial governments.

2008 Wheel-Trans Operating Budget

Appendix C shows the Wheel-Trans Income Statement and reflects the \$70.120 million subsidy level approved by City Council. A surplus of approximately \$1.4 million is currently projected by year-end and largely reflects a reduction in the number of passenger trips carried by bus due to bus fleet constraints partially offset by increased passenger trips on contracted taxis and the impact of the recently announced taxicab fare increases.

August 13, 2008

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Attachments: Appendices A, B and C