TORONTO TRANSIT COMMISSION
REPORT NO.

MEETING DATE: NOVEMBER 17, 2009

SUBJECT: 2010 TTC OPERATING BUDGET – FARE INCREASE

ACTION ITEM:

RECOMMENDATION

It is recommended that the Commission approve the implementation of a standard $0.25 fare increase on adult fares and a pro-rata increase on all other fare media, plus a further price increase equivalent to 2 trips on the Metropass pricing multiple, effective January 3, 2010, noting that all January passes will be sold at the new rates.

2010 OPERATING BUDGET HIGHLIGHTS

Work on finalizing the revenue and expenditure elements of the 2010 Operating Budget continues and the full budget will be presented to the Commission for consideration at its meeting of December 16, 2009. Highlights of the 2010 budget (before any fare increase) include the following:

- Flat or modest growth in the economy and employment is expected in 2010.
- Ridership is targeted to be 473 million in 2010, 2 million (0.4%) higher than the 2009 probable of 471 million.
- Revenues are projected to decrease by about $13 million from the 2009 budgeted level primarily because of a projected lower average fare based on experience this year.
- Service levels will be largely unchanged and will be sufficient to accommodate ridership in the range of 473 million.
- Expenditures are expected to increase by approximately $93 million (7%) over the 2009 budgeted level. The magnitude of this increase is consistent with recent years and, in view of the size of the budget and nature of our operation, it is expected that we will see this order of increase in future years as well. Key elements of the increase include:
    - wage and benefit increases as a result of the Commission's collective agreements with its employees
    - energy cost escalation
    - general inflation

  - service increases to reflect annualized effects from 2009, increased City construction, low floor bus and congestion adjustments
  - increased vehicle and facility maintenance requirements
  - subway station cleanliness/appearance improvements
  - attendance management and safety initiatives

- Subsidy is assumed to be flat-lined at the 2009 budgeted level of $394.1 million.

- Based on current subsidy levels and the projected change in revenues (down by $13 million) and expenditures (up by $93 million), there is a projected shortfall in the 2010 operating budget of about $106 million.

RIDERSHIP AND FARE REVENUE

2009 Ridership

Ridership is affected by a combination of 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 longer-term such as demographics and income level. Others such as energy prices, employment levels, tourism, retail trade and significant world events can have both short and long-term ridership consequences. Other than service levels and fares, key variables that impact ridership are largely beyond the control of the TTC. Year-to-date ridership (Period 9) is 2.3 million below budget. TTC ridership in 2009 reflects the net impact of various positive and negative events/factors as outlined below.

- A major economic slowdown as experienced in 2008 and 2009 has had both positive and negative effects on the TTC. On the negative side, when riders lose their jobs, their usage of the TTC most likely declines. However on the positive side, for those who retain their employment and are looking for ways to save money, they may have shifted part/all of their trip making to the TTC from the automobile. Although these items will not negate each other, the positive modal shift helped to moderate the ridership losses from employment declines;

- After slight employment growth in December 2008 and January 2009, the City of Toronto has experienced continuous job losses from February through September. There is a lead-lag relationship between employment growth (decline) and ridership growth (loss) as demonstrated by the fact that ridership was over budget in May and June even though employment had been declining since February. This means that it will likely take a couple months after an economic recovery gets traction before ridership resumes any meaningful growth;

- Although the impact of the City of Toronto Inside/Outside Workers Strike from June 22 to July 30 cannot be accurately quantified, it was most likely negative for a number of reasons. Firstly, the strikers themselves were almost certainly using the TTC less than before the strike - the City returned its July VIP allocation so even if City employees were still using the TTC, they were using tokens or cash which meant lower ridership. Secondly, the negative press on the strike and the piles of garbage may have reduced the number of tourists visiting the City and negatively impacting ridership. Thirdly, residents (City or GTA) may not have gone out to visit City attractions to avoid the garbage or strikers - again, having negative consequences for ridership. Fourthly, residents may have adjusted their holiday schedule and took vacation early to avoid being in the City when the strike was on;

- The ridership loss and switching from Metropass usage associated with the introduction of commuter parking fees was lower than forecast. In estimating the net financial impact of introducing this charge, forecasts were prepared that estimated the loss of riders and riders switching to a different type of fare media due to the loss of "free" parking privileges. After the introduction of the charge, staff closely monitored lot utilization and Metropass sales. Utilization rates were very close to those forecast and the actual decline in Metropass sales was in the range of half of what was forecast. This meant that riders who had previously been using the lots were continuing the use the TTC and purchasing Metropasses, but had modified their travel patterns to use a mode to get to the subway stations that did not require the use of TTC parking facilities (walk, bike, TTC surface vehicle, passenger drop off, etc.); and

- Reversal of the TTC strike from April 25 to April 27, 2008 resulted in a positive impact estimated at approximately 1.7 million rides.

Ridership in 2009 was budgeted at 473 million increasing from 467 million rides in 2008. Based on year-to-date performance and forecasted economic activity for the remainder of 2009, year-end probable ridership is forecast at 471 million. While slightly below the targeted level (0.4%), this should be seen as an excellent result in view of the current economic situation and its impact on employment in Toronto. Further, achieving 99.6% of the budgeted ridership is not only a much better result than the TTC experienced in previous economic downturns, but appears to be a much better result than most other transit properties are experiencing this year. This favorable result can be explained in large part through the service improvements introduced in the past few years and the fact that fares have not increased in the past two years.

2009 Fare Revenue

Fare revenue year-to-date is $12 million below budget (1.9%). Approximately $4 million is due to ridership being slightly more than 2 million rides below budget. The remaining loss of $8 million is due to the fact that the year-to-date average fare is approximately $0.025 below budget. There are two main factors contributing to the reduced rate. There has been a slight shift in the composition of the ridership mix with more seniors/students and children and less Adults than forecast using the system. This shift lowers the average fare as both seniors/students and children are eligible to use concession fares. There has also been a shift in the fare media mix. There is a higher than forecast percentage of riders using passes while a lower than budgeted portion of riders are using higher "value" fares such as tokens and cash. Based on an analysis of year-to-date results, it appears that the ridership mix and fare media mix have stabilized and the current average fare is a reasonable basis for estimating 2010 fare revenue.

Based on the probable year-end ridership of 471 million and average fare of $1.78, year-end fare revenue is now forecast at $836.0 million ($15.7 million below budget).

2010 Ridership

At the present time, there is no consensus in the financial community on the timing and strength of the 2010 economic recovery in Canada generally and in Toronto specifically. The majority of the major financial institutions are forecasting economic uncertainty in the first half of 2010 and annual employment growth rates of less than one percent. The City of Toronto's most recent economic forecast has employment growth at only 0.7% for 2010.

There is also a risk to 2010 ridership levels related to the H1N1 swine flu. Although the severity and resulting impact is unknown at this time, anecdotally, the TTC lost an estimated 3 million rides (against budget) when the SARS advisory was in effect in 2003. There is also a risk of TTC service levels being negatively impacted depending on how severely TTC operating personnel may be affected by the flu.

Other risks that could negatively impact ridership growth in 2010 include:

- Strength of the Canadian dollar;
- Commodity prices;
- Level of energy prices; and
- Interest rate levels and concerns over financial market liquidity.

Millions	2009 BUDGET	2009 PROBABLE	2010 BUDGET	2010 BUDGET vs. 2009 BUDGET

Ridership	473	471	473	0

Based on the most recent economic forecasts for 2010 and the level of uncertainty surrounding the estimates, ridership in 2010 is forecast at 473 million rides, the same as the 2009 budget, and 2 million over the 2009 probable (year-end projection) of 471 million.

Please note that this budget does not reflect any potential fare increase in 2010.

2010 Fare Revenue

$Millions	2009 BUDGET	2009 PROBABLE	2010 BUDGET	2010 BUDGET vs. 2009 BUDGET
Passenger Revenues	$851.7	$836.0	$839.6	($12.1)

The $12.1 million year-over-year decrease in budgeted passenger revenues is primarily attributable to decline in average fare of approximately $0.025 per ride reflecting a shift in the fare media mix and ridership composition.

Please note that this budget does not reflect any potential fare increase in 2010.

HOW TO ADDRESS THE FINANCIAL SHORTFALL

There are essentially three options available to address the projected $106 million shortfall: (1) reduce expenditures, (2) increase fares, or (3) increase subsidies.

1. Staff continues to seek savings or ways to contain cost increases. A number of initiatives have been implemented or are being pursued that have had or are expected to have a favourable financial impact on expenses (including energy conservation and demand management, the elimination of bio-diesel fuel, conversion of contracted resources to staff positions, the use of diesel fuel futures to reduce market exposure, attendance management, adoption of a safety culture). The combined impact of these initiatives, however, will not be sufficient to significantly reduce the impact of normal annual cost increases. Given our current

cost structure (approximately 80% of expenses are for wages and benefits and vehicle energy), the only real mechanism to substantially reduce costs to address the shortfall would be to substantially reduce service.

Cutting service would be inconsistent with the Ridership Growth Strategy initiatives that have been successfully implemented in recent years and which are designed to support the City of Toronto's Official Plan for the intensification and growth of the City. TTC surveys of both current and potential riders consistently show that high service levels and quality are the most effective contributors to growing ridership. Therefore, significant service reductions should only be pursued as the last resort.

2. Trying to balance the budget solely through fares would be equally problematic. Reasonable fares are sustainable; however, history shows us that huge fare increases can have detrimental impacts. During 1992 and 1996 when the TTC was forced to implement double fare increases, ridership fell markedly. The TTC provides a high level of service city-wide. A high share of the cost of that service has always been paid for by riders and that should continue. The job at hand is finding a reasonable balance between users' fees and subsidy. In this context, it is important to note that while most other local transit authorities have had successive fare increases in 2008 and 2009, the TTC has not increased its fares since November 2007.

3. Covering the entire shortfall through increased subsidies also comes with long-term risk. An over reliance on subsidies is especially problematic during economically uncertain times. If municipal tax revenues drop in response to economic decline, pressure to reduce transit subsidies will undoubtedly follow. That could result in the need for a greater than proportionate impact on fares: the need to cover inflationary and cost pressures in the transit operation and the need to compensate for reduced subsidies. This can have disasterous consequences and is exactly what happened in the early 1990s. The City was in a recession. Subsidies from our funding partners were cut by 40% from 1992 to 1996. Fares were raised to compensate. As ridership fell, service was cut. The result: ridership fell by almost 90 million rides from over 459 million in 1990 to 372 million in 1996 (a 19% drop). It took almost two decades to regain ridership levels to what they were previously.

Resolution of the shortfall will likely be through a combination of these elements. While service improvements will be constrained for 2010, significant service reductions are not recommended due to the potential long-term negative impacts arising from this course of action. Also, at this time, and in view of the current economic situation, there has been no indication that the City is in a position to provide additional operating funds to the TTC. In fact, contrary to the possibility of additional subsidy, the City has requested that the Commission give consideration to the potential impact of a 5% cut in current subsidy levels. In view of this situation, staff recommends a large fare increase with the earliest possible implementation date in order to maximize the revenues raised.

2010 Fare Increase Scenarios

Staff has assessed a wide variety of fare increase scenarios at a number of price points ($0.05, $0.10, $0.15, $0.20 and $0.25) and a number of different assumptions related to the treatment of specific fare media types and categories.

In developing and assessing the scenarios, a number of key dynamics were taken into consideration.

- We are facing a $106 million shortfall in our operating budget for 2010. There are only two main actions that the TTC can take internally to meaningfully address the funding gap - cut service or increase fares. Numerous market research studies undertaken by the TTC and other transit properties show that service levels are overwhelmingly more important than fare levels in determining whether or not an individual chooses to use transit.

- Historically, the intent of the Metropass was to capture heavy transit users (i.e. non-commuters) and hence, the pass was priced at a trip multiple of 52 rides. Since 2005, Metropass users have been the beneficiaries of a significant number of reductions in the cost of a pass relative to other TTC fare media. The major events since 2005 impacting the cost of a Metropass are summarized below:

    - March 2005: $0.10 fare increase, Metropass price frozen. The effective trip rate for pricing dropped from 52.0 to 49.4;
    - September 2005: Metropass (and Weekly Pass) are made transferable. On average, 3 free trips are made after a Metropass has been transferred;
    - April 2006: $0.10 fare increase, Metropass price increased by only $1.00. The effective trip rate for pricing declined from 49.4 to 47.5;
    - July 2006: Federal Transit Tax Credit introduced for Metropasses. The effective after-tax trip rate dropped from 47.5 to 40.3; and
    - November 2007: $0.15 "across the board" fare increase and 1 trip added back to Metropass price. The effective trip rate increased to 48.4 pre-tax and 41.2 after-tax.

- With a reduced effective trip rate, the Metropass is now a viable proposition for regular users of transit – i.e. commuters – and this has been confirmed by the growth in Metropass sales in recent years. Over the past 10 years, annual Metropass sales have increased from 1.5 million to 3.2 million or over 100% growth. During this same time period, the proportion of total TTC riders using Metropasses increased from 29% to 46%. This shift in customers has resulted in the reduction of our average fare and the consequent erosion of passenger revenues.

- The TTC conducts detailed Metropass Diary Studies to determine the amount of trips Metropass users make in a month. At the present time, the average use of a Metropass is approximately 70 trips per month. This level should be compared to the current after-tax trip rate of 41.2 for pricing.

- During the early 1990's, the City of Toronto faced a prolonged decline in employment resulting in major operating shortfalls for the TTC. In response to the shortfalls, both large fare increases and significant cuts were made to service numerous times. Over a period of 6 years, ridership declined from 459 million rides to 372 million rides. The combination of fare increases and service cuts during this time resulted in a massive ridership decline that was much more pronounced than it would have been if either of these actions had been taken in isolation or than could solely be attributed to a decline in employment. This recent history serves as an important guide for determining how we proceed in our current circumstance.

Summarized below is a selection of fare increase scenarios reflecting the following assumptions.

- The funding shortfall will be addressed through increased fares with no cuts to service. This means a significant per ride increase will be required to make any meaningful contribution towards covering the financial shortfall;

- Due to the existing fare media mix with passes accounting for approximately 46% of rides but only 41% of the revenue, pricing trip rates must be analyzed to determine if this category is receiving disproportionate benefits;

FARE INCREASE SCENARIO	ANNUAL REVENUE IMPACT ($M)	ANNUAL RIDERSHIP IMPACT (M)
$0.25 Standard Pro-Rata	$50.4	(11.5)
0.25 Standard Pro-Rata, Metropass + 1 trip	$57.5	(12.1)
$0.25 Standard Pro-Rata, Metropass + 2 trips*	$62.5	(12.5)

*Staff recommended

Based on the forecast fare media mix and assumptions related to elasticities for each fare media type, it is estimated that a standard $0.25 fare increase on adult fares and pro-rata increases on all other fare media will generate approximately $50 million per year with a corresponding ridership loss of 11.5 million rides. Each trip added to the price of a Metropass generates an additional $5 to $7 million in fare revenue with a loss of approximately 0.5 million rides. The minor ridership loss associated with adding trips to the price of the Metropass is due to the very low fare elasticity for pass users.

The addition of 2 trips to the Metropass price raises the pricing multiple to only 50.4 pre-tax and 42.8 after-tax which is significantly below the actual pass usage rate and is still below the multiple in effect in 2005 and will help to restore the average fare.

Recognizing the importance of service versus fares (i.e. customers strongly prefer maintaining service levels over maintaining fare levels), a fare increase is the only immediate avenue available to address the operating shortfall. It is, therefore, recommended that the TTC implement a standard $0.25 fare increase on adult fares and a pro-rata increase on all other fare media, plus a further price increase equivalent to 2 trips on the Metropass pricing multiple. The new fare schedule is attached as Appendix A. It is also recommended that the fare increase be effective January 3, 2010 so the TTC can receive the maximum incremental fare revenue possible from the increase (each month will generate $5 million). It should be noted that all January passes will be sold at the new rates.

Fare increases are normally in the range of $0.10 to $0.15 annually and, so, in the absence of any fare increase since 2007, the recommended fare increase takes us close to where we otherwise would have been. During the intervening years, our riders have been sheltered from fare increases while enjoying significant service improvements. It is not possible to significantly reduce the shortfall without an increase in fares (as noted above). By implementing the fare increase, the Revenue/Cost ratio is expected to be approximately 68% which is in line with the historical funding relationship between passenger revenues and subsidies which was maintained for years (under the Users Fair Share Formula).

CONCLUSION

Implementation of the recommended fare increase will generate approximately $62 million on an annual basis. For 2010, this would reduce the shortfall from $106 million to approximately $44 million. This still represents a sizeable gap in the funds available versus our projected need and discussions will be required with the City to identify ways to address this remaining shortfall. Staff will continue to work to finalize the budget and will update the revenue and expense estimates to reflect the impact of the fare increase (in particular, service will be adjusted to reflect the lower anticipated ridership) on the 2010 operating budget when it comes forward to the Commission in December for consideration.

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November 10, 2009
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Attachments: Appendix A - Recommended Fare Schedule

APPENDIX A

$0.25 STANDARD PRO RATA FARE INCREASE
ALL METROPASSES INCREASED BY 2 TRIPS
FARE SCHEDULE

	CURRENT FARE	PROPOSED FARE	% INCREASE
Adult			
- Cash	$2.75	$3.00	9.1%
- Token	$2.25	$2.50	11.1%
- Weekly Pass	$32.25	$36.00	11.6%
- Regular Metropass	$109.00	$126.00	15.6%
- VIP	$96.00	$111.00	15.6%
- MDP	$100.00	$116.00	16.0%
Senior/Student			
- Cash	$1.85	$2.00	8.1%
- Ticket	$1.50	$1.65	10.0%
- Weekly Pass	$25.50	$28.00	9.8%
- Regular Metropass	$91.25	$104.00	14.0%
- MDP	$84.00	$95.00	13.1%
Child			
- Cash	$0.70	$0.75	7.1%
- Ticket	$0.50	$0.55	10.0%
Day Pass	$9.00	$10.00	11.1%
GTA Pass (TTC Portion)	$25.30	$29.25	15.6%