

**MEETING DATE:** February 16, 2001

**SUBJECT:** 2001 TTC Operating Budget

**RECOMMENDATION**

It is recommended that the Commission:

1. approve the 2001 TTC Operating Budget (summarized in Appendix A) as described in this report and the following accompanying reports:
  - Toronto Transit Commission 2001 Operating Budget Overview
  - Toronto Transit Commission 2001 Departmental Goals & Objectives
  - Toronto Transit Commission 2001 Organization Charts
  - Toronto Transit Commission 2001 Detailed Operating Budget (Blue Book)
  
1. note that the TTC 2001 Operating Budget includes a budget shortfall of about \$10 million, based on City of Toronto 2000 budgeted operating subsidy levels as summarized below:

**Ridership 416 million (Range 414 to 418 million)**

Expenditures \$814 million

Revenues \$640 million

Subsidy Needed \$174 million

Operating Subsidy \$144 million (2000 budgeted level from City)

Subsidy Shortfall \$30 million (Based on 2000 City Budget)

Riders Reserve \$20 million (December 31, 2000 balance)

**Shortfall \$10 million**

2. note this report provides a series of City funding options for dealing with the shortfall;

3. note this report also provides high-level projections of the key elements of the operating budget for the year 2002 which must be taken into consideration when assessing the options for dealing with the 2001 shortfall; and
4. forward this report to the City of Toronto for Council approval of the City's 2001 Transit Operating Subsidy to the TTC.

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### **BUDGET HIGHLIGHTS**

The highlights of the 2001 TTC Operating Budget are as follows:

- The economy is expected to grow in 2001, but at a slower rate than in previous years.
- Ridership which topped 410 million riders in 2000 is expected to grow to 416 million. This represents a growth rate of about half that experienced in 2000.
- Service commensurate with 416 million riders will be provided. In addition, service in the fall will be increased marginally to a level which would accommodate about 420 million riders.
- Expenditures will increase over 2000 levels for items such as service level changes, contractual wage increases, diesel fuel and traction power price increases, price increases on non-labour items, and other employee cost increases. Each of these is described in detail below.
- Revenues will increase by about \$25 million over the 2000 budgeted level primarily because of the budgeted growth in ridership.
- Based on budgeted 2000 City subsidy levels and after factoring in the funds in the Riders Reserve, there currently exists an operating budget shortfall of \$10 million. This report will provide options for funding that shortfall.

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### **FUNDING**

In the year 2000, the City of Toronto budgeted an operating subsidy for the TTC conventional system of \$144,324,000. The following table shows TTC operating subsidy levels since 1992. In addition, it also provides operating subsidy per rider and the Revenue/Cost ratio figures for the TTC since 1992. These two figures are generally accepted in the transit industry as the best overall measures of efficiency (percentage of operating costs covered by revenues) and cost-effectiveness (taxpayer cost/rider).

**Table 1**

<b>YEAR</b>	<b>Operating Subsidy</b>	<b>Revenue/Cost Ratio</b>	<b>Subsidy/Rider</b>
	<b>(\$millions)</b>	<b>(percentage)</b>	<b>(cents/rider)</b>

1992	245	66%	614
1993	234	66%	594
1994	207	66%	534
1995	215	69%	554
1996	169	76%	454
1997	159	80%	424
1998	149	80%	384
1999	149	80%	384
2000	144	82%	354

As can be seen from this table, the TTC has substantially improved both the R/C (Revenue/Cost) ratio and the subsidy/rider, while in real terms reducing the overall requirement for operating subsidy by about \$100 million annually. The methods for achieving these operational improvements have been well-documented in previous TTC Operating Budget reports. They included: (i) a corporate restructuring and downsizing in 1995 and 1996 eliminating a net of about 800 jobs, (ii) substantial service cuts in 1996, (iii) reducing the overall employee absenteeism rate from almost 8.5% in 1994 to the present level of around 5% thereby reducing operating costs by \$15 to \$20 million annually and (iv) a series of fare increases designed to balance individual year's budgets. In addition, since 1996 when the TTC carried 372 million riders, ridership has grown steadily to the point where it topped the 410 million mark in 2000. This is an increase of 38 million riders or 10% in just 4 years.

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

**Table 2**

<b>City</b>	<b>Subsidy (\$Millions)</b>	<b>Revenue/ Cost Ratio</b>	<b>Riders (Millions)</b>	<b>Subsidy/Rider</b>
TTC	144	82%	410	35¢
Montreal	284	53%	342	83¢

Vancouver	252	52%	128	\$1.97
Atlanta	337	42%	78	\$4.34
Chicago	611	52%	275	\$2.22
Cleveland	251	22%	68*	\$3.71*
Los Angeles	863	29%	228	\$3.79
New York	1,938	58%	1,643	\$1.18
Philadelphia	640	50%	210	\$3.05
Washington	428	47%	266	\$1.61

Dollars shown are in \$CDN.

Source: CUTA, FTA, individual U.S. transit authorities

TTC figures - 2000 Budget, all other cities – 1999 figures

\*Note: In Canada, riders (passenger trips) are defined as one-way trips from origin to final destination. Passengers whose trips involve transfers from one vehicle to another are counted only once. These are referred to as "linked trips." All of the results shown above, except for Cleveland, are expressed this way. Cleveland only reports ridership as the number of vehicle boardings and consequently, includes transfers between vehicles in its figures. These are known as "unlinked trips." Converting Cleveland's unlinked trips to linked trips would increase the subsidy/rider figure shown in the table.

As can be seen from Table 2, TTC results are markedly superior to all of these other larger systems. Cleveland, which carries 1/10<sup>th</sup> the ridership, gets almost twice as much subsidy. Los Angeles, a smaller system, gets 6 times the subsidy. Montreal, the most comparable system to the TTC, gets more than twice the subsidy. Even the huge New York system, with 3 or 4 times the ridership TTC has, gets 13 times the subsidy.

By any of these traditional transit measures, the TTC is far and away the least subsidized and most efficient mass transit in North America. In fact, the TTC R/C ratio of 66% in 1994 (before the improvements described above) was superior to any of these systems today. The current TTC standard of 80% plus appears unachievable for any of them.

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### **OPTIONS FOR FUNDING THE 2001 SHORTFALL**

Based on City of Toronto 2000 budgeted operating subsidy levels, the 2001 shortfall is as follows:

**Table 3**

Expenditures \$814 million

Revenues 640

Subsidy Needed 174

Subsidy 144 (Budgeted 2000 City Subsidy)

Difference 30

Riders Reserve 20

**Shortfall 10**

As can be seen, the TTC faces a budget shortfall of \$10 million if the City provides the same level of operating funding in 2001 as it budgeted for in 2000. The past decade has been one of continually decreasing operating subsidy levels for the TTC and a continuance of that trend in 2001 would result in an even larger budget shortfall than the \$10 million shown.

Obviously, the starting point for balancing the 2001 budget rests with the amount of operating subsidy the City provides. At the present time, that figure has not been established and likely won't be known until all of the budget submissions from the various agencies, boards, commissions and city departments have been received and reviewed.

From the Commission's perspective, there appear to be three most likely City of Toronto operating funding scenarios. The following table shows the 2001 impact of each of these options:

**Table 4**

(\$Million)	Option 1	Option 2	Option 3
	1999 level	2000 level	20% level
Expenditures	814		814
Revenues	<u>640</u>	814	<u>640</u>

Subsidy Needed	174	<u>640</u>	174
Subsidy Available	<u>149</u>	174	<u>163</u>
Remainder	25	<u>144</u>	11
Riders Reserve	<u>20</u>	30	<u>11</u> **
<b>Shortfall</b>	<b><u>5</u></b>	<b><u>20</u></b>	<b><u>0</u></b>
		<b><u>10</u></b>	

\*\* This would leave about \$9 million in the reserve.

**OPTION 1: 1999 Budgeted Levels: \$149 million in operating subsidy**

The fundamental argument for this level is based on last year's budget deliberations which resulted in the City providing just enough subsidy to balance the 2000 TTC Operating Budget. The Commission had requested Council to provide the same subsidy in 2000 as it budgeted for in 1999: \$149 million. This would have provided the TTC with the ability to budget for a \$4 million contribution to the TTC Stabilization Reserve Fund (known as the Riders Reserve) in 2000 to help offset the predicted budget shortfall for 2001. The Riders Reserve was formally established by City Council as a reserve into which the TTC would contribute any in-year surpluses that may be generated within the TTC's operating budget to help smooth budget problems over upcoming years. This was in consideration of the fact the Commission has multi-year collective bargaining agreements which require multi-year stability. A total of \$1.1 million was placed in the reserve in 1998, another \$7.2 million in 1999 and a further \$12 million will be added in 2000 due to better than expected ridership results. This leaves a total of \$20.3 million in the reserve at the end of 2000. (NOTE: In approving the 2000 operating budget, City Council borrowed \$3.4 million from the reserve which was to be restored.)

**RESULT:**

Option 1 would leave a shortfall of \$5 million for 2001. For this option, staff would recommend no fare increase be contemplated. Rather, it would be recommended that close monitoring of ridership results and a review of year-end projections mid-year be undertaken to determine the next course of action.

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**OPTION 2: 2000 Budgeted Levels: \$144 million in operating subsidy**

This would represent what has traditionally been called the "flatline" subsidy. On a per rider basis, however, this would actually amount to a reduction in subsidy from the 364

/rider budgeted for in 2000 to 354 /rider in 2001. This is because the TTC expects to carry 416 million riders, instead of the 405 million budgeted for last year.

**RESULT:**

Option 2 would require a 10¢ fare increase in June of this year.

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**OPTION 3: Provide 20% Operating Subsidy: \$163 million in operating subsidy**

In approving the 1999 TTC Operating Budget, City of Toronto Council formally approved a motion to require the TTC to budget for no more than an 80% Revenue/Cost ratio. This meant that the City Council agreed to provide subsidy equivalent to 20% of TTC operating expenses. Considering the TTC had an R/C ratio target of 68% for the 1970's, 1980's and the first half of the 1990's, and since it has been hovering around the 80% level for the last 5 years, it's doubtful that a ratio much higher than 80% is realistic. In fact, should wages and other price increases for things such as parts and energy grow at rates higher than inflation, an 80% R/C ratio cannot be sustained without larger than CPI fare increases.

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**RESULT:**

Option 3 would not only eliminate the need for a fare increase in 2001, it would also leave about \$9 million in the Riders Reserve to offset budget pressures in 2002.

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**THE YEAR 2002**

**When determining the solution to the 2001 operating budget shortfall, it is essential to take into consideration any potential budget problems facing the Commission in 2002.** The following table provides a high-level Pro Forma of the 2002 TTC Operating Budget:

**Table 5**

**2002 PRO FORMA**

**(Millions)**

**2001 2002**

**Ridership 416 422**

Revenue \$640 \$650

Expenses 814 814

- Current Contract Wage Increase 3

- Service Changes 6

- 6 Year Bus Overhaul 6

- Sheppard Subway 5

- Other Employee Costs 5

- Material Prices 3

- Other 2

- Next Labour Contract ???

Total 814 844 + Next Labour Contract

Subsidy Required 174 194 + Next Labour Contract

Subsidy Provided in 2000 144 144

Remainder 30 50 + Next Labour Contract

Riders Reserve 20 0

**Shortfall 10 50 + Next Labour Contract**

**When looking for solutions to the 2001 problem, it is essential that the implications of those actions be looked at in the context of what they will mean next year. The Commission's existing collective bargaining agreements expire on March 31, 2002. Table 6 below, shows the impact on 2001 and 2002 of the three City funding options.**

**Table 6**

<b>City Funding Options</b>	<b>2001 Impact</b>	<b>2002 Impact</b>
<u><b>Option 1</b></u> 1999 Subsidy Level - \$149 Million in 2000 and 2001	Probably no fare increase - \$5 million shortfall	\$45 million shortfall plus next labour contract
<u><b>Option 2</b></u> 2000 Subsidy Level - \$144 Million in 2001 and 2002	104 mid-year fare increase	\$25 million shortfall plus next labour contract
<u><b>Option 3</b></u> 20% Operating Subsidy - \$163 Million in 2001 - \$169 Million in 2002	No fare Increase	\$15 million shortfall plus next labour contract

**Actions taken in 2001 will significantly affect 2002.**

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### **2001 OPERATING BUDGET OVERVIEW**

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#### **PART 1: The Economy**

The economy in Toronto continued its strong growth in 2000 with GDP (economic activity) growth of 5.1% in the Toronto CMA (approximately equivalent to the Greater Toronto Area). While still expected to grow, economic pundits seem to be predicting something in the order of 3.7% GDP growth in 2001. Similarly, Toronto CMA employment which grew by 4.1% in 2000 is expected to only grow by 2.7% in 2001. These two measures suggest growth in ridership over 2000, albeit at a lower rate than the almost 3% growth experienced.

**On a cautionary note, even these reduced forecasts for 2001 suggest continued growth in the economy. The recent volatility in the stock markets and signals of a slow down in the U.S. economy could result in a downturn in the Toronto and Ontario economies.**

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#### PART 2: Ridership

Ridership is affected by a great many factors such as demographics, retail trade activity, travel patterns, employment levels and location, service levels, transit fares, income levels, gasoline and automobile prices, parking availability and price. Some of these affect ridership in the long-term, such as demographics. Others such as employment levels and retail trade have more immediate impacts. In fact, due to the lag in reporting of statistics for these two ridership determining factors, TTC ridership which is measured on a daily basis is often an early-warning sign for either improvements or deterioration in them.

As described in the previous section, both employment growth and retail trade growth are expected to slow in 2001. Consequently, TTC ridership is projected to grow in 2001 by about half of what it did in 2000. The likely range for ridership is in the order of 414 to 418 million and the budget has been based on the mid-point of 416 million. This compares with the 2000 ridership budget of 405 million.

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#### PART 3: Service

The 2001 service budget provides for sufficient service to handle the budgeted 416 million riders, with about an additional \$0.5 million in service to be added in September of 2001 to accommodate an annual ridership level of 420 million. Ridership will be monitored and if by May or June trends suggest this level of service is unwarranted, it won't be introduced. This is the same budget philosophy the Commission has followed for the past few years in an attempt to "lead" ridership growth. In 2000, TTC budgeted to handle 410 million riders by year-end and that's exactly what was carried.

The service budget also factors in the summer construction season, the opening of the new Eglinton Garage on Comstock Road, the improvements detailed in the 2000-2001 Service Improvements report and the introduction of transit signal priorities on the 7 Bathurst bus route.

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#### PART 4: Revenues

Over 95% of TTC revenues come from fares. Farebox revenues are expected to grow by almost \$21 million on a budget-to-budget basis due to the budgeted increase of 11 million rides (416 million in 2001 vs. 405 million budgeted for 2000).

Other revenues are also expected to grow by almost \$4 million, with a \$1.8 million increase in transit advertising revenues being the largest single increase.

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#### PART 5: Operating Expenses

The day-to-day expenses associated with running the TTC are also budgeted to increase. The increases fall into the following 8 areas:

1. Wage increases: \$14 million. The existing collective bargaining agreements provide for a 3% general salary increase (GSI) on April 1, 2001. The impact of that increase and the annualized impact of the April 1, 2000 2.75% GSI account for this increase.
2. Service Changes: \$10 million. This can be broken down into three categories: (i) \$4 million as the full year effect of the 2000 service improvements, (ii) \$5 million for the 2001 service to handle the budgeted ridership of 416 million and (iii) \$0.5 million to be added in September to "lead" ridership to 420 million.
3. Other Employee Costs: \$9 million. The main reasons for this increase are: (a) \$3.4 million for comprehensive medical and dental plan cost increases, (b) a \$2.4 million increase for funding certain long-term liabilities due in part to changes mandated by the Canadian Institute of Chartered Accountants in the way these unfunded liabilities must be recognized and accounted for, and (c) \$2.3 million for employee benefits costs associated with the increase in workforce budgeted for 2001 - mostly for the service increases (described below).
4. Energy Price Increases: \$7 million. About \$6 million of this increase is due to price increases for the diesel fuel, natural gas and traction power used to power the Commission's revenue vehicles. The TTC's current diesel fuel contract expires March 31, 2001. The cost of the approximately 60 million litres of diesel fuel the TTC buys annually will be determined at that time. The balance is primarily associated with hydro and heating fuels (mainly natural gas) for the Commission's facilities.
5. Various Vehicle Maintenance Programs: \$3 million. A large portion of this increase is due to the cost of replacing original equipment aluminium castings of various vehicle components on the streetcar fleet. In previous years, the components would be rebuilt while the castings were still in usable condition. That's no longer the case.
6. Plant, Equipment & Structures Maintenance: \$3 million. While there is no one single increase that accounts for the bulk of this, some of the biggest ones are

associated with the clean up of newspapers in the subway and overall subway cleanliness.

7. Legislated CPP/WSIB Rate Increases: \$2 million. The Workplace Safety and Insurance Board (WSIB) is increasing the administration rate on claims payments from the 19% it charged in 2000 all the way up to 31.62% in 2001. In addition, effective January 1, 2001, the Canada Pension Plan (CPP) contribution rate was increased from 3.9% to 4.3%.
8. Material Price Increases & Other: \$2 million. The budget assumes a 2.5% increase in overall prices on purchased items other than those specifically mentioned above.

Appendix A (attached) provides a summary of the Commission's 2001 budgeted revenues and expenditures and subsidy requirement.

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#### PART 6: Workforce

The Commission's workforce will grow from 9,874 at the end of 2000 to 10,088 at the end of 2001, an increase of 214 positions. Service related changes account for 144 of these jobs. Another 57 year-end positions are accounted for by four specific initiatives designed to utilize co-op students, non-union part-time staff workers, a shift of 26 positions from temporary track labourers to regular track labourers and a better matching of spareboard operators to requirements. These are all designed to result in a more efficient workforce. While they appear to have a large impact on year-end headcount, they collectively equate to only 7 full-time equivalent positions. All other individual increases net out to an additional 13 positions. Extra subway janitors to clean up the free newspapers and a couple of legal staff to bring legal work in-house at a reduced cost are a couple of examples of these net increases. Therefore, outside of service-related changes, the equivalent of 20 positions are being added, about 1/5<sup>th</sup> of 1% of the overall workforce.

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January 15, 2001

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Attachments: Appendix A

TTC 2001 Operating Budget Overview

TTC 2001 Departmental Goals & Objectives

TTC 2001 Organization Charts

TTC 2001 Detailed Operating Budget (Blue Book)