

Analyst Briefing Notes

Budget Committee

(March 26, 2007)

2007 OPERATING BUDGET

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March 26, 2007

2007 OPERATING BUDGET**Executive Summary**

- The 2006 preliminary year-end net expenditure of \$233.493 million is \$12.814 million below the 2006 Approved Budget of \$246.307 million primarily due to lower hydro and natural gas heating costs of \$11.166 million because of milder than anticipated winter weather and lower than anticipated commodity prices. Revenue is \$3.6 million greater than expected due to unbudgeted proceeds from a bus order settlement. Of the \$12.8 million surplus, Council has directed that \$3 million from the bus order settlement be placed into a Capital Financing Reserve Fund to be used toward the purchase of new buses in 2007 and \$4.0 million to be allocated to the employee benefit liability fund leaving \$5.9 million in 2006 surplus.
 - The 2006 ridership growth, from 436 million budgeted riders to 445 million actual riders, continues to exert pressure on TTC operating standards and on this Operating Budget as increased fuel and salary costs are required to support increased ridership and demands for service.
- The TTC's strategic direction over the next three years is to maintain the established plan of providing transit services to the public on surface routes, utilizing buses, streetcars, RT vehicles (rapid transit) and subways. The TTC faces the following challenges and issues:
 - Assuming continued growth of 9 million riders in 2007 from 445 million actual riders in 2006 to 454 million riders budgeted in 2007. This ridership growth is generated by employment growth which is in turn driven by increased economic activity in the City of Toronto.
 - Providing 207 million kilometres and 7.4 million hours of service which represent growth of 1.3% and 1.6% respectively over 2006 levels.
 - Introducing 100 new buses into service and opening the new Mount Dennis bus garage to maintain and store the new buses in accordance with the Ridership Growth Strategy.
 - Finding efficiencies in order to reduce the TTC's net expenditures by \$5 million through an unspecified reduction (without negatively impacting service) while at the same time managing the operating pressures in 2007 and also in 2008 and 2009.
 - Developing a three year operating plan and fare strategy.
 - Negotiating with the Province for long-term, sustainable funding in order to return the TTC's provincial funding component to the 50% level of the mid-1990s.

The 2007 Recommended Operating Budget is \$25.475 million net or 10.3% over the net expenditure target of \$246.307 million.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change - 2007 Recommended from 2006 Approved Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
	\$	\$	\$	\$	\$	\$	%	\$	\$
(In \$000s)									
GROSS EXP.	1,037,991.9	1,028,720.0	1,082,353.5	540.0	1,082,893.5	44,901.6	4.3	73,800.0	49,200.0
REVENUE	791,685.4	795,227.0	811,112.3	0.0	811,112.3	19,426.9	2.5	12,000.0	19,000.0
NET EXP.	246,306.5	233,493.0	271,241.2	540.0	271,781.2	25,474.7	10.3	61,800.0	30,200.0
Approved Positions	9,483.0	9,507.0	9,822.0	13.0	9,835.0	352.0	3.7		
TARGET			246,306.5		246,306.5				
\$ Over / (Under) Program Target			24,934.7		25,474.7				
% Over / (Under) Program Target			10.1%		10.3%				

Note:

The TTC's current collective agreement ends on March 31, 2008. The 2008 outlook includes salary and benefit increases only for the first 3 months of the year. There is no salary and benefits increase included in the 2009 outlook. A one percent salary increase adds approximately \$7 million to the TTC's salary costs.

- The 2007 Recommended Operating Budget of \$1.083 billion gross and \$271.781 million net is comprised of base funding of \$1.082 billion gross and \$271.241 million net and \$0.540 million gross and net for recommended new/enhanced service priorities. This represents a \$44.902 million or 4.3% increase in gross expenditures and a \$19.427 million or 2.5% revenue increase for a \$25.475 million or 10.3% net increase over the 2006 Approved Operating Budget of \$246.307 million. No fare increase is assumed for 2007.
- The 2008 outlook includes an increase in gross expenditures of \$73.8 million and \$61.8 million net. The 2009 outlook includes an increase in gross expenditures of \$49.2 million and \$30.2 million net. There are several factors driving the 2008 and 2009 outlook: These outlooks provide for increases in salaries and benefits in accordance with collective agreements until March 31, 2008 when the current three-year agreement ends. There is no salary increase factored into the 2008 outlook after March 2008. There is no salary increase factored into the 2009 outlook. However, a 1% increase in the Cost of Living Allowance will result in \$7 million in additional salary and benefits costs. Other factors driving the outlook are pension costs at \$4 million and other employee costs at \$5 million. In 2008, the annualized costs of the Mount Dennis Bus Garage startup in the fall of 2007 will exert \$5 million in incremental pressure. No fare increase is assumed for 2008 and 2009.

As well, there will be other pressures such as an on-going impact of \$24 million from increased growth in service including the Ridership Growth Strategy, as well as pressures from rising energy prices which could add up to \$12 million and general inflation which will add at least a

\$4 million pressure each year.

- The 2007 Recommended Base Budget is \$1.083 billion gross and \$271.781 net.
 - Key cost drivers in 2007 include annualized labour costs from the TTC 2005 collective agreement and higher energy costs due to price increases in vehicle fuel, utilities and hydro. For the overall service budget, key cost drivers include the incremental cost of fully implementing the 2005 approved initiatives of the TTC's Ridership Growth Strategy to purchase 100 new buses and open the Mount Dennis Bus Garage in order to meet increased demand and to service 454 million riders in 2007, an increase of 9 million riders.
 - An unspecified reduction of \$5 million is recommended to reduce non-operation costs for anticipated efficiencies. The TTC has been asked to report back to the Budget Committee with the 2007 third quarter variance report with options to achieve this \$5 million unspecified reduction.
- Funding for new / enhanced services in the 2007 Recommended Operating Budget to provide for 11 new Special Constables at a cost of \$0.450 million and 2 Proof-of-Payment Inspectors at a cost of \$0.090 million.
- Many of the priorities of the Mayor and Council are being addressed by the TTC through many capital projects which are funded in the 2007-2011 Approved Capital Plan. There will be an operating impact in 2007 from purchasing 100 Ridership Growth buses and opening the Mount Dennis Bus Garage of \$1.996 million and 71 positions. The annualized impact in 2008 will be approximately \$7 million with 4 additional positions. The TTC also has plans to extend the Spadina Subway Line north to York University and Vaughan City Centre; to purchase 204 new fully-accessible streetcars for over \$1.2 billion; to resignal the Yonge-University-Spadina subway line to increase capacity up to 40% and to undertake several Environmental Assessments to expand surface rapid transit along major corridors. All of these initiatives will require significant increases in the TTC operating budget in future years. However, there is no operating impact expected from these initiatives until after 2009.
- There is no provision in the 2007 Recommended Operating Budget for a fare increase.
- The 2007 Recommended Operating Budget provides for the following service levels:
 - Service for 454 million riders in 2007, up from 436 million in the 2006 Budget for a 4.1% increase.
 - A 1.3% increase in service kilometres from 204.31 million to 207.01 million in 2007.
 - An increase of 1.6% in service hours from 7.30 million hours to 7.42 million hours in 2007 for a total increase of 120,000 hours which include:
 - Additional resources to implement the Ridership Growth Strategy peak period service estimated at 17,000 additional service hours in 2007 (114,000 additional service hours on an annualized basis).
 - Additional resources for increased ridership, estimated at 40,000 additional service

hours in 2007 (132,000 additional service hours on an annualized basis).

- Maintaining service levels during construction projects in 2007 is estimated to require 24,000 fewer service hours than in 2006.
 - Increased road congestion and new low-floor buses (with lower capacities) are estimated to add 3,000 additional service hours.
- 352 new positions in the following areas: Subway Operations (32), Surface Operations (272), Service Planning (2), Training (16), Human Resources (3), Materials and Procurement (5), Revenue Operations (4), Legal (5), Special Constables (11) and Proof-of-Payment (2).

Issues

The TTC's challenge is to provide services to meet continued growth in ridership. Ridership will grow from 436 million riders budgeted in 2006 to 454 million riders budgeted in 2007. At the same time, the TTC is encouraging additional passenger growth through its Ridership Growth Strategy which will see the introduction of 100 additional buses and the opening of the Mount Dennis Bus Garage in the fall of 2007. The Ridership Growth Strategy will lead to new ridership growth that will be costly but will be balanced with affordability. This growth in demand is adding to the TTC's financial pressures. Gross expenditures will increase by \$44.902 million or 4.3% while revenue will increase by \$19.427 million or 2.5%. The 2007 Recommended Operating Budget has no provision for a fare increase and the 2007 Recommended Operating Budget is \$25.475 million net over the 2006 Approved Operating Budget which is the target for 2007.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for the TTC of \$1.083 billion gross and \$271.781 million net, comprised of the following service, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000s)</u>	<u>Net</u> <u>(\$000s)</u>
TTC Conventional System	1,082,894	271,781

2. the Interim Chief General Manager of the Toronto Transit Commission report back to the Budget Committee in June 2007 with a three-year plan, driven by ridership and service plans that would include various options for a multi-year fare strategy;
3. the Interim Chief General Manager of the Toronto Transit Commission report back to the Budget Committee with the 2007 third quarter variance report with options to achieve a \$5 million reduction in expenditures that do not impact front-line operations;
4. the Interim Chief General Manager and Chair of the TTC be requested to adjust the Commission’s budget schedule in 2007 so that it matches the scheduled requirements of the City of Toronto’s budget review process for 2008 and beyond;
5. the City Manager, in consultation with the TTC, Toronto Police, and the Deputy City Managers, report back to Executive Committee, prior to the 2008 Operating Budget process, on a City-wide security policy, which addresses, among other issues, the use of TTC Special Constables; and,
6. the Interim Chief General Manager of the Toronto Transit Commission report back to the Budget Committee, prior to the 2008 Operating Budget process, with a revised multi-year security strategy that would be consistent with a City-wide security plan.

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

(In \$000s)	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
GROSS EXP.	962,280.0	1,037,991.9	1,028,720.0	(9,271.9)	(0.9)
REVENUES	753,444.0	791,685.4	795,227.0	3,541.6	0.4
NET EXP.	208,836.0	246,306.5	233,493.0	(12,813.5)	(5.2)
Approved Positions	9,340.0	9,483.0	9,507.0	24.0	0.3

Source: *Projected Actuals Based on the Preliminary Year-End Operating Variance Report.

2006 Experience

The TTC has reported a preliminary year-end net favourable variance of \$12.814 million that is 5.2% under the 2006 Approved Operating Budget.

The net favourable variances are attributed to:

- Expenses which were \$9.3 million favourable primarily due to lower hydro and natural gas heating costs because of milder than anticipated winter weather and lower than anticipated commodity prices.
- Revenue was \$3.6 million greater than expected due to unbudgeted proceeds from a bus order settlement and adjustments to the deferred revenue liability related to the old token.
- Of the \$12.8 million reported surplus, City Council, at its meeting of September 25, 26, 27, 2006 directed that \$3 million from the bus order settlement be transferred to a City Capital Financing Reserve Fund in 2006 to be used toward the purchase of new buses in 2007 and an additional \$4.0 million be allocated to the employee benefit liability fund. This leaves a \$5.9 million net surplus for 2006.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The following 2006 Operating Variances are expected to impact the 2007 Operating Budget:

- The increase in ridership from 436 million budgeted riders to an estimated 445 million riders in 2006 which will result in a \$13 million budgeted increase in revenue in 2007.
- The expenditures required to support this ridership growth will be \$4.5 million.
- The underspending related to favourable weather conditions and utility costs is not expected to continue in 2007.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

The Toronto Transit Commission (TTC) is the third largest transit authority in North America, based on ridership, after New York City and Mexico City. TTC carries almost 445 million riders per year and operates heavy and light rail, streetcar and bus services totaling over 2,400 vehicles throughout the City of Toronto. The TTC carries 85 percent of all local transit trips in the Greater Toronto Area and about 72 percent of the Toronto population uses the TTC at least once per month. Fully 96 percent of Toronto residents live within 400 metres of at least one TTC service.

The TTC's strategic priorities and directions to support its mandate over the next three years are to service existing ridership and to prepare for and service expected future ridership. The TTC will also focus on enhancing the safety and security of its system for both passengers and TTC personnel.

The 2007 Recommended Operating Budget supports the growth being experienced by the TTC as well as the TTC's safety and security initiatives. The TTC experienced growth of 9 million riders in 2006 and growth in 2007 is expected to be another 9 million riders. The TTC will also be increasing peak service through the purchase of 100 new Ridership Growth Buses and the opening of the new Mount Dennis Bus Garage. As well, the TTC continues to enhance its safety and security programs. The 2007 Recommended Operating Budget provides for staff for CCTV monitoring and safety programs in the subway and garages and for additional Special Constables and new Proof-of-Payment Inspectors.

Ridership Growth from 2006

The TTC experienced 3.1% growth in ridership in 2006, from 431.2 million riders in 2005 to 444.5 million riders by the end of 2006. There is \$4.5 million in funding in the 2007 Recommended Operating Budget to support the annualization of costs due to 2006 ridership growth.

Ridership Growth in 2007

In 2007, the TTC will provide transit services for 9 million more riders, 454 million riders in the 2007 budget versus 445 million actual riders in 2006. The TTC will hire 148 new staff in 2007 to sustain service levels and train new operators. There is \$3.4 million in funding in the 2007 Recommended Operating Budget to support the 2007 ridership growth. The annualized cost will be \$10 million in 2008 and 2009.

Ridership Growth Strategy

In order to accommodate these new riders and maintain service levels, the TTC will take delivery of 100 new Ridership Growth Strategy buses which will provide 17,000 additional peak service hours in 2007, 114,000 service hours on an annual basis. The TTC will hire 93 new Operators, Technicians, Servicepersons and Instructors to support the Ridership Growth Strategy. There is \$1.3 million in funding in the 2007 Recommended Operating Budget to support the TTC's Ridership Growth Strategy. The annualized cost will be \$9 million in 2008 and 2009.

Mount Dennis Bus Garage

To facilitate these 100 new buses, the TTC will finish construction in October 2007 of the Mount Dennis Bus Garage. This new bus garage will provide for maintenance and storage of 100 new Ridership Growth Buses. It will also provide bus garage capacity for additional buses purchased in the future. The TTC will hire 71 new personnel to staff the Mount Dennis Bus Garage. There is \$2 million in funding in the 2007 Recommended Operating Budget to support the opening of the Mount Dennis Bus Garage. The annualized cost will be \$7 million in 2008 and 2009 and 4 additional positions will be required.

Enhanced Safety and Security

In 2007, the TTC will continue to focus on the safety and security of passengers and personnel. The 2007 Recommended Operating Budget provides for expanded Closed Circuit Television (CCTV) monitoring of the subway system, as well as enhanced safety programs in subway and garages. The TTC will hire 7 new personnel to carry out these programs.

Special Constables (Enhanced service request being recommended)

The 2007 Recommended Operating Budget supports the TTC's Subway Zone Patrol Strategy by providing \$0.450 million for 11 additional Special Constables, which increases the total complement from 114 to 125, to patrol the subway. These new Special Constables will require \$0.900 in annualized funding in 2008 and 2009.

Proof-of-Payment Inspectors (New service request being recommended)

This budget also provides \$0.90 million for 2 Proof-of-Payment Inspectors to monitor fare compliance on the 501 Queen Streetcar. These new Proof-of-Payment Inspectors will require \$0.180 million in annualized funding in 2008 and 2009.

The 2007 Recommended Operating Budget has a \$44.902 million or 4.3% increase in gross expenditures. The balance of this increase relates to annualizations of 2006 costs (including \$4.5 million for services introduced in 2006) and costs which have been already been committed. There is \$3.3 million funding for the operating impact of capital projects related to the Ridership Growth Strategy, which have been completed and will be phased in during the fall of 2007. The remaining \$3.4 million provides for service adjustments to meet the demands of 454 million riders in 2007.

While gross expenditures increase to \$1.083 billion, a \$44.902 million or 4.3% increase, revenue in the 2007 Recommended Operating Budget is \$811.1 million, a \$19.4 million or 2.5% increase from 2006. The revenue increase includes \$30.9 million for passenger revenue increases offset by a one-time only use of the surplus from 2005 of \$12.6 million. There is no provision for a fare increase in 2007.

2008 and 2009 Outlook

The 2008 outlook net increase is \$61.8 million and the 2009 outlook increase is \$30.2 million. The 2008 and 2009 outlooks include annualization of increasing service demands, increased energy use and the impact of 2007 capital projects such as the Mount Dennis Bus Garage and security and safety projects. These outlooks provide for increases in salaries and benefits in accordance with collective agreements until March 31, 2008 when the current three-year agreement ends. There is no salary increase factored into the 2008 outlook after March 2008. There is no salary increase factored into the 2009 outlook. However, a 1% increase in the Cost of Living Allowance will result in \$7 to \$8 million in additional salary and benefits costs. There is no provision for a fare increase in 2008 or

2009.

Service Delivery - Challenges and Issues

- The Toronto Transit Commission offers two main services:
 - TTC Conventional.
 - Wheel-Trans.
- TTC's Conventional System provides transit services to the public on surface routes, utilizing buses, streetcars, RT vehicles (rapid transit) and subways.
- Service levels in 2007 include about 207 million kilometres and 7.4 million hours, which are approximately 1.3% and 1.6%, respectively, greater than 2006 budgeted levels.
- TTC staff continuously monitors ridership through periodic counts and will adjust services, as required, to ensure that passenger crowding on buses, streetcars and subways remain within the applicable standards. These adjustments will be made on an ongoing basis through the normal service adjustment process, which occurs each board period.
- On an average business day, approximately 1.4 million revenue passengers ride the TTC (2.3 million revenue passengers including transfer fares). Of the TTC's 149 surface routes, 148 make 243 connections with the subway/Scarborough RT system during the morning rush period.
- The 2007 Recommended Operating Budget funds service levels for 454 million riders, which is 18 million higher than the 2006 budgeted level.
- In 2007, citizens will see 100 new buses on the road in the fall of 2007. This increase in the bus fleet poses challenges for the TTC in terms of training new operators and having them acquire operational experience. This will increase training costs and operating costs.
- The opening of the Mount Dennis Bus Garage which will house the storage and maintenance facilities for the new Ridership Growth buses, also poses a challenge in terms of hiring and training 71 new staff, rearranging bus routes to minimize the distance to the garage and in terms of realigning the operations of the existing garages so that all garages are at a comparable percentage of capacity.
- Environmental Assessments are on-going or are planned for many potential transit corridors across the City of Toronto. There are EAs underway or planned for the Spadina subway extension, from Downsview station to York University, Yonge St. from Finch to Steeles, Don Mills Rd., Kingston Rd., Waterfront West, Waterfront East, King St., Sheppard Ave. East, an extension for the Scarborough Rapid Transit line, Finch Ave. West and the Northwest Corridor. Construction on some or all of these lines will help to meet the growth demands on the TTC in coming years. It will also add to the financial pressures faced by the TTC.

Mayor's Mandate

The Mayor's Mandate primarily relates to the TTC's capital program, but it does have an impact on the 2007 Recommended Operating Budget and all of the capital projects which address the Mayor's Mandate in 2007 will have an operating impact in future years.

The following initiative in the Mayor's Mandate which have an impact on the 2007 Recommended Operating Budget:

- ***Making streetcars and buses as speedy and reliable as the subway***

The TTC will purchase 1225 new hybrid and clean diesel accessible buses in the next 10 years for over \$1 billion, including 220 replacement buses and 100 new Ridership Growth Strategy

buses which will be delivered in 2007. In order to staff these new buses as they are delivered in October 2007, the 2007 Recommended Operating Budget provides \$1.3 million in funding for the TTC to hire 63 new operators, 18 service personnel, 8 coach technicians and 4 instructors. This will have an incremental impact of \$7.7 million in 2008.

In addition, these new buses have necessitated the construction of a new bus storage and maintenance facility, the Mount Dennis Bus Garage, at a total project cost of \$86.8 million. The Mount Dennis Bus Garage will be operational in October 2007 and will require 71 new personnel in 2007 and an additional 4 personnel in 2008. The 71 personnel to be hired in 2007 are comprised of: 18 transportation personnel, 39 technicians or service people and 14 other personnel such as janitors, plumbers and mechanics. Funding of \$2 million is included in the 2007 Recommended Operating Budget. This will have an incremental impact of \$5 million in 2008.

The Mayor's Mandate is also being addressed by the TTC through other capital projects, as follows, which are funded in the 2007-2011 Recommended Capital Plan and all of which will cause significant operating budget pressures in future years.

- ***Work to create a U-Pass for university and college students.***

The TTC is currently working with George Brown to implement a U-Pass for its students. It is expected that the U-Pass will be in place in 2008.

- ***Develop a Metropass affinity program to encourage businesses to offer discounts to customers who produce a Metropass.***
- ***Buy quiet, accessible, faster, higher-capacity light rail cars to replace Toronto's aging streetcars.***

The TTC has initiated plans to purchase 204 new fully-accessible streetcars for over \$1.2 billion, which will be delivered starting in 2010.

- ***Improve capacity by 40% on the Yonge-University-Spadina subway line through new trains and innovative signal management systems.***

The TTC will resignal the Yonge-University-Spadina subway line which is expected to increase capacity up to 40%.

- ***Work to extend the Spadina subway line to York University and beyond into Vaughan.***

The TTC has plans to extend the Spadina Subway Line north to York University and Vaughan City Centre. With the announcement of funding from the Federal government, this project will now be able to proceed beginning in 2007.

- ***Construct dedicated transit corridors: along Finch Avenue; on the west waterfront connecting western Etobicoke to Union Station; along Eglinton connecting the St. Clair streetcar right-of-way to the airport; connecting the Sheppard subway to Scarborough Town Centre; and extending the Scarborough RT into Malvern and beyond***

The TTC is now undertaking several Environmental Assessments which are the precursor to expanding surface rapid transit along major corridors.

All of these initiatives will facilitate continued future growth in ridership. This growth in ridership

will result in additional revenue, however, future revenue growth will be outpaced by the significant increases in expenditures which will be required.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In \$000s)	2006 Appvd. Budget	2007 Recommended Base	Change 2007 Recommended Base v. 2006 Appvd. Budget		FY Incremental Outlook	
					2008	2009
	\$	\$	\$	%	\$	\$
GROSS EXP.	1,037,991.9	1,082,353.5	44,361.6	4.3	73,800.0	49,200.0
REVENUE	791,685.4	811,112.3	19,426.9	2.5	12,000.0	19,000.0
NET EXP.	246,306.5	271,241.2	24,934.7	10.1	61,800.0	30,200.0
Approved Positions	9,483.0	9,822.0	339.0	3.6		
NET TARGET		246,306.5			0.0	0.0
\$ Over / (Under) Program Target		24,934.7			61,800.0	30,200.0
% Over / (Under) Program Target		10.1%			25.09%	12.26%

Note:

The TTC's current collective agreement ends on March 31, 2008. The 2008 outlook includes salary and benefit increases only for the first 3 months of the year. There is no salary and benefits increase included in the 2009 outlook. A one percent salary increase adds approximately \$7 million to the TTC's salary costs.

2007 Recommended Base Budget

The 2007 Recommended Base Budget of \$271.241 million net represents a 10.1% increase over TTC's 2006 Approved Budget while building on the 2006 service level through the implementation of the Ridership Growth Strategy.

- The 2007 Recommended Base Budget has a \$44.362 million or 4.3% increase in gross expenditures while revenue increases \$19.427 million or 2.5%. Increases in expenditures relate to the following:
 - Annualizations of 2006 costs account for \$19 million including \$4.8 million for the April 2006 wage increase, \$7.7 million for energy costs and \$4.5 million for service increasing to 445 million rides.
 - 2007 commitments of \$28.7 million including \$20.8 million for the April 2007 wage increase in the Collective Bargaining Agreement and pension contribution increase, \$1.8 million in hydro costs and \$2.0 million for inflation.
 - 2007 changes including \$3.4 million in service adjustments to support 454 million riders, \$3.3 million for the operating impact of capital for operating costs related to the 100 additional Ridership Growth Buses and the opening of the Mount Dennis Bus Garage.

- The 2007 Recommended Base Budget has a \$19.4 million increase in revenue. Passenger revenue has increased by \$30.9 million. Of this amount, \$4 million is due to the annualization of the 2006 fare increase and \$26.9 million is due to the increase in riders from 436 million in 2006 to 454 million in 2007. Relatively small amounts of increased revenue will come from all other TTC revenue services. These revenue increases are offset by a one-time only use of surplus from 2005 of \$12.6 million. There is no provision in the 2007 Recommended Base Budget for a fare increase in 2007.
- Two expenditure requests have been classified as new / enhanced services, specifically the hiring of 11 new Special Constables, and the hiring of 2 staff for the Proof-of-Payment initiative. These items have been removed from the base budget and reclassified as new or enhancement items.

2007 Key Cost Drivers

The 2007 Recommended Expenditure Base Budget Request represents an increase of \$44.362 million gross, or 4.3% over the 2006 Approved Budget. This increase is attributed to the following:

Salaries and Benefits

The 2005 Collective Agreement is the most significant cost driver with \$25 million in associated increased costs. Of this amount, \$5 million is an increase in wages annualizing the 3% COLA increase as of April 1, 2006, a \$17 million increase in wages reflecting a 3.25 % COLA increase as of April 1, 2007, and \$3 million for an increase in the pension contribution rate.

Energy Costs

Energy costs increase by \$8.751 million in 2007. This is a combination of the increased vehicle fuel costs of \$10.293 million due to annualization of the April 2006 diesel fuel contract along with increased mileage due to increased service levels which will be partially offset by the elimination of the use of compressed natural gas and \$1.794 million in increased hydro costs for traction power, offset by a \$1.867 million reduction in utilities costs due to a projected decrease in the cost of natural gas.

Service Adjustments

Service introduced in 2006 requires \$4.5 million in annualizations in 2007. Service introduced in 2007 requires \$3.4 million in annualizations.

Ridership Growth in 2007

In TTC ridership will increase from 445 million riders in 2006 to 454 million riders in 2007. This increased ridership has a \$3.4 million impact in 2007. There are 148 new positions associated with service adjustments and ridership growth.

Ridership Growth Strategy

The TTC will increase peak service in 2007 by buying 100 new Ridership Growth buses. There is \$1.3 million in increased operating costs due to the purchase of these 100 buses primarily for 93 new positions.

Operating Impacts of Capital

Operating impacts of capital drive the 2007 Recommended Operating Budget in two areas: the opening of the new Mount Dennis bus garage and safety and security. In order to facilitate the 100 new Ridership Growth Buses, the new Mount Dennis Bus Garage will open in October, 2007. There will be 71 new positions hired for Mount Dennis in late 2007. The impact in 2007 will be \$1.996 million.

The TTC is continuing its focus on the safety and security of both passengers and TTC personnel. The installation of CCTV cameras in 2006 has created the need to fund 2 new technician positions. As well, new safety programs will require the hiring of 5 additional staff to carry out enhanced safety programs in the subway and garages. The operating impacts of safety and security programs is \$0.191 million.

Changes to Property Tax

Most TTC property will be tax exempt under the new City of Toronto Act. This will result in a savings of \$7.2 million to the TTC. However, the Corporate Payment in Lieu to the City will decrease by an equal amount.

Unspecified Reduction

The TTC has been requested to reduce its net expenditures by \$5 million. This unspecified reduction is to be applied to non-front-line operational costs. The TTC has been asked to report back to the Budget Committee as part of the third quarter variance report process.

Future Year Outlook: Net Incremental Impact

In order to maintain service levels and meet expected increases in ridership demand, the TTC will face financial pressures of \$61.8 million or 25.1 % in 2008 and \$30.2 million or 12.3% in 2009. These levels of expenditure growth will be unsustainable, and therefore, the TTC will need to mitigate these pressures. A three year plan that includes a multi-year fare strategy is necessary.

There are several factors driving the 2008 and 2009 outlook: These outlooks provide for increases in salaries and benefits in accordance with collective agreements until March 31, 2008 when the current three-year agreement ends. There is no salary increase factored into the 2008 outlook after March 2008. There is no salary increase factored into the 2009 outlook. However, a 1% increase in the Cost of Living Allowance will result in \$7 million in additional salary and benefits costs. In 2008, operating impacts of capital are primarily the annualization of the Mount Dennis Bus Garage startup in the fall of 2007 which will exert \$5 million in incremental pressure.

As well, there will be other pressures such as an on-going impact of \$24 million from increased growth in service including the Ridership Growth Strategy. There will also be pressure from rising energy prices which could add up to \$12 million and general inflation which will add at least a \$4 million pressure each year. There is no provision for a fare increase in 2008 or 2009.

Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2007 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2008	2009
		\$	\$	#	\$	\$
(a) Enhanced Service Priorities - Council Approved						
(b) Enhanced Service Priorities - Program Initiated Special Constables		450.0	450.0	11.0	450.0	
Sub-Total Enhanced Services		450.0	450.0	11.0	450.0	0.0
(a) New Service Priorities - Council Approved						
(b) New Service Priorities - Program Initiated Proof-of-Payment Inspectors		90.0	90.0	2.0	90.0	
Sub-Total New Service Priorities		90.0	90.0	2.0	90.0	0.0
Total Recommended New / Enhanced Service Priorities		540.0	540.0	13.0	540.0	0.0

2007 Recommended Service Priorities**Recommended Enhanced Services****Enhanced Service Priorities- Program Initiated:***Additional Special Constables*

The 2007 Recommended Operating Budget provides for 11 new Special Constables. Wages and benefits for these new Special Constables will be \$0.450 million in 2007, with an additional \$0.450 million in 2008. These new positions are part of the 5-year Subway Zone Patrol Strategy, which is in its second year. This is consistent with the 11 new Special Constables recommended in 2006. These new positions will increase the total complement of Special Constables from 114 to 125. There were 33 new Special Constables requested in this budget. However, the hiring of 22 of these new Special Constables is recommended to be deferred, given the financial constraints of City. The TTC will report back to the Budget Committee prior to the 2008 budget process with a security strategy that addresses, among other issues, the use of TTC Special Constables.

Recommended New Service Priorities**New Service Priorities – Program Initiated:***Proof-of-payment Enforcement*

Funding of \$0.090 million is recommended in the 2007 Recommended Operating Budget to provide 2 Proof-of-Payment Inspectors effective July 1, 2007. An additional \$0.090 million will be required to annualize the funding for these positions in future years. At its July 2006 meeting, the Commission confirmed that the Proof-of-Payment (POP) fare collection system will be retained and expanded to more routes. The minimum required fare inspection rate is 3-5% of passengers on each vehicle. Therefore, the Commission approved the initial hiring of 2 Fare Inspection Officers who would be fully dedicated, on a full-time basis, to fare inspections on the 501 Queen route. The 2007 Recommended Operating Budget allocates \$0.090 million for Proof-of-Payment. The TTC intends to revisit the Proof-of-Payment program and align the duties and job description to similar positions in other comparable transit authorities.

Issues for Discussion

2007 Operating Budget Issues

Achieving the Net Expenditure Target

Net expenditures in the 2007 Recommended Operating Budget are \$271.781 million which is \$25.475 million greater than the target of \$246.307 million in the 2006 Approved Operating Budget. The TTC program has been selected for a detailed review by the Budget Committee. Budget Committee members and City staff have worked with TTC staff to reduce the financial pressures in the 2007 Recommended Operating Budget. As a result of these budget discussions, the Interim Chief General Manager of the TTC has been requested to report back to the Budget Committee prior to the 2008 Operating Budget process on the reductions that will realize the \$5 million in 2007 savings. It is anticipated that the TTC's review will include, but not be limited to, the following:

Revised gapping of non-front line staff

Gapping is the measure of savings in salary and benefit expenses caused by vacancies in approved positions. The TTC has budgeted for 2.4% gapping. The TTC will be revisiting this budgeted gapping in order to find savings in its salary budget, especially related to the 352 new hires.

Deferring or phasing the hiring of non-operations staff by one month

Of the 352 new positions provided for in the budget, 148 are service-related, 93 are related to the 100 new ridership growth buses which will provide peak service by the end of 2007 and 71 are to staff the Mount Dennis Bus Garage. There are also 40 positions for safety / security programs, Special Constables, Proof-of-Payment Inspectors, new token introduction and other non-operations positions. There is an opportunity to reduce financial pressures by delaying the hiring of non-operational staff by one month.

Revisiting assumptions used in developing salary and benefits projections for absenteeism

After dipping to 5% in the late 1990s, absenteeism at the TTC has risen to approximately 7% at the end of 2006. Absenteeism puts pressure on the net expenditures of the TTC as more staff have to be hired to fill in for expected absentees. There may be savings available from re-examining the absenteeism rate.

Reviewing loading standards to determine if cost savings are possible without negatively impacting service levels

The TTC will be reviewing its loading standards in the context of finding additional efficiencies in its operations. The TTC's loading standard for buses at peak times ranges from 55 passengers for low-floor buses to 57 passengers for standard floor buses.

Reviewing all operations in order to ensure that efficiency and effectiveness are being maximized, including the use of contracted services

The TTC is working with the City and doing its own internal reviews looking at efficiency especially in outsourcing consulting services. The TTC, as part of its continuous improvements, is currently reviewing its operations for further efficiencies including the current practice of

using outside consultants. It will focus on possible savings in bringing some of its consulting work in-house.

Three year Business Plan

The TTC is facing financial pressures in 2008 of \$61.8 million. It needs to develop a plan to address base budget pressures as well as managing the growth in the system that will be required as the economy and ridership grow. In order to deal with these pressures, the TTC has been asked to revise its current plan to create a 3 year plan, to be modified annually. This 3 year plan will be driven by ridership and service requirements to account for expected salary, fuel, and general inflation costs, as well as the impact of a multi-year fare strategy on ridership and revenue of implementing various options for a multi-year fare strategy. At the same time, the City and the TTC will work toward obtaining long-term stable provincial funding that would return the Provincial funding percentage to 50% as it was in the mid-1990s. The 2007 Recommended Operating Budget for the City of Toronto includes \$92 million in provincial gas tax money corporately allocated for transit. While this funding makes a significant contribution to the funding of TTC operations, this funding is in place only until 2010.

Ridership

Ridership in 2007 is forecast to increase to 454 million rides, up by 18 million from the 2006 budgeted level of 436 million rides and 9 million over the 2006 year-end ridership level of 445 million. On an actual basis, the actual number of riders in 2006 represented a 13.3 million rider increase or 3.1% from 431.2 million riders in 2005 to 444.5 million riders in 2006. The 2006 results reflect continued economic and employment growth in the City of Toronto throughout the year and continued strong sales growth of the Metropass. For 2007, continued economic and employment growth and the full implementation of the Ridership Growth strategy service improvements are expected to be key drivers towards increasing ridership to 454 million.

Workforce Changes

The 2007 Recommended Operating Budget provides for an additional 352 positions. Service changes to meet existing growth will require 148 positions. The operating impact of capital projects for Ridership growth will require 164 new positions. Safety and security programs will require 20 new positions. The workforce additions are detailed in the following chart:

2007 TTC Operating Workforce Additions	
Service changes / improvements / other	148
Ridership Growth Strategy	93
Mount Dennis Bus Garage	71
Safety / Security programs maintenance	7
Special Constables	11
Proof-of-Payment Inspectors	2
New token introduction	4
Legal Claims	5
Other net changes	<u>11</u>
Total New Positions	352

Service Changes / Service Requirements

Additional resources are required to maintain service levels on buses, streetcars and subways within Commission-approved standards for acceptable passenger crowding. Funding of \$9.236 million is required to provide for the total necessary service adjustments. This amount funds 148 new positions, including 126 new operators, 10 coach technicians (diesel mechanics), 1 service person, 10 instructors and one chief instructor.

Safety / Security Maintenance Requirements

There are 7 positions in the 2007 Recommended Operating Budget for safety and security related measures. These measures include safety at bus garages, track work health and safety, closed circuit television maintenance of new infrastructure and mechanics and an electrician for subway tunnel ventilation.

Other Workforce Changes

Other planned workforce changes will require 11 new positions. The new positions include a work order co-ordinator, a night shift foreperson, 2 senior transit services planners and 3 human resources specialists.

Operating Impact of Capital

The TTC has an ambitious capital program to replace aging vehicles and to expand its fleet in order to meet the demands of current and future ridership growth. The capital program will have a significant impact on the TTC's operating budget in future years. In 2007, the Capital Plan calls for the delivery of 100 new growth buses, which will fully implement the Ridership Growth Strategy. In order to store and maintain these buses, the TTC will open the Mount Dennis Bus Garage. This will have a \$2 million impact on the 2007 Recommended Operating Budget and a \$7 million impact in future years.

Ridership Growth Strategy

The Ridership Growth Strategy (RGS) was created in 2003 to put into place the transit aspects of the City of Toronto's new Official Plan. The RGS involves improving off-peak crowding and frequency of service. Its goal is a 10% increase in peak bus service and to restore all discontinued off peak services. It is also based on creating dedicated rights-of-way for transit to avoid traffic congestion and increase the speed and reliability of service. Central to achieving the RGS goals was buying 100 new buses for growth. These buses will be delivered in 2007. They will require an additional 93 personnel, including 63 operators, 18 service people, 8 coach technicians and 4 instructors. As well, to store and maintain the Ridership Growth Strategy buses, a new bus garage is required. The new garage is currently being completed at Mount Dennis.

Mount Dennis Bus Facility

The new Mount Dennis Bus Facility is projected to be operational by October 2007. This new facility was built in order to expand capacity for the TTC's growing bus fleet. Council approved a 2007 approved cash flow of \$30.842 million and \$1.470 million in 2008. The estimated final cost of the project is \$86.8 million. When the Mount Dennis Bus Facility opens it will result in incremental operating impacts of 71 positions in 2007 with an additional 4 positions in 2008 and incremental operating costs of \$1.996 million in 2007 and an additional \$5 million in 2008.

New Token Implementation

In January 2007, the TTC introduced a new token design in an effort to foil counterfeiting of its tokens. The new tokens are heavier than the old tokens and are transported in sacks carried by TTC employees. Because the new tokens are heavier, it requires more employees to move the same number of tokens. Consequently, the 2007 Recommended Operating Budget provides for 4 new positions, 2 Day Revenue Collectors and 2 Crew Chiefs at a cost of \$0.240 million. The TTC has agreed to review its token handling operations and to report back to the Budget Committee in 2007 on revisiting this issue based on 12 months experience with the new token.

TTC Budget Schedule

The TTC submits a budget to the Commission in November of each calendar year. Because 2006 was an election year, the Commission approved the 2007 Operating Budget in January 2007. This schedule is several months later than the City budget schedule and makes co-ordination of the TTC's budget with the City budget process extremely difficult. It is recommended that the Interim Chief General Manager and Chair of the TTC adjust the Commission's budget schedule in 2007 so that it matches the scheduled requirements of the City of Toronto's budget review process for 2008 and beyond.

2008 and 2009 Outlook Issues

Collective bargaining agreements, other employee costs, service requirements, energy needs, inflationary increases and the operating impact of capital projects will continue to exert at least \$61.8 million in pressure in 2008 and \$30.2 million in pressure in 2009. In 2008, the annualization of the Mount Dennis Bus Garage startup in the fall of 2007 will exert \$5 million in incremental

pressure. There will also be an on-going impact of \$24 million from increased growth in service and a \$9 million pressure from the 100 Ridership Growth Buses to be delivered in 2007. As well, there will be pressure from rising energy prices of \$12 million and general inflation which will add at least a \$4 million pressure each year.

It is imperative that the TTC continue to look at their base operations and examine:

- Delivery of services to increase the efficiency and effectiveness of TTC resources
- Creation of a three year plan and fare strategy, and
- Continued negotiations between the City, the TTC and the Province for sustainable long term funding.

Appendix 1

**Summary of Recommended Base Budget Changes
From 2006 Approved Budget**

(In \$000s)	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
		\$	\$	\$	\$	\$
2006 Council Approved Operating Budget	9,483.0	1,037,991.9	791,685.4	246,306.5	0.0	0.0
In-year approvals and technical adjustments	0.0	0.0	0.0	0.0		
Corporate adjustments	0.0	0.0	0.0	0.0		
2006 Approved Operating Budget	9,483.0	1,037,991.9	791,685.4	246,306.5	0.0	0.0
Prior year impacts		17,200.0	(8,624.0)	25,824.0	21,900.0	14,500.0
Zero base items				0.0		
Economic factors *		22,000.0	0.0	22,000.0	26,200.0	13,800.0
Adjusted Base Budget	9,483.0	1,077,191.9	783,061.4	294,130.5	48,100.0	28,300.0
Other base changes	339.0	10,161.6	0.0	10,161.6	25,700.0	20,900.0
Base revenue changes	0.0		28,050.9	(28,050.9)	(12,000.0)	(19,000.0)
Recommended Service Level Adjustments:						
Service efficiencies		(5,000.0)		(5,000.0)		
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	339.0	5,161.6	28,050.9	(22,889.3)	13,700.0	1,900.0
2007 Recommended Base Budget	9,822.0	1,082,353.5	811,112.3	271,241.2	61,800.0	30,200.0
2007 Program Operating Target	N/A	N/A	N/A	246,306.5	0.0	0.0
% Over (Under) Program Target				10.1%	25.1%	12.26%
% Over (Under) 2006 Appvd. Budget				10.1%	25.1%	12.26%

Note:

The TTC's current collective agreement ends on March 31, 2008. The 2008 outlook includes salary and benefit increases only for the first 3 months of the year. There is no salary and benefits increase included in the 2009 outlook. A one percent salary increase adds approximately \$7 million to the TTC's salary costs.

Appendix 2
Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2006 \$	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
			\$	\$	\$
TTC Stabilization Fund	XR1056	116.7	(100.0)		
Total Reserve / Reserve Fund Draws / Contributions		116.7	(100.0)	0.0	0.0