

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: September 30, 2010

SUBJECT: 2011 OPERATING AND CAPITAL BUDGET UPDATE

ACTION ITEM

RECOMMENDATION

It is recommended the Commission receive the following report updating the status of the 2011 TTC Operating, Wheel-Trans Operating and Capital budgets and approve the following:

1. That staff be instructed to take appropriate action to ensure that service commensurate with approved loading standards is in place commencing in January in response to the better-than-budgeted ridership this year (estimated at 476 million) and continued growth next year (projected at 487 million);
2. That the Chief General Manager be authorized to pre-approve the hiring of workforce (required prior to City Council approval of the 2011 budgets) necessary to meet service requirements and specific capital program needs consistent with existing service standards and approved capital plans;
3. That staff continue to develop and finalize the 2011 operating and capital budgets for presentation to the Commission at the January 2011 meeting, and;
4. That the Chief General Manager be instructed to discuss with the City Manager appropriate strategies for the deployment of the projected 2010 TTC Operating Budget surplus to the maximum benefit of the TTC and the City.

Note that the 2011 budgets are actively undergoing refinement and that the City administrative review process has commenced.

TTC OPERATING BUDGET

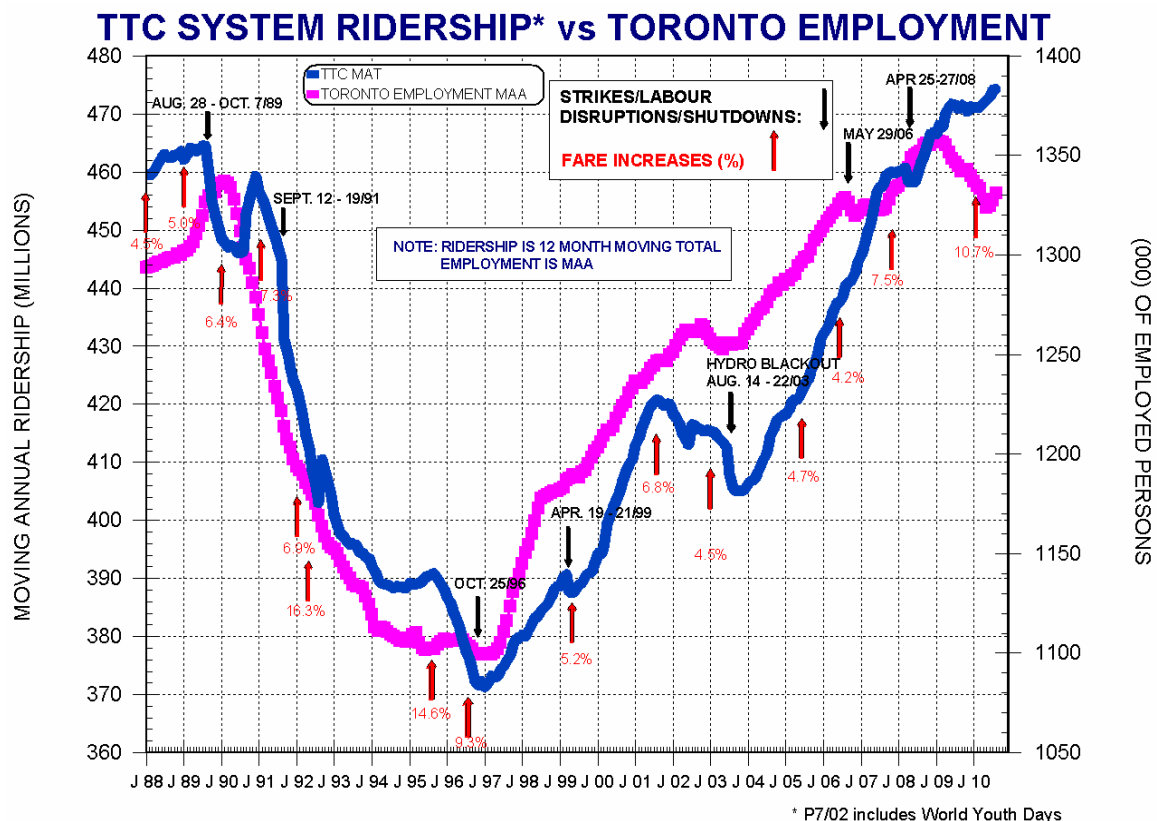
RIDERSHIP

Ridership in 2009 topped the 471 million level, an increase of 4 million from 2008 and, an all-time TTC record. This was in direct contrast to the experience of several major mass transit systems in North America including New York, Chicago and Philadelphia where ridership declined. This relative out-performance can largely be attributed to the service increases implemented in 2008 as part of the TTC's Ridership Growth Strategy. The resultant service level was the highest the TTC has ever operated.

With the implementation of the January 3, 2010 fare increase as well as projections for flat

or moderate economic and employment growth anticipated for the Toronto economy, ridership for 2010 was budgeted at 462 million. Accordingly, service levels were to be reduced, with a targeted average level of service commensurate with a ridership level of 462 million by year-end. Contrary to this expectation, year-to-date ridership results have been very strong, exceeding budget by almost 9 million rides to the end of July. This trend led to a decision by the Commission in May of this year to reinstate the March service reductions and to cancel the planned reductions in September (in addition, a peak train was added on the Bloor Danforth subway line in September to address overcrowding).

Historically, City of Toronto employment levels have been one of the most significant indicators in determining TTC ridership. Over the long term, changes in City of Toronto employment levels have tracked quite closely to TTC ridership changes as shown in the following graph.



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However, starting in 2009, City of Toronto employment started to drop, but TTC ridership continued to grow. Only in the past three months have employment levels reflected growth over the same periods in 2009.

Favourable weather conditions and economic uncertainty for riders have undoubtedly

contributed to these strong ridership results. The large service improvements implemented in late 2008 have also prompted this growth as the service on the street much more closely matches the service hours of the subway, giving riders far more choice in transit options. Assuming the continuation of this favourable trend, the current ridership projection for 2010 is 476 million. This represents an anticipated increase of 3% or 14 million rides over the budgeted level of 462 million. (It should be noted that the June results reflect the loss of an estimated 658,000 rides due to the G20 Summit.)

One other critical event which may impact ridership (and passenger revenues) for the balance of the year relates to the introduction of the Post-Secondary Student monthly pass which was launched in August. Staff continue to closely monitor its effect and will adjust the year-end projections accordingly.

2010 FINANCIAL RESULTS

Based on the current projection of 476 million rides, and subject to refinement of the impact of the Post-Secondary Student monthly pass impact, it is anticipated that passenger revenues will exceed budget by \$35 million contributing substantially to a favourable financial result. This outcome is not sustainable over the longer term, however, because increased ridership requires increased service to alleviate crowding and, once loading standards are restored, this results in higher operating costs which more than offset the incremental revenue. On the expenditure side, to the end of August, diesel fuel expenditures have been approximately \$9 million below budget primarily due to favourable market rates (if current rates hold additional savings will be realized). With all other revenue and expenditure variances netting out to zero, this means that by year-end there could be a TTC operating surplus in the order of \$44 million (and potentially higher).

	<u>2010 BUDGET</u>	<u>2010 PROJECTION</u>	<u>CHANGE</u>
Ridership	462 M	476 M	14M
Revenue	\$ 941 M	\$ 976 M	\$ 35M
Expenses	1,371 M	1,362 M	9M
Subsidy	430 M	430 M	-
Surplus	-	44 M	44M

2011 OPERATING BUDGET HIGHLIGHTS

Work on finalizing the revenue and expenditure elements of the 2011 Operating Budget continues and the full budget will be presented to the Commission for consideration at its meeting in January of next year. Highlights of the 2011 budget include the following:

- Current projections indicate that while there will be greater growth in employment in 2011 than in recent years, the economy will be relatively flat as the recovery continues to be fragile.
- Ridership is targeted to be 487 million in 2011, 11 million (2.3%) higher than the 2010 probable of 476 million.
- Revenues are projected to increase by about \$53 million from the 2010 budgeted level primarily because of the projected increase in ridership. The fare structure and mix is assumed to remain unchanged.
- Service levels will be increased commensurate with approved standards to accommodate ridership in the range of 487 million. In addition, the first phase of the Transit City Bus Plan, specifically, the introduction of 10 minutes or better service during the daytime and evening, every day, on a number of bus routes will commence in November 2011.
- Expenditures are expected to increase by approximately \$106 million (8%) over the 2010 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 may 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 current collective agreements with its employees (\$11 million).
 - no provision has been included for the new collective agreements effective April 1, 2011.
 - service adjustments as noted above (\$13 million)
 - energy cost escalation (\$5 million)
 - benefit cost increases (\$15 million)
 - accident claims (\$5 million)
 - general inflation/depreciation/crewing requirements/vehicle parts (\$10 million)
 - recognition of unamortized post-employment liabilities as result of the adoption of Public Sector Accounting standards (\$20 million, under review)
 - customer service initiatives (\$11 million)
 - other (about 1% of budget) (\$16 million)
- Subsidy is assumed to be flat-lined at the 2010 budgeted level of \$430 million.
- In summary, preliminary pro forma projections, excluding the impact of the outcome of the next set of Collective Bargaining Agreements (the current

agreements expire March 31, 2011) and based on the existing fare structure and mix and current subsidy levels, suggest that there is a projected shortfall in the 2011 operating budget of about \$53 million as shown in the following table:

	<u>2010 BUDGET</u>	<u>2011 PROJECTION</u>	<u>CHANGE</u>
Ridership	462 M	487 M	+ 25 M
Revenue	\$ 941 M	\$ 994 M	\$ 53 M
Expenses	1,371 M	1,477 M	106 M
Subsidy	430 M	430 M	-
Shortfall	-	53 M	53 M

The expenditure estimates are preliminary and will be the subject of refinement and adjustment as the ridership estimates and expenditure elements are firmed up as the 2011 budget process progresses. Specific elements of the budget currently under review include customer service initiatives (station managers, janitors, route supervisors), scope and timing of service adjustments, public sector accounting standards impacts, energy pricing and, accident claims (impact of recent reduction in benefit levels and potential impact of Provincial introduction of "no crash, no cash" legislation for transit organizations).

FUTURE OUTLOOK

With a view to developing a multi-year strategy, preliminary pro forma projections of revenues and expenditures for the years 2011 to 2013 have been prepared based on the following assumptions:

- fares and the fare mix are unchanged (a 10 cent fare increase generates about \$22+ million annually in net revenue – depending on the precise structure of the fare change)
- service adjustments are to maintain service standards
- implementation of the first phase of Transit City Bus Plan will commence in late 2011 with the second phase in late 2012
- new LRV carhouses will open in 2012 and 2013 (Ashbridges Bay, Sheppard)
- the impact of Transit City Rail Plan initiatives will occur after this period
- labour costs are as per the current Collective Bargaining Agreements (with no provision for the new collective agreements effective April 1, 2011 – each 1% wage increase will cost approximately \$10 million per year)
- inflationary provisions: accident claims +10%; energy costs 0 to +5% per year
- pension solvency payments of \$42 million per year commencing in 2012
- all other costs are estimated to increase in line with current experience or based on actual or anticipated contractual commitments

- subsidy has been flat-lined at the 2010 level

The following table summarizes the estimated ridership, revenues, expenses, subsidies, and revenue/cost ratios for the next three years as compared to the 2010 probable.

2010-2013 PRO FORMAS
(Millions)

Millions	2010	2011	2012	2013
Ridership	476	487	502	513
Revenues	\$ 976	\$ 994	\$ 1,023	\$1,044
Expenses (per City)	1,362	1,477	1,605	1,703
Total Subsidy Required	430	483	582	659
Total Subsidy Available	430	430	430	430
Additional Subsidy Required	-44	53	152	229
Revenue / Cost Ratio	72%	67%	64%	61%

Ridership and services levels (to maintain approved standards), as well as the fare structure, have been held constant and labour costs are unchanged from the current Collective Bargaining Agreements in this table in order to conservatively estimate how the TTC's financial situation will change in the coming years. Even without these additional cost pressures, based on the assumptions noted above, the amount of additional subsidy required grows substantially each year and is estimated to increase by almost \$230 million in 2013. As well the future impact of various initiatives must be considered including: customer service advisory panel recommendations, transit city bus plan service improvements, the new Toronto Rocket trains, automatic train control, platform edge doors, new LRVs, opening of new carhouse facilities, introduction of Transit City LRT lines and new fare collection technology.

The January 2011 TTC Operating Budget report to the Commission will include an appropriate fare/subsidy approach to address the 2011 shortfall. In addition, a long-term strategy is required in order to address the requirements of the Toronto Transit Commission in order to continue to meet the needs of our customers, the City of Toronto and the Greater Toronto Area overall. Consistent with the direction received from the Commission and as requested by Council, staff will be working to develop a multi-year plan, in consultation with the City and the Province, to establish a fare/subsidy strategy taking into consideration appropriate targets for ridership levels, service initiatives and revenue/cost ratios.

HOW TO ADDRESS THE TTC OPERATING BUDGET SHORTFALL

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

1. As documented previously, staff continuously seek savings or ways to contain cost increases, however, the combined impact of these initiatives is not 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 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. Balancing the budget solely through fares would be equally problematic. Reasonable fare increases 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 and a substantial portion of the cost of that service has always been paid for by riders. The job at hand is finding a reasonable balance between fares and subsidy.
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 disastrous consequences and is exactly what happened in the early 1990s – subsidies were reduced, fares were raised to compensate, ridership was lost, service was cut - when ridership fell by 90 million rides (almost 20%) by 1996. It took almost two decades to regain ridership levels.

Resolution of the shortfall will likely be through a combination of these elements. Service reductions are not recommended due to the potential long-term negative impacts arising from this course of action. Also, at this time, there has been no indication that the City is in a position to provide additional operating funds to the TTC - in fact, the City has requested that the Commission give consideration to the potential impact of a 5% cut in current subsidy levels. Consequently, in view of the multi-year fiscal challenge, staff will be recommending an appropriate fare/subsidy approach to the Commission in January in order to assist with the 2011 shortfall. Staff will also engage in discussion with the City to review potential strategies for the use of the projected 2010 TTC Operating Budget surplus with a view to maximizing the benefit to the TTC and the City.

WHEEL-TRANS

2010 PROBABLE

During 2009, Wheel-Trans made significant improvements in the quality of both the bus and contracted taxi services. This resulted in greater customer confidence and reliance on Wheel-Trans service, reflecting a higher than anticipated customer demand by the close of 2009. To date in 2010, Wheel-Trans has experienced an increase in demand for trips; 13.3% over 2009 levels and 11.3% over budget. Current projections to year-end will be 279,000 door-to-door trips over budget. The unaccommodated rate will remain at the 2% budgeted level.

The increased cost to accommodate the additional trips will be \$6.9 million (including HST on contracted services) offset by savings in fuel and maintenance, workforce gapping, lower benefits costs, customer service materials, and the transfer of labour costs to support the WTIS SOGR application, totaling savings of \$3.7 million. The additional trips will generate increased revenue of \$0.5 million. Therefore, the funding shortfall will be \$2.7 million as shown in the following table:

	<u>2010 BUDGET</u>	<u>2010 PROJECTION</u>	<u>CHANGE</u>
Ridership	2.5 M	2.8 M	0.3 M
Revenue	\$ 4.8 M	\$ 5.3 M	\$ 0.5 M
Expenses	87.4 M	90.6 M	3.2 M
Subsidy	82.6 M	82.6 M	-
Shortfall	-	2.7 M	2.7 M

2011 BUDGET AND 2012/2013 OUTLOOK

Work on finalizing the revenue and expenditure elements of the 2011 Wheel-Trans operating budget continues. The 2011 budget and projections for 2012 and 2013 will be presented to the Commission for consideration at its meeting in January of next year. The following table summarizes the estimated ridership, revenues, expenses and subsidies for the next three years as compared to the 2010 probable.

2010-2013 PRO FORMAS

(Millions)

Millions	2010	2011	2012	2013
Ridership	2.8	3.0	3.4	3.7
Revenues	\$ 5.3	\$ 5.4	\$ 6.2	\$ 6.7
Expenses (per City)	90.6	102.0	119.0	128.0
Total Subsidy Required	85.3	96.6	112.8	121.3
Total Subsidy Available	82.6	82.6	82.6	82.6
Additional Subsidy Required	2.7	14.0	30.2	38.7

2011 BUDGET

Growth in trip demand in 2011 is expected to continue and will rise by 19.1% over the 2010 budget to an estimated 2,951,500 trips (includes community buses), with much of this increase accommodated on bus service (72% of increased trips), increasing the modal split to buses to 50.1%.

The Wheel-Trans operating budget for 2011 requires funding in the amount of \$96.6 million which is required to meet the additional increase in demand for service. The Service Plan assumes a 2% unaccommodated rate, continuation of the eligibility criteria, trip origins and destinations remaining relatively constant, improvement in vehicle productivity due to a new scheduling system and vehicle tracking using AVL technologies.

The primary factor contributing to the increase in costs in 2011 relates to increased demand and complying with the collective agreements. No provision for a wage increase or fare increase has been included in the 2011 budget.

2012 PRO FORMA

2012 reflects the anticipated impact of implementation of the Accessibility for Ontarians with Disabilities Act (AODA). While there are several impacts of this legislation, the most significant relate to a 0.5% unaccommodated rate and a requirement to provide 24-hour service which will have commensurate workforce impacts.

Growth in trip demand in 2012 is expected to continue and will grow by 14.8% over 2011 to an estimated 3,423,600 trips (includes community buses), with the bus modal split continuing at 50.1%. It is assumed that the eligibility criteria for service will remain unchanged. While improving the accessibility of conventional services will never eliminate the need for door-to-door services, the increased use of accessible conventional service will moderate the increase in demand for door-to-door service.

The 2012 pro forma was developed taking into account opportunities to reduce costs by

improving the efficiency of Wheel-Trans service by utilizing technology for booking, scheduling and delivering the service with a more reliable fleet. The primary driver contributing to the increased expenditures in 2012 is providing service to meet the increased ridership demand. Support costs for the continuation of the 24-hour service and employee benefits account for the balance. No provision for a wage increase or fare increase has been included in the 2012 pro forma.

2013 PRO FORMA

It is anticipated that trip demand for service will level off and grow moderately to an 8.2% increase over 2012 to a total of 3,695,200 trips (including community bus). The bus modal split will continue at 50.1%, with the remaining half of trips carried on contracted taxi service. It is assumed that the eligibility criteria for service will remain unchanged, as with the unaccommodated rate remaining at 0.5%.

Factors contributing to the increase in expenditures relate to keeping pace with demand and complying with the CBA as well as support costs for the continuation of the 24-hour service and employee benefits. No provision for a wage increase or fare increase has been included in the 2013 pro forma.

CAPITAL BUDGET

2010 DEFERRALS

During the review process for the TTC's 2010-2014 Capital Program, certain TTC projects were deferred or deleted to accommodate the City's established debt targets. The combined impact of these capital budget reductions was in the order of \$1 billion and included the following key decision points:

- project deferrals of \$417 million beyond 2018 to offset an increased 1/3 City debt share on the 204 LRT car order, predominantly on mid-life bus rebuild and fire ventilation upgrade projects (June 2009);
- project amendments included in the Commission's consideration of the 2010-2014 Capital Program (September 24th Commission) which included changes to the bus and streetcar fleet, but primarily related to the further deferral beyond 2019 of the mid-life bus rebuild program (\$411 million);
- project amendments (October 29th Commission) necessary to live within a City ten-year funding shortfall of no more than \$300 million. This included deferrals (Fire Ventilation, Easier Access, CIS Replacement) and project deletions to "below the line" including Station Modernization and Industrial Facility requirements projects.

Following these amendments, the capital program was approved by City Council on December 8, 2009. At that time there still remained a gap of approximately \$300 million between projected capital expenditures and the funding available for them over the ten year

period. The City agreed to address this shortfall during the 2011 budget cycle and this has been accommodated through revised debt targets for the TTC.

2011-2015 CAPITAL PROGRAM AND TEN-YEAR FORECAST

The 2011-2015 Capital Program budget and ten-year forecast is being developed with the intention of identifying all potential capital requirements on the basis of need rather than affordability. In past years, many initiatives were deferred outside of the envelope (based on funding targets or pending further clarity on the projects), but this has tended to result in an impending wave of future needs. These initiatives must all be considered to ensure that each is given the opportunity of an appropriate review and prioritization of the overall transit capital need. In addition, in most capital budget cycles the predominant focus was on the first five years of the ten-year plan, with allowances provided in the subsequent five years. As part of the 2011-2015 Capital Program budget development, greater emphasis has been placed on the latter five years to provide better definition of expected requirements so that the overall ten-year plan will be more representative of anticipated actual needs.

Also, as part of the 2011 budget process staff undertook to review the impacts of the project deferrals noted above to confirm which elements need to be reintroduced and at the same time to assess other capital items which need to be considered for inclusion in the 2011 capital program. It had been estimated that the impact of these needs would be an increase in the size of the capital program upwards of \$3 billion over the next ten years.

While the 2011-2015 Capital Program and Ten-Year Forecast has yet to be finalized, at this time, for the Base Capital Program it is estimated that:

- the 2010 budget will be under-spent by \$26 million (excluding carry forwards)
- the 2011 budget will increase by \$11 million
- the 2010-2014 capital program will increase by \$1.2 billion
- the 2010-2019 capital forecast will increase by \$2.8 billion

The primary source of these changes (over the ten-year forecast period) includes the following projects:

- reinstatement of the bus rebuild program (\$470 million) *
- enhancement and expansion of subway rail yards (\$472 million)
- installation of storage tracks north of Finch Station (\$350 million)
- inclusion of Bloor-Danforth ATC Resignalling (\$320 million)
- introduction of platform edge doors on the YUS (\$180 million)
- purchase of 60 new subway cars for growth (\$163 million)
- increased costs for the Ashbridges Bay LRV facility (\$90 million)
- fare equipment to support the legacy LRVs (\$88 million)
- carhouse modifications to support the new LRV fleet (\$77 million)
- purchase of replacement buses (\$55 million) *
- bus hoist replacements (\$52 million)
- industrial facility requirements (\$47 million) *

- On-grade and structural paving (\$40 million) *
- reintroduction of Transit Priorities (\$38 million) *
- reconstruction of streetcar overhead (\$36 million)
- Fire Ventilation (\$33 million) *
- T1 Subway Car overhauls (\$34 million)

* represents \$683 million in project work added from deferrals in the 2010 budget cycle.

Review of these items and other projects is ongoing with a view to reducing the size of the increase in the proposed budget while ensuring that capital needs are appropriately considered and are adequate to meet both current and future needs. This ongoing review will focus on the elements noted above and, most notably, on the bus rebuild program and a group of subway related projects - that together account for almost \$2 billion or 70% of the total \$2.8 billion increase over the ten year period 2010 to 2019 – as noted below:

- Several elements of the projects deferred during the 2010 budget cycle have been added back (see asterisked items on the list above). The single largest item is the reinstatement of the Bus Rebuild Program (\$470 million). As outlined in the 2010 Capital Program Bus Fleet Plan (page 953), the budget for bus overhauls was amended to remove all funds for this program pending a complete review of the requirements for bus overhauls relative to the bus replacement program. While the scope of work has not been completed for the bus overhaul program, costs have been included in the proposed budget. Although labour costs have been reduced from previous budget estimates, costs for material on newer diesel buses and the hybrid bus fleet have increased. The hybrid bus overhaul costs include three major systems – propulsion control system modules, traction motors and, traction generators. These costs are still under review.
- Over the next two decades, trains for service and maintenance spares are expected to increase substantially on the Yonge/University/Spadina subway line – commencing with the introduction of Automatic Train Control and the opening of the Spadina Subway extension. A YUS Line - Rail Yards Needs Strategy review was completed late in 2009 and identified the need to expand yard and maintenance facilities at the Wilson complex as the best option to address the impending storage/maintenance shortfall. In 2010, under the Rail Shops and Carhouse Amalgamation Capital project, preliminary designs and cost estimates for the Wilson complex expansion, as well as Davisville, Greenwood and Harvey were completed and form the basis of the 2011 - 2020 Capital submission under the project Toronto Rocket/T1 Rail Yard Accommodation (formerly, Rail Shops and Carhouse Amalgamation) at a cost of \$738 million, including \$472 million in the ten year period.

During the design process, service delivery from Wilson was also simulated and found to be a limiting factor (with the ability to dispatch no more than 50 trains). Consequently, the need for an alternate dispatch point was identified, and ultimately north Yonge was determined to be the only viable location. As a result, a new

project, Yonge North Subway Extension Phase 1 – Storage Tracks, has been added to our 2011 - 2020 Capital submission at a cost of \$350 million over the next ten years.

To address ridership growth on the subway system, a project has been included for the acquisition of an additional 60 subway cars (\$163 million). Also, to address concerns related to safety and reliability, platform edge doors are proposed for the YUS at a cost of \$492 million (\$180 million for the Bloor to St. George loop over the next ten years) and \$432 million is required for Automatic Train Control on the Bloor-Danforth subway line (\$320 million over the next ten years).

Each of these projects related to the subway system is currently undergoing further review.

Changes to these projects will be appropriately reflected in the final 2011-2015 Capital Program and Ten-Year Forecast when it is brought forward to the Commission for approval in January.

FUNDING

The City has recently provided debt guidelines to the TTC for the 2011-2015 Capital Program and ten year forecast which addressed the approximate \$300 million funding gap that existed in the current approved capital budget – in essence, the existing capital program is now fully funded. However, this does not take into consideration the approximately \$1 billion in project expenditures that were deferred from last year's budget and it does not take into account, as stated earlier in this report, additional project work that will now be included.

A detailed funding calculation – by funding source, by year, by project – will be prepared in due course to quantify the precise funding challenge for each year of the capital program and to confirm the amounts available through the various funding programs. However, as no new funding programs have been introduced since the time of the last budget, apart from minor shifts in timing of expenditures, any increase in the level of gross expenditures beyond the currently approved capital budget will result in a funding shortfall. In short, based on the current projected increase in expenditures of \$2.8 billion in the 2011-2015 capital program and ten year forecast, there is a funding shortfall of \$2.8 billion over the next ten years.

As noted above, staff are continuing to work on the proposed budget with a review to refining project elements and reducing the size of the projected increase. In addition, as there are insufficient funds to meet even the basic or state-of-good-repair needs of the TTC, staff will be reviewing all improvement and expansion category projects to determine whether they should be removed from the budget. However, even if all expansion and improvement projects were eliminated there would still be a significant shortfall and, therefore, it will be necessary to develop strategic funding packages that can be presented to the Provincial and Federal governments with a view to securing additional funding to meet our needs. One such package will include consideration of the combined benefits of

automatic train control and resignalling in conjunction with platform edge doors, more Toronto Rocket subway cars, as well as enhancement and increased rail yard capacity and the need for storage tracks at Finch Station. These individual projects are costly, multi-year in nature, and necessary to address issues associated with safety, capacity, reliability and future extension of the subway system.

NEW CITY BYLAW FOR TTC

On August 27, 2010, City of Toronto Council enacted By-Law No. 1155-2010 (Bill No. 1157). The purpose of the bylaw is to require the TTC to follow certain budget rules, processes, policies and timelines, to clarify the financial relationship between the City and the TTC, and to establish rules with respect to the financial management of the TTC.

While the precise impact of this bylaw is as yet uncertain, and the 2011 budget cycle is one of transition to meet these new requirements, this bylaw may significantly impact the way in which the TTC budgets and manages on a go forward basis. Staff are engaged in discussions with City staff to clarify application of the bylaw in specific circumstances to ensure that the TTC's operations are not unduly impacted. Most notably, we need to ensure that the Commission is able to take appropriate action to permit the addition of workforce to meet both operating and capital plans. Specifically at this time, with ridership currently well above budgeted levels, service standards are deteriorating and crowding is increasing. Up to six months is required in order to identify, pre-screen, hire, train and, qualify new Operators and plan and implement service changes to allow service to be added commensurate with ridership levels. Any requirement to seek Council authority to maintain service standards will significantly impair this process and our ability to meet the needs of our riders in a timely fashion.

WORKFORCE

Most notably as a result of increased ridership for both the conventional and Wheel-Trans systems and, due to significant state-of-good-repair capital work combined with increased activity on the Spadina Subway Extension and Transit City Plan approved projects, the TTC's workforce will increase significantly in 2011:

- TTC operating workforce level will increase primarily as a result of service adjustments to meet ridership projections, the first phase of Transit City Bus Plan, the roll-out of Station Managers, various customer service initiatives (including improved station cleanliness and more route supervisors), revised crewing requirements, increased training, health and safety initiatives, and improved vehicle maintenance programs.
- Wheel-Trans operating workforce is projected to increase as a result of service related improvements and to meet the terms of the collective bargaining agreement.
- Capital Program workforce is projected to increase primarily as a result of

reintroduction of the bus rebuild program, subway/streetcar network expansion/integration, various LRV initiatives, automatic train control, track & structure rehabilitation programs, and various other project work.

These proposed workforce increases are currently undergoing critical review, and Commission and City Council approval will be required before these positions are filled. However, based on current service standards and approved capital projects, certain pre-hires (i.e. prior to City Council approval) are required as follows:

- An extended period of time is required in order to identify, pre-screen, hire, train, and qualify new Operators to ensure availability to meet the projected workforce requirement. Based on the increased ridership we are currently experiencing and additional growth expected in 2011, staff must proceed at this time to pre-hire operators and certain other positions in an effort to ensure that service standards can be maintained. Failure to proceed in this fashion will increase the risk that service will not be met, resulting in significant negative implications for customers and the Commission.
- The Track & Structures Department requires additional resources immediately to address aggressive concurrent timelines of committed projects as well as inherent ongoing staffing challenges as a result of the following:
 - a significant increase in work volume as a result of increasing activity on the Spadina Subway Extension, Transit City projects, Waterfront Toronto initiatives and the state-of-good-repair capital program
 - unprecedented volumes of transit network expansion in Toronto, throughout Canada and around the world, has meant that the demand and competition for engineering professionals with the unique education and experience demanded by this work has never been greater.
 - competition for those with the required skill set is significant - including within the TTC. Consequently, it is necessary for management to implement a staffing plan that will provide greater organizational depth and opportunities for succession.

As a result of these challenges, there is an urgent need to proceed with the pre-hire of 18 capital engineering positions and 20 capital hourly-rated labour positions. Failure to proceed immediately may compromise the delivery of capital work and will likely also result in missed opportunities to acquire specialized personnel currently available and may lead to longer-term succession planning issues. Additional information is available in Appendix A.

Based on these urgent needs, this report recommends that the Chief General Manager be authorized to pre-approve the hiring of workforce required in 2011 (prior to City Council approval of the 2011 budgets) necessary to meet service requirements and specific capital program needs consistent with existing service standards and approved capital plans.

JUSTIFICATION

With ridership at record levels and continued growth anticipated in 2011 and beyond, it is necessary to ensure that an appropriate level of service is in place to meet demand for both the conventional system and for Wheel-Trans. In addition, some capital projects previously removed from the program must be reinstated while other projects must now be considered – all within the context of the needs of the overall transit system. Also, new vehicles, updated fare collection technology, improved infrastructure, enhanced service and, new subway and LRT lines will all present significant opportunities and challenges to the TTC in the years ahead.

Reviews of service levels and quality and each element of our operating budget cost structure and the priority of capital investments are currently underway and will be subject to refinement as part of the 2011 budget process. Commission briefings and administrative reviews by the City will take place throughout the fall with plans to formally present the budgets to the Commission for approval in January with final approval by Council in the spring.

The projected operating budgets and capital program funding shortfalls demonstrate, once again, the need for the establishment of a stable, predictable and long-term funding strategy to meet the transit needs of the City of Toronto. This challenge will require considerable effort and consultation with the City, Provincial and Federal governments to identify appropriate strategies to achieve this.

September 28, 2010
42-36

Attachments - Appendix A – Track & Structure Workforce Requirements

Track & Structure Workforce Requirements

Recommendation:

To pre-approve the 2011 budget request of eighteen capital engineering positions within the T&S department, and; authorise the CGM to approve the immediate hiring of externally recruited "hot skills" candidates into these positions as opportunities occur, and;

Pre-approve the 2011 budget request of twenty capital hourly-rated labour positions within the T&S department, and authorise the CGM to approve the immediate posting and filling of these positions in accordance with current Maintenance Seniority and bargaining rights of the Amalgamated Transit Union Local 113.

Required Engineering Positions:

Maintenance Engineering - Track

Track Engineers - Five Positions

Track Designers - Two Positions

Signals & Train Control Engineering:

Design Manager (SOGR)- One Position

Senior Project Engineer - One Position

Signal Designers - Three Positions

Signal Testers - Four Positions

LRT Engineers / Designers - Two Positions

Required Hourly-rated Positions

Various Skilled positions – Ten – Subway Track

Various Skilled positions – Ten – Surface Track

Background:

With the advent of the Transit City programme, Toronto York Spadina Subway Extension project and Waterfront Toronto initiatives combined with the Operations Branch, State-of-Good-Repair programme, current staff levels of specialised engineering professionals within the Signals & Train Control Engineering and Track Engineering sections of the Track & Structure department are insufficient.

Department management has developed a 2011 staffing plan to address current skill shortfalls as well as develop a succession plan, given recruitment and retention challenges unique to the Operations area. This plan has identified the immediate need for an additional eighteen capital engineering positions required to meet the aggressive, concurrent timelines of all committed projects as well as inherent ongoing staffing challenges.

In some instances, current recruitment efforts for 2010 budgeted positions have been met with a better than expected response for some highly specialized and difficult to recruit hot skills candidates. With the existing tight market conditions for these types of skills we are seeking approval to hire these highly qualified persons into the identified, yet to be approved 2011 positions, given the significant and lengthy recruitment efforts that have taken place since late 2008. This will ensure that we do not lose a unique "window of opportunity" which the organisation currently has that may not be available in the spring of 2011.

In addition, current labour resources required of the department to construct the trackage associated with the above programmes is also insufficient. The augmentation of the existing Subway track and Surface track sections of the department with an additional ten hourly-rated positions, each, is required.

Discussion:

Engineering Resources

The engineering areas of the Track and Structure department are currently challenged with a vastly increased workload resulting from; aging infrastructure, required network capacity improvements, revenue fleet procurement and network expansion. With the advent of the Transit City programme, Toronto York Spadina Subway Extension project and Waterfront Toronto initiatives combined with the Operations Branch, State-of-Good-Repair programme including the Automatic Train Control project, current staff levels of specialised engineering professionals within the Signals & Train Control Engineering and Track Engineering sections of the Track & Structure department are inadequate and overwhelmed.

The engineering sections of the department have overall responsibility for the establishment and maintenance of standards related to the design, construction and maintenance of all TTC owned operating infrastructure. These sections of the department also provide internal customers with a full range of professional engineering services from conceptual design through to and including commissioning.

Along with a significant increase in workload the department is challenged with difficult recruitment and staff retention challenges given current labour market conditions. The skills deployed by the experienced staff of these areas are highly specialised and unique to the transit infrastructure industry. Given the unprecedented volumes of transit network expansion work in Toronto, throughout Canada and around the world, the demand and competition for engineering professionals with the unique education and experience demanded by this work, has never been greater. Specifically, engineering professionals in

the signals and track design specialties are currently in very high demand given the relatively short supply existing world wide.

The Operations environment has inherent challenges and risks unique to the area resulting in retention challenges of key professional staff within the department. In addition, the department has been an ongoing source of engineering talent for other Commission departments as well as external consulting engineering firms as worldwide demand for these unique skills grows.

Recognizing the above challenges management has constructed a staffing plan that will provide greater organisational depth and opportunities for career succession within the department as well as provide additional opportunities for recruitment of experienced professionals required to meet the specialised demand for the group's services.

The Maintenance Engineering (Track) section of the department has a current budgeted strength of 29 staff, comprised of managers, engineers, designers and support staff. The request for five additional track engineers and two track designers will be employed to assist with annual condition surveys, data collection, root cause and trend analysis to support the State of Good repair programs associated with the subway, LRT and SRT track networks. These additional resources will also assist with support and track material procurement for integrated and network expansion programmes.

The Signals and Train Control Engineering section of the department has a current budgeted strength of 42 staff, and is similarly structured as the maintenance engineering group described above. This group is currently challenged with the engineering support for the Automatic Train Control project and the resulting technology shift from conventional wayside signalling to radio based train control. The seven additional requested design staffs of signal design engineers and signal designers will be used to handle the increased workload stemming from the identified network expansion and ongoing SOGR projects. The LRT engineers / designers are needed to address a current expertise gap with the current staff complement, needed to support technology choices for the existing legacy streetcar network and the Transit City initiative. The requested four Testers positions are also needed to fill an identified competence gap and to free design staff from verification and validation requirements demanded by the increased workload.

The immediate and concurrent timelines associated with all of the network expansion projects have resulted in a shift of engineering resources attention away from the state of good repair projects. Both management and staff are challenged with achieving the necessary balance required between meeting expansion project needs and legacy system maintenance requirements with existing staff levels. The resources above are required immediately to avoid deferrals of SOGR projects or missed deadlines associated with work currently underway. Further, morale problems are erupting within the design groups as people are stretched and reassigned to meet the ongoing demand.

Recruitment efforts are underway to fill current vacancies in both sections and the remaining 2010 budgeted positions. In some instances staffs have identified several additional highly skilled applicants for some unique, hot skilled positions. Given this

situation, the T&S department recommends to vest the requisite authority with the CGM to immediately approve the hiring of these individual into the position identified above.

Track Construction

In terms of organisation, the Track & Structure department is structured along subway and surface modes. While many of the subway and surface track maintenance and construction activities are similar, the environment and constraints affecting the process are significantly different. This requires a specialised approach to the assets' construction and upkeep.

Management, in consultation with representatives of ATU - Local 113, have designed a construction management plan that will maintain the specialised focus on current and future state-of good-repair projects while simultaneously addressing the significant track construction efforts associated with the integrated and network expansion projects in both the subway and surface track areas currently underway.

This plan will allow for the integration of the expanded scope directly into the normal construction routines of both the surface and subway sections, precluding the need to organise and staff large discrete construction gangs for each and every additional project as was past practice. As mentioned, this method will ensure a continual focus of key maintenance staff on the critical state-of-good repair- projects, avoiding the typical draw down of experienced personnel to discrete gangs.

As track construction activities occur across all three posted shifts (days, afternoons, and nights) an augmentation of three to four skilled trades people on each existing shift in each section, supplemented with seasonal temporary labour is proposed. These new positions will be used to increase numbers of key skill sets such as Track Welders, Track Mechanics, Equipment Operators, etc.

As these skills are unique to the TTC the vacancies will be filled from the existing unionised workforce. Discussions are currently underway with Local 113 Executive regarding potential bidding rights, work rules and other matters significant to the union and its mandate. With negotiations expecting to take some time to complete, and considering the requisite posting, selection and training period for these positions, immediate approval is required to meet project timelines for both Transit City and TYSSE track construction.

Justification:

The immediate and concurrent deadlines of integrated and network expansion projects are overwhelming current engineering staff levels within the Track & Structure Department. To avoid SOGR deferrals and missed project deadlines the Track & Structure Department recommends that the Commission immediately pre-approve the department's 2011 budget request of eighteen capital engineering professionals and twenty hourly rated track construction positions.

Given better than expected recruitment results for several hot skilled engineering positions currently underway, a significant opportunity exists to immediately employ these individuals into these identified positions necessary to prevent a loss to other competing agencies and organisation. Therefore authority is being requested to authorise the immediate hiring of these individuals into the pre-approved 2011 positions on an as needed basis.

With equally challenging timelines proposed for track construction activities and the time required to complete union negotiations, position posting and incumbent training immediate approval of the twenty hourly rated positions is also requested.