

MEETING DATE: November 19, 2003

SUBJECT: 2004 TTC Operating Budget

RECOMMENDATION

It is recommended that the Commission:

1. approve the 2004 TTC Operating Budget (summarized in Appendix A) as described in this report and the following accompanying reports:
 - Toronto Transit Commission 2004 Operating Budget Overview
 - Toronto Transit Commission 2004 Departmental Goals & Objectives
 - Toronto Transit Commission 2004 Organization Charts
 - Toronto Transit Commission 2004 Detailed Operating Budget (Blue Book)
1. Consider this report in concert with:
 - a. the 2004 Wheel-Trans Operating Budget
 - b. the 2004-2008 Capital Program and 10-Year Capital Forecast
 - c. the booklet entitled "Government Decisions Required This Council Term", which outlines some of the major decisions the newly-elected City of Toronto Council are going to have to make concerning the TTC over the next three years.
1. note that based on City of Toronto 2003 budgeted operating subsidy levels, the TTC 2004 Operating Budget includes a budget shortfall of between \$40 and \$51 million as summarized below:

	2004 BUDGET		
(\$ MILLIONS)	BASE BUDGET	PAID MEAL BREAKS	SCHEDULED MEAL BREAKS
Expenditures	931	935	942
Revenues	709	709	709
Subsidy Needed	222	226	233
2003 City Operating Subsidy	182	182	182

Shortfall	40	44	51
-----------	----	----	----

Depending upon the answer to the Canadian Urban Transit Association and the Ontario Community Transportation Association request for an exemption to the provisions of the Ontario Employment Standards Act (ESA), the TTC's 2004 shortfall will be increased by either:

- i. about \$3.7 million if the TTC is required to pay employees for meal breaks that the TTC is not required to provide or pay under the current Collective Bargaining Agreements; or
 - ii. about \$10.5 million (due to the hiring of an additional 143 front line employees) if the TTC is required to schedule and crew the meal breaks. It should be noted that scheduling and crewing the meal breaks will require the TTC to add 143 additional workers but will not provide any increase in service. All these employees will do is provide temporary relief (30 minutes) to operators and other workers when they take a meal break.
1. consider the following potential scenarios (outlined in this report and as shown in Appendix B) to address the 2004 operating budget shortfall:

Scenario 1 A \$40 to \$51 million increase in subsidy, only

Scenario 2 A January 1, 2004, 20 to 25 cent increase in fares, only

Scenario 3 (a) Subsidy based on an 80/20 Revenue/Cost Ratio, with

service cuts in September 2004, and a January 1, 2004,

15 to 20 cent increase in fares.

b. Subsidy based on an 80/20 Revenue/Cost Ratio, with no service cuts and a January 1, 2004, 20 to 25 cent increase in fares.

Scenario 4 (a) A January 1, 2004, 10 cent fare increase, with service

cuts in September 2004, and the balance of the shortfall (\$18 to \$29 million) to be provided through increased subsidy.

b. A January 1, 2004, 10 cent fare increase, with no service cuts, and the balance of the shortfall (\$21 to \$32 million) to be provided through increased subsidy.

5) note that, other than the VIP Green Pass Program, no provision has been made in the 2004 operating budget to permit implementation of the Ridership Growth Strategy. (Estimated costs for 2004 would be \$5 to \$6 million as noted on page 13).

6) forward this report to the City of Toronto for Council approval of the City's

2004 Transit Operating Subsidy to the TTC.

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

8) forward to the Minister of Transportation of Canada, the Honourable David Collenette, for information.

BUDGET HIGHLIGHTS

The highlights of the 2004 TTC Operating Budget are as follows:

- Moderate growth in the economy is expected in 2004.
- Ridership is expected to be 410 million in 2004.
- Service will be commensurate with the ridership budget of 410 million.
- Revenues will decrease by about \$1 million over the 2003 budgeted level primarily because of the lower level of budgeted ridership.
- Expenditures will increase by approximately \$22 million for items included in the 2002 collective agreement, increased vehicle and facility maintenance costs, increased costs for accident claims and insurance, increases in comprehensive medical and dental costs, higher Canada Pension Plan contributions, one additional weekday (leap-year) and general inflation on material purchases. These increases are offset by the elimination of the balance of the operating budget contribution to capital, service adjustments and an anticipated hydro rebate. Expenditures will increase by a further \$3.7 million or \$10.5 million if no exemption is received and the TTC is required to either pay for or provide scheduled meal breaks as required by the ESA. Each of these is described in further detail later in this report.
- Year-end workforce will decline by 16 positions: 69 fewer in operating and 6 fewer in Wheel-Trans, offset by 59 additional capital positions. An additional 143

operating positions will be required if the TTC is required to provide scheduled meal breaks. See Part 4 of this report for additional details.

- Other than the VIP Green Pass Program, no provision has been included in the 2004 Operating Budget to allow for various Ridership Growth initiatives included in the Ridership Growth Strategy approved by the Commission on March 19, 2003. Additional details are provided in this report.

- There currently exists an operating budget shortfall of \$40 million. This consists of the carry forward of the \$17 million 2003 budgeted shortfall (which has been accommodated through prudent cash flow management and a corresponding write-down in retained earnings), a \$1 million drop in revenues and, a \$22 million increase in costs. This shortfall may increase by about \$4 or \$11 million (to \$44 to \$51 million) as a result of ESA requirements as noted above if no exemption is received. This report will outline possible scenarios to address funding this shortfall.

2004 OPERATING BUDGET SHORTFALL

At the time of approval of the Collective Agreement in April 2002, it was estimated that the 2004 shortfall would be in the order of \$113 million. The projected 2004 shortfall was reduced as a result of the actions taken by the Commission and the City's Budget Advisory Committee during their approval of the TTC's 2003 operating budget last November and December. Specifically, increased subsidy, the January 1, 2003 fare increase and, other expenditure reductions dropped the 2004 projected shortfall to \$57 million.

After adjusting for the elimination of the Contribution to Capital, the currently projected shortfall of \$40 million is consistent with the projections made over the past 18 months as shown in the table below. In fact, the shortfall is \$5 million lower as a result of additional expenditure reductions in 2004.

TABLE 1

	(\$ Millions)
Shortfall (April, 2002)	113
2003 Additional Subsidy (20% of expenses)	(30)
2003 10¢ fare increase	(21)
2003 Expenditure Reductions	(5)
	57
Elimination of balance of Contribution to Capital	(12)
2004 Expenditure Reductions	(5)
2004 SHORTFALL*	\$ 40

*before factoring in the impact of either paying for meal breaks

(+ \$3.7 million) or scheduling for meal breaks (+ \$10.5 million)

as required by the Employment Standards Act (ESA).

-

-

FUNDING

In the year 2003, the City of Toronto budgeted an operating subsidy for the TTC conventional system of \$182,162,100. 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 2

YEAR	OPERATING SUBSIDY (\$millions)			REVENUE/COST RATIO	SUBSIDY/RIDER
	PROVINCE	CITY	TOTAL	(percentage)	(cents/rider)
1992	117	128	245	66%	61¢
1993	117	117	234	66%	59¢
1994	112	95	207	69%	53¢
1995	104	111	215	69%	55¢
1996	90	79	169	76%	45¢
1997*	78	81	159	80%	42¢
1998	0	149	149	80%	38¢
1999	0	149	149	80%	38¢
2000	0	144	144	82%	35¢
2001	0	148	148	82%	35¢
2002	0	152	152	81%	37¢
2003 Budget	0	182	182	80%	44¢

*Note: Provincial operating subsidy contributions to the TTC ended in 1997.

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 \$63 million annually. The methods for achieving these operational improvements have been well documented in previous TTC Operating Budget reports.

While the subsidy per rider has been cut from 61¢ in 1992 to 44¢ in 2003, the cut is even more dramatic if the figures are adjusted for inflation over that decade. Restated in 2003 dollars, the 1992 subsidy per rider would be 75¢. From that figure, subsidy per rider has fallen by over 40% to 44¢.

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

TABLE 3

CITY	OPERATING SUBSIDY (\$Millions)	REVENUE/ COST RATIO	RIDERS (Millions)	OPERATING SUBSIDY/RIDER
TTC (2003 Budget)	182	80%	412	\$0.44
Montreal	259	58%	355	\$0.73
Ottawa	112	57%	85	\$1.32
Vancouver	279	46%	96	\$2.91
Atlanta	324	35%	77	\$4.21
Chicago	736	52%	277	\$2.66
Los Angeles	741	32%	181	\$4.09
New York	2,650	59%	1,805	\$1.47
Philadelphia	650	50%	210	\$3.10

Subsidy figures are expressed in \$CDN.

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

TTC figures – 2003 budget; all other cities – 2001 figures

Overall comparisons can be made on a world-wide basis:

TABLE 4

REVENUE/COST RATIOS

	80%
--	-----

TTC (2003 Budget)	
Ontario Systems	76%
Canadian Systems	62%
France	55%
Sweden	44%
United States	41%
Netherlands	28%

Source: Moving Forward (CUTA February, 2002)

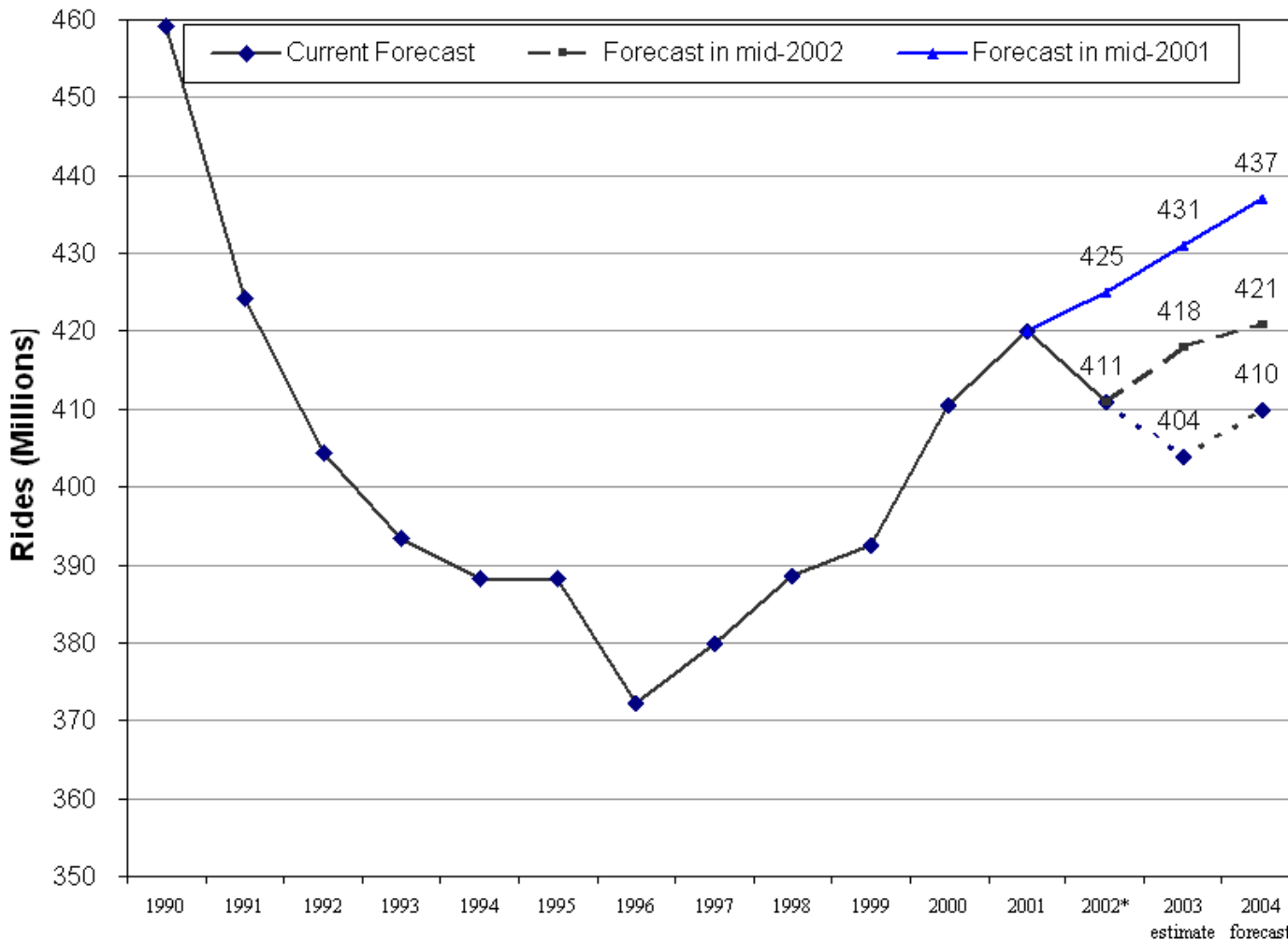
The R/C ratio is the most widely accepted single overall measure of transit efficiency. You cannot have a high R/C ratio without a good, safe, clean, expansive system in a densely populated city that has a high level of customer satisfaction and, for which, appropriate fares are charged. On whatever comparison basis you want to take, the TTC's R/C ratio of 80% + is remarkable. Having said that, the ability to retain such a high R/C ratio is severely constrained during periods of increasing costs and flat or declining ridership.

RIDERSHIP

Economic and employment growth in the Toronto area is forecast for 2004; however, 2003 ridership was severely impacted by SARS, the hydro blackout and the general economic downturn. As a result, there still exists a significant degree of uncertainty as to the projected level of ridership for 2004. Consequently, 2004 ridership is budgeted to be 410 million – 2 million below the 2003 budget, yet 6 million above the current 2003 projection. Service to meet the 410 million level of ridership has been incorporated in the budget.

Ridership is affected by numerous factors including employment levels and location, demographics, retail trade activity, travel patterns, service levels, transit fares, income levels, gasoline and automobile prices and parking availability and rates. Some of these affect ridership in the long-term such as demographics and income level. Others such as employment levels, retail trade and significant world events can have both short and long-term ridership consequences. Other than service levels and fares, the key variables that impact ridership are largely beyond the control of the TTC.

CHART 1

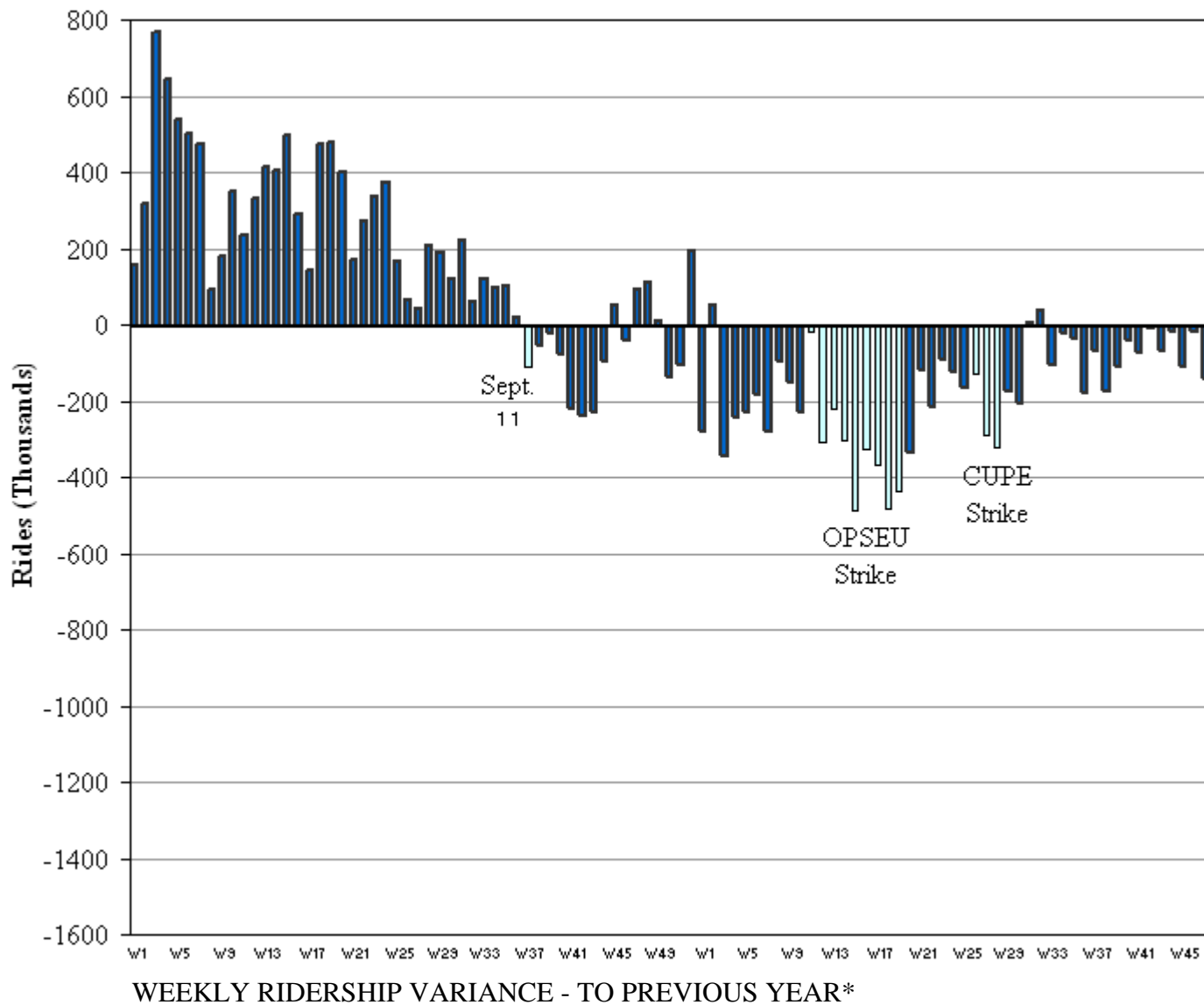


* Excludes World Youth Day ridership (4.1M rides).

1990 - 2004 TTC RIDERSHIP

As can be seen from the chart above, ridership had plummeted since 1990 to 1996 and was on a slow, but steady, rebound prior to the September 11, 2001 terrorist attacks in the United States. Ridership trends prior to September 11 suggest 2004 ridership could have been expected to have grown to 437 million. Obviously, that hasn't happened.

Since the terrorist attacks on September 11, 2001, the TTC has had to deal with a very uncertain operating environment where many non-controllable events have impacted ridership. Chart 2, on the following page, summarizes the growth or decline in weekly ridership since 2001.



Recent major events that have had a significant impact on TTC ridership include:

2002

- OPSEU strike (March 13 to May 5)
- CUPE strike (June 26 to July 11)

2003

- TTC \$0.10 fare increase (January 1)
- SARS outbreak (March 23 to July 5)
- Hydro blackout and provincial state of emergency (August 14 to 22)

These events not only had an immediate effect on current ridership but will also continue to have some degree of impact on ridership in 2004.

The key event in terms of 2003 ridership impact was the outbreak of SARS. The outbreak which began in March and "officially" lasted until July had a devastating effect on the tourism, convention and business sectors in the City of Toronto. KPMG has recently estimated that between March and October 2003 tourism expenditures in Toronto (including accommodation, food/beverage and transportation) have declined by over \$500 million compared to 2002. The negative impact on TTC ridership has been estimated at approximately 3.5 million rides.

As can be seen from the table below, TTC ridership was exactly on budget and projected to meet the 412 million budget before SARS struck on March 23, 2003.

	ACTUAL RIDERSHIP	BUDGET	VARIANCE
January 1 – March 22 (Pre-SARS)	91.4	91.4	-
March 23 – October 4	213.0	219.8	(6.8)
Year-to-Date	304.4	311.2	(6.8)

Since the SARS outbreak and coupled with the blackout, the TTC has lost 6.8 million rides. That figure is expected to grow to about 8 million rides by the end of the year.

In addition to these events, the economic performance of the City of Toronto has been well below forecast in 2003. Although there has been strong employment growth in other regions of the GTA during the first half of 2003, the City of Toronto employment levels have fallen by about 2% from last year. The impact on the hospitality industry (a prime source of TTC ridership) has been especially hard.

Other indicators confirming the underperformance of the Toronto economy in 2003 include a decline of passengers at Pearson International Airport, lower downtown hotel occupancy rates, higher downtown office space vacancy rates and a lower number of major events.

In its Autumn 2003 Metropolitan Outlook released in September, the Conference Board forecasts a return to growth in the Toronto area economy for 2004 as the tourist sector begins to recover and the U.S. economy continues to gather momentum. Based on economic forecasts for 2004 and the reversal of "non-recurring" events in 2003, TTC ridership is forecast to increase to 410 million in 2004.

SCENARIOS TO ADDRESS THE 2004 SHORTFALL

Following is a brief description of potential scenarios to address the 2004 operating budget shortfall of \$40 to \$51 million. These scenarios are outlined in Appendix B.

Scenario 1: Subsidy Only

Under this option, the full \$40 to \$51 million operating shortfall would be addressed by a corresponding \$40 to \$51 million increase in subsidy. This would increase the annual subsidy from \$182 million to \$222 or \$233 million. No ridership impact would be experienced and the R/C ratio would be 76%.

Scenario 2: Fares Only

Under this option, the full \$40 to \$51 million operating shortfall would be addressed by a corresponding \$40 to \$51 million increase in passenger revenues. This would necessitate a 20 to 25 cent fare increase effective January 1, 2004 and would result in ridership losses in the order of 10 to 15 million. The R/C ratio would be about 80%.

Scenario 3(a): 80/20 R/C Ratio with Service Cuts

Under this option, operating subsidy would be based on an 80/20 R/C ratio which would provide an additional \$4 to \$6 million subsidy in 2004. In addition, elimination of service on poor performing routes effective September 2004 would result in \$3 million worth of expenditure reductions in 2004 (\$9 million on an annualized basis). In order to address the remaining shortfall of \$33 to \$42 million, a 15 to 20 cent fare increase effective

January 1, 2004 would be required. This would result in the loss of approximately 8 to 11 million rides and would maintain an R/C ratio of about 80%.

Scenario 3(b): 80/20 R/C Ratio without Service Cuts

Under this option, (as in 3(a)), an additional \$4 to \$6 million in subsidy would be received. The remaining \$36 to \$45 million shortfall would require a 20 to 25 cent fare increase effective January 1, 2004. This would result in the loss of approximately 10 to 15 million rides and would maintain an R/C ratio of about 80%.

Scenario 4(a): 10¢ Fare Increase with Service Cuts and Increased Subsidy

Under this option, elimination of service on poor performing routes effective September 2004 would result in expenditure reductions of approximately \$3 million in 2004 (\$9 million on an annualized basis). In addition, a 10 cent fare increase effective January 1, 2004 would generate \$19 million in increased revenues. The remaining \$18 to \$29 million would need to be provided through increased subsidy. Ridership would fall by about 5 million rides to 405 million and the R/C ratio would be approximately 78%.

Scenario 4(b): 10¢ Fare Increase without Service Cuts and Increased Subsidy

Under this option, there are no service cuts. A 10 cent fare increase effective January 1, 2004 would generate \$19 million in increased revenues. The remaining \$21 to \$32 million shortfall would need to be covered through increased subsidy. Under this option, ridership would fall by 4 million to 406 million and the R/C ratio would be about 78%.

-

RIDERSHIP GROWTH STRATEGY IMPLEMENTATION

The VIP Green Pass Program is a 2004 Ridership Growth Strategy initiative that has been factored into the 2004 operating budget based on the direction of the Commission to conduct a pilot to test the impacts of the program. The pilot was extended by the Commission to September 2005. Currently, there are 13 companies and post-secondary institutions in the program with monthly pass sales of approximately 16,000.

Other than the VIP Green Pass Program, no funds have been incorporated in the 2004 operating budget to address the Ridership Growth Strategy which was approved at the March 19, 2003 Commission meeting. The strategy recommended a three-phased approach to investing in ridership growth that included both service improvements and fare incentives. The Ridership Growth Strategy was based on the principle that the recommendations in the Strategy were only to be implemented when current system funding requirements were satisfied and the system was maintained in a state of good repair.

The Ridership Growth Strategy initiatives were prioritized using a series of criteria including cost-effectiveness, passenger needs/behaviour and risk. Based on the evaluation performed, service initiatives were ranked as the first priority with fare initiatives being secondary. Appendix C outlines the proposed initiatives.

The total operating cost of implementing the 2004 Ridership Growth Strategy initiatives was estimated at \$16 million. However, this level of expenditure was based on anticipated Council approval earlier in 2003. As direction to proceed has not been received, at this point in time these initiatives likely could not be implemented before September 2004 with a resulting cost of about \$5 to \$6 million in 2004. This would increase the TTC operating shortfall for 2004 of \$40 - \$51 million to \$46 - \$57 million.

2004 OPERATING BUDGET OVERVIEW

PART 1: Revenues

Almost 95% of TTC revenues come from fares. Farebox revenues are budgeted to be about \$3.3 million lower than the 2003 Budget due to the lower projected ridership in 2004 (410 million versus 412 million in the 2003 Budget). The supporting budget documentation reflect ridership and revenue based on 410 million rides in 2004.

Other revenues are expected to grow by about \$2.5 million, to offset the passenger revenue loss. This includes a \$1.7 million increase in transit advertising revenues, \$0.5 million in increased rental revenues and higher interest earnings.

PART 2: Service

Over the past several years, while ridership was increasing, the TTC followed a strategy of "leading ridership growth" by providing slightly more service than standard in an effort to ensure that the necessary capacity was on the road as more people chose to ride transit. That was an effective strategy over the past 5 years.

With the slowdown in the economy and the loss of ridership following September 11, that service strategy changed. Overall daily service levels have not increased since September 2001. The 2003 service budget was consistent with a ridership level of between 415 to 420 million riders. Service levels for 2004 are being budgeted commensurate with a ridership level of 410 million.

In contrast to previous years, there is no budget allocation provided in the 2004 Service Budget to address road congestion problems or the lower carrying-capacity of low-floor buses. Any additional resources required in 2004 to compensate for the slower operation of TTC surface vehicles due to road congestion, and the reduced carrying-capacity of the new low-floor buses being put into service in 2004 will be dealt with by adjusting services elsewhere, and re-allocating these resources to maintain the total amount of service at budgeted levels.

-
-
-

PART 3: Operating Expenses

The day-to-day expenses associated with running the TTC are budgeted to increase by approximately \$22.1 million in 2004. The increases fall into the following areas:

1. Wage Increases: \$20.5 million. The April 1, 2002 Collective Agreement included wage increases of 3% effective April 1 in each of 2002, 2003 and 2004. The impact of the Collective Agreement (\$18 million), together with step rates, wage progression and job upgrades (\$3 million), have been incorporated into the budget.
2. Other Employee Costs: \$10.6 million. These costs have increased as follows: (i) increases in post-retirement/post-employment benefits; (ii) increased pension, EHT, sick and other benefits primarily resulting from the April 1, 2002 Collective Agreement; (iii) an expected increase of about 4% in costs for health care (mainly prescription drugs) and dental costs; (iv) C.P.P. contribution increase; (v) reduction in E.I. premiums, and; (vi) increases in Sick Benefit and WSIB costs because of increased claims/utilization.
3. Various Maintenance Programs: \$3.2 million. Significant facility maintenance increases are attributable to: track grinding, geometry and tunnel clearance work, higher contracted CNG fuelling station maintenance costs and subway communication and security activities. Incremental vehicle maintenance covers H5 and H6 subway car repairs/overhaul and higher bus running maintenance expenses.
4. General Material Price Increases: \$2.1 million. An allowance of 2% for CPI has been provided on purchases.
5. Accident Claims and Insurance: \$1.8 million. Increases in insurance premiums for recently renewed policies account for \$0.8 million. An additional \$1.0 million has been included for the higher cost of accident claim settlements resulting from courts lowering the threshold for claims and from higher medical/rehabilitation expenses.
6. Calendar Impact: \$1.6 million. 2004 is a leap-year with one additional work day resulting in increased costs (offset by increased revenues).
7. Contribution to Capital: (\$11.8) million. Reflects the elimination of the remaining balance of the contribution to capital from the operating budget (\$5.8 million was eliminated in 2003).
8. Service adjusted to approved standards: (\$6.0) million. Reflects application of service standards to match projected ridership of 410 million and the reduction of about 80 operators.
9. Hydro Rebate: (\$3.0) million. The budget contemplates the continued receipt of a \$3 million rebate from Hydro under the Market Power Mitigation Agreement.

10. Other: \$3.1 million. All other changes net out to an increase of about \$3 million.

Note: Employment Standards Act (ESA). Depending upon the answer to the Canadian Urban Transit Association and the Ontario Community Transportation Association request for an exemption to the provisions of the Ontario Employment Standards Act, the TTC's 2004 shortfall will be increased by either:

(i) about \$3.7 million if the TTC is required to pay employees for meal breaks that the TTC is not required to provide or pay under the current Collective Bargaining Agreements; or

(ii) about \$10.5 million (due to the hiring of an additional 143 front line employees) if the TTC is required to schedule and crew the meal breaks. It should be noted that scheduling and crewing the meal breaks will require the TTC to add these additional workers but will not provide any increase in service. All these employees will do is provide temporary relief (30 minutes) to operators and other workers when they take a meal break.

Appendix A (attached) provides a summary of the Commission's 2004 budgeted revenues and expenditures and subsidy requirement.

-

PART 4: Workforce

The Commission's 2004 workforce is budgeted at 10,333 which reflects a net reduction of 16 positions due to the following:

1. 69 fewer operating positions as a result of: service adjustments (-82), organizational restructuring (-23), increased service (fully recoverable) requested by York Region Transit (5), subway reliability improvements and maintenance (12), operator re-certification training needs (6), additional Divisional Clerks as a result of ESA requirements (7), increased MDP subscriptions (2), and other business requirements (4). If scheduled meal breaks are implemented, an additional 143 operating positions will be required.
2. 6 fewer Wheel-Trans positions as a result of organizational restructuring (-4) and bus fleet efficiencies (-2).
3. 59 additional Capital Program positions primarily for the following programs: structural rehabilitation (18), facility modifications (14), CLRV Overhaul (8), Bus Overhaul (8), and various other capital programs.
4. no change in Toronto Coach Terminal (TCT) workforce levels.

Each revenue and expenditure element shown above, as well as the workforce changes, are described in detail in the companion reports to this Commission Report.

2005 OUTLOOK

For 2005 it is anticipated that costs will increase in line with inflation for most elements of the budget before incorporating any impact from the following items:

- the Collective Bargaining Agreement commencing April 1, 2005
- the next advertising contract commencing January 1, 2005
- fixed hydro rates expiring April 30, 2005
- the future availability of existing hydro rebates
- future diesel fuel prices

November 11, 2003

42-107-34

Attachments: Appendix A

Appendix B

Appendix C

TTC 2004 Operating Budget Overview

TTC 2004 Departmental Goals & Objectives

TTC 2004 Organization Charts

TTC 2004 Detailed Operating Budget (Blue Book)