TORONTO TRANSIT COMMISSION
REPORT NO.

MEETING DATE: JANUARY 31, 2007

SUBJECT: 2007 TTC OPERATING BUDGET

RECOMMENDATION

It is recommended that the Commission:

1) Approve the 2007 TTC Operating Budget (summarized in Exhibit 1 - Revised) as described in this report and the following accompanying reports:

   - TTC 2007 Operating Budget Overview
   - TTC 2007 Departmental Goals & Objectives
   - TTC 2007 Organization Charts
   - TTC 2007 Detailed Operating Budget (Blue Book)

2) Consider this report in concert with:

   (a) the 2007 Wheel-Trans Operating Budget
   (b) the 2007-2011 Capital Program and 10-Year Capital Forecast

3) Note that based on flat-lined City of Toronto operating subsidy levels, the TTC 2007 Operating Budget includes a base budget shortfall of $34 million as summarized below:

Expenditures	$1,090.9 Million
Revenues*	811.1 Million
Subsidy Needed	297.8 Million
Estimated City Operating Subsidy	246.3 Million
Shortfall	$ 33.5 Million

*Based on current fare structure.

4) Approve the contribution of any 2006 net operating surplus to the TTC Stabilization Reserve Fund for utilization against the 2007 TTC Operating Budget shortfall.

5) Forward this report to the City of Toronto requesting approval of:

   (a) the City's 2007 Transit Operating subsidy to the TTC,
   (b) confirmation of the establishment of an additional long-term subsidy receivable in the amount of $17.6 million to cover post-retirement benefit non-cash expenses consistent with previous accounting treatment approved by Council, and

(c) the contribution of any 2006 net operating surplus to the TTC Stabilization Reserve Fund for utilization against the 2007 TTC Operating Budget shortfall.

6) Forward this report to the Ontario Minister of Transportation, the Honourable Donna Cansfield, the Ontario Minister of Public Infrastructure Renewal, the Honourable David Caplan, and to the Ontario Minister of Finance, the Honourable Gregory Sorbara, for information.

7) Forward this report to the Federal Minister of Transport, Infrastructure and Communities, the Honorable Lawrence Cannon, for information.

8) Forward this report to Rob McIsaac, Chair of the Greater Toronto Transportation Authority, for information.

BUDGET HIGHLIGHTS

The highlights of the 2007 TTC Operating Budget are as follows:

- Continuing growth in the economy and employment is expected in 2007.
- Ridership is expected to be 454 million in 2007, 18 million higher than the 2006 budget.
- Service levels in 2007 include 7.4 million hours and 207 million kilometres of service to accommodate a ridership level in the range of 452 to 454 million.
- Revenues (based on the current fare structure) will increase by about $32 million over the 2006 budgeted level primarily because of the increased level of budgeted ridership.
- Expenditures will increase by approximately $53 million primarily as a result of the impact of the 2005 Collective Bargaining Agreements (CBAs), significant energy price escalation, increased service costs to meet demand, and the opening of the Mount Dennis Bus Garage. Each of these is described in further detail in Part 3 of this report. Note: Certain revenue and expenditure items have been adjusted in this report from those included in the budget documents as a result of information that became available after publication.
- For purposes of this report, subsidy is shown as $246.3 million. Subsidy has been flatlined at the 2006 budgeted level based on the direction of the City Manager. This excludes a $17.6 million long-term subsidy receivable from the City with regard to post-retirement benefit non-cash expenses (consistent with previous accounting treatment approved by Council).
- Year-end workforce will increase by 583 positions: 369 additional TTC operating positions, 43 more in Wheel-Trans and an additional 171 capital positions. See Part 4 of this report for additional details.
- There currently exists an operating budget shortfall of about $33 million.

FUNDING

In 2006, the City of Toronto budgeted an operating subsidy for the TTC conventional system of $246.3 million (up from $228.5 million in 2005). This excluded approximately $17.0 million for post-retirement benefit non-cash expenses which are to be recovered through a long-term subsidy receivable (due to the TTC from the City). The estimated receivable for these post-retirement benefits is $17.6 million in 2007. For 2007, a subsidy level of approximately $279.8 million is required to balance the operating budget – assuming no fare increase and no service reductions and excluding the post-retirement benefit non-cash expenses. The following table illustrates the subsidy levels:

OPERATING SUBSIDY
($ Millions)

	2006 Budget		2007 Budget
Operating Subsidy Required *		258.9	279.8
Less: Stabilization Reserve Fund		12.6	-
		246.3	279.8
Operating Subsidy Available: - Provincial ** - City	 91.0 155.3	 246.3	 246.3***
Surplus / (Shortfall)		Ø	(33.5)

* The Operating Subsidy Required does not include post-retirement benefit non-cash expenses of $17.6 million ($17.0 million in 2005) which are to be financed through a long-term subsidy receivable from the City pursuant to City Council's direction of May 17, 2005.

** Provincial subsidy is based on the first 1¢ of Provincial Gas Tax money.

*** For purposes of this report, subsidy has been flat-lined.

Until the 2007 City transit operating subsidy is known, it is not possible to make recommendations on how to address this shortfall.

RIDERSHIP

Ridership is affected by numerous factors including employment levels, demographics, retail trade activity, travel and tourism patterns, service levels, transit fares, income levels, gasoline/automobile prices and vehicle parking availability and rates. Some of these affect ridership in the long-term such as demographics and income level. Others such as employment levels, tourism, retail trade and significant world events can have both short and long-term ridership consequences. Other than service levels and fares, key variables that impact ridership are largely beyond the control of the TTC. Ridership in 2006 was budgeted at 436 million reflecting the estimated impact of the fare increase in April 2006.

During 2006, the TTC has experienced a continuation of the positive trend in ridership growth that began in 2004, and ridership grew to 444.5 million. This continued growth in ridership is due to a number of factors including:

- Higher than forecast ridership growth generated by employment/economic activity;

- Strong sales growth of Metropasses reflecting:
    - The policy decision to "cap" the Metropass price below $100/month;
    - Continued growth of the VIP Program both in terms of new participants as well as increased volumes for existing customers;
    - Higher than anticipated switching of fare media categories due to the introduction of transferability in September 2005;
    - Introduction of the Federal Tax Credit in July 2006; and

- Lower than forecast ridership loss from the April 2006 fare increase.

A number of positive factors expected to contribute to continued ridership growth in 2007 are:

- Continued moderate employment and GDP growth in 2007 for the Toronto area economy. Recently published forecasts estimate GDP and employment growth for the Toronto CMA at 3.4% and 2.1%, respectively;
- Service adjustments to be introduced as part of the Ridership Growth Strategy; and
- The annualized impact of the Federal Tax Credit.

However, there are numerous risks that could negatively impact ridership growth in 2007 including:

- Sustainability of City of Toronto employment growth;
- Level of energy prices;
- Overcrowding;
- Concerns over terrorism and security; and
- Concerns over the next major health pandemic.

Based on the most recent economic forecasts for 2007 and the impact of planned improvements to service and fare offerings, TTC ridership is forecast to increase to 454 million in 2007. The ridership budget does not reflect any changes to the current fare structure in 2007.

2007 OPERATING BUDGET OVERVIEW

PART 1: Revenues

Passenger fares account for 95% of TTC revenues. Based on the current fare structure, farebox revenues are budgeted to be about $30.9 million higher than the 2006 Budget due to the higher projected ridership in 2007 (454 million versus 436 million in the 2006 Budget) and the annualized impact of the April 2006 fare increase. The supporting budget documentation reflect ridership and revenue based on 454 million rides in 2007.

Other revenues are expected to increase by about $1.2 million, as a result of modest increases in commuter parking and rental revenues as well as increased interest accrued on bank balances.

PART 2: Service

Service levels in 2007 are budgeted to accommodate a ridership level in the range of 452 to 454 million. 2007 service levels have been adjusted to include the annualized effect of service adjustments introduced in 2006, increases to compensate for traffic congestion, the implementation of Ridership Growth Strategy peak period service improvements in late 2007, savings associated with the opening of the Mount Dennis Bus Garage and, additional resources to support the anticipated growth in ridership to 454 million.

PART 3: Operating Expenses

The day-to-day expenses associated with running the TTC are budgeted to increase by approximately $52.9 million in 2006. The increases fall into the following areas:

1. Wage and Benefit Increases based on the CBAs: $25.6 million. The April 1, 2005 Collective Bargaining Agreements (CBAs) included wage increases of 2.75% / 3.00% / 3.25% effective April 1 in each of 2005, 2006 and 2007. The annualized impact of the April 1, 2006 wage increase ($5 million), together with the April 1, 2007 wage increase ($17 million) have been incorporated into the budget. An additional 0.5% pension contribution rate increase effective January 1, 2007 ($3 million) and other benefits improvements have also been included.

2. Energy Costs: $11.0 million. With the expiry of the previous two-year fixed diesel fuel contract on March 31, 2006, a new 21-month contract was entered into. This budget reflects the full year's impact of the April 1, 2006 price increase and also includes costs associated with the fleet-wide use of bio-diesel which began in June 2006 and the legislated use of ultra low sulphur diesel fuel which became effective in the fall of 2006 for an increase in diesel fuel costs of $11.7 million. Natural gas consumption will be lower due to the elimination of the CNG bus fleet in 2006 and prices are expected to be lower than previously budgeted, resulting in a $3.1 million reduction in costs in 2007. In addition, hydro costs (traction and AC power) are expected to increase by $3.8 million as a result of an estimated 9.7% increase in the average price per kwh. Of these increases, approximately $1.4 million has been assigned to the increased service costs noted in the following section. (Note: the budget documents reflect Energy Cost increases of $12.2 million. After publication, the City advised that the hydro rate increase should be reduced from 12.5% to 9.7% which resulted in a reduction in the budgeted 2007 hydro cost increase from $5.0 million to $3.8 million. Consequently, the Energy Cost increase shown here reflects a $1.2 million reduction from the published $12.2 million figure.)

3. Service Adjustments: $9.0 million. The primary drivers of this increase include: (a) the

annualized effect of the 2006 service additions to accommodate the 2006 budgeted ridership level of 436 million ($4 million); (b) the introduction of additional service to accommodate the 2007 budgeted ridership level of 454 million (at a cost of $4 million that will grow to $10 million in 2008) and; (c) the cost to support the introduction of peak service improvements as part of the Ridership Growth Strategy (at a cost of $1 million in 2007, which will grow to $9 million in 2008).

4. Other Employee Costs: $2.8 million. These costs are expected to increase by approximately $10 million in total mainly due to the impact of wages and benefit increases resulting from the CBAs, and higher healthcare and dental costs. Of this increase, approximately $5 million is attributable to the CBA and a further $2 million to the service increase and Mount Dennis garage opening – these increases have been included in those items noted above. Also, it should be noted that of the total Other Employee Costs budget, approximately $17.6 million has been incorporated into the budget for post-retirement benefit non-cash expenses (dental and healthcare) which will be covered through a long-term subsidy receivable from the City.

5. Workforce Changes in 2007: $2.1 million. This increase represents the cost in 2007 of new non-service workforce additions. The single largest component relates to the addition of 33 personnel associated with the second year of the 5-Year Subway Zone Patrol Strategy.

6. Accident Claims: $2.0 million. The increase in accident claims costs is based on a recent actuarial forecast of 2006 accident claim expenses and reflects actual experience over the past several years.

7. Mount Dennis Bus Garage: $2.0 million. This new bus garage is scheduled to commence operation in late 2007 resulting in the addition of 71 positions and increased costs of $2 million in 2007 with an annualized impact in 2008 of 75 positions and a cost of approximately $7 million.

8. Material Price Increases: $2.0 million. An allowance of 2% for CPI has been provided on purchases.

9. Workforce Changes in 2006: $1.5 million. This increase represents the annualized impact of additional non-service related positions added in 2006.

10. Unspecified Budget Reduction: $1.5 million. An unspecified budget reduction factored into the 2006 budget has been reversed in the 2007 budget.

11. Calendar Impact: $1.4 million. In 2007, there is one less Sunday and one more weekday resulting in increased service costs.

12. Property Taxes Decrease: ($7.2) million. This decrease reflects the anticipated exemption from property taxes as a result of the new City of Toronto Act coming into effect on January 1, 2007. If this exemption is not realized, in whole or in part, then, any remainder would need to be accommodated through a subsidy increase.

13. Other: ($0.8) million. All other changes net out to a decrease of about $0.8 million.

Exhibit 1 - Revised (attached) provides a summary of the Commission's 2007 budgeted revenues and expenditures and subsidy requirement.

PART 4: Workforce

Actual workforce strength will not normally exceed the monthly workforce budget except in the case of the Operator complement. In order to ensure that the service budget can be achieved, an annual hiring plan and training program is developed for Operators which takes into account projected requirements as a result of service changes, retirements, resignations or other turnover. An extended period of time is required in order to identify, pre-screen, hire, train and, qualify new Operators to ensure availability to meet the projected workforce requirement. As a result, the annual budget provides for these pre-hires, however, the year-end budgeted workforce remains unchanged. As failure to pre-hire would increase the risk that service would not be met (particularly in periods of increasing ridership), resulting in significant negative implications for customers and the Commission, staff are proceeding with the hiring plan consistent with the increased service requirements incorporated within the 2007 operating budget.

The Commission's 2007 workforce is budgeted at 11,466 which reflects a net increase of 583 positions due to the following:

(1) 369 additional TTC Operating positions largely required for: service requirements (241), the opening of the Mount Dennis Bus Garage (71), the second year of the 5-Year Subway Zone Patrol Strategy (33), the maintenance of various Safety/Security programs (7), the introduction of the new token (4), Proof-of-Payment enforcement (2) and various other staffing requirements (11).

(2) 43 additional positions for the Wheel-Trans system related to: Operator requirements (40) and Coach Technicians (2) and a dispatcher/reservationist position (1) for increased trip demand. Further details of the Wheel-Trans workforce are outlined in the 2007 Wheel-Trans Operating Budget.

(3) 171 additional Capital Program positions primarily needed for the following: Safety/Security related programs (37), Structure Maintenance Program (33), Streetcar Life Extension (26), various communications, wiring and signals projects (34), Speed Control/Train Stops/Automatic Train Operation programs (22), T1 Overhaul Program (13), New Subway Train (6), H6 Subway Car Overhaul Program (5), Roof Rehabilitation (4), SRT Trackwork (3), Spadina Subway Extension project (3), and various other capital projects (12). These increases are partially offset by a net reduction in various vehicle overhaul programs (27).

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

2008 OUTLOOK

For 2008, 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:

- wage and benefit impacts of the current Collective Bargaining Agreements (which expire March 31, 2008)
- the impact of the next set of Collective Bargaining Agreements
- annualization effects from:

    - service increases in 2007 to accommodate 452 to 454 million riders
    - implementation of Ridership Growth Strategy peak period service improvements in 2007
    - opening of Mount Dennis bus garage in late 2007
- changes in the level of service to accommodate 2008 ridership levels
- changes in the level of services requested by and provided to York Region Transit
- implementation of additional elements of the Ridership Growth Strategy
- future energy price increases (and availability of hydro rebate programs)
- future diesel fuel prices (current contract expires December 31, 2007)

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January 22, 2007
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Attachments: Exhibit 1 - Revised

Companion Reports: TTC 2007 Operating Budget Overview
TTC 2007 Detailed Operating Budget (Blue Book)
TTC 2007 Departmental Goals & Objectives
TTC 2007 Organization Charts