Form Revised: February 2005

TORONTO TRANSIT COMMISSION
REPORT NO.

MEETING DATE: NOVEMBER 14, 2007

SUBJECT: 2008 TTC OPERATING BUDGET

RECOMMENDATION

It is recommended that the Commission:

1) Approve the 2008 TTC Operating Budget (summarized in Exhibit 1) as described in this report and the supporting documents:

- TTC 2008 Operating Budget Overview
- TTC 2008 Departmental Goals & Objectives
- TTC 2008 Organization Charts

2) Consider this report in concert with:

(a) the 2008 Wheel-Trans Operating Budget
(b) the 2008-2012 Capital Program and 10-Year Capital Forecast

3) Note that based on current City of Toronto operating subsidy levels, the TTC 2008 Operating Budget includes a base budget shortfall of $14 million as summarized below:

Expenditures *	$1,158 Million
Revenues	872 Million
Subsidy Needed	286 Million
Current City Operating Subsidy	272 Million
Shortfall	$ 14 Million

* Includes no provision for the impact of the next Collective Bargaining Agreements. Each 1% increase in wages/benefits equates to about $8 million annually in the TTC Operating Budget ($6 million for the 2008 TTC Operating Budget).

4) Approve the contribution of any 2007 net operating surplus to the TTC Stabilization Reserve Fund for utilization against the 2008 TTC Operating Budget shortfall.

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

   (a) the required 2008 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 for 2008 consistent with previous accounting treatment approved by Council, and

   (c) The contribution of any 2007 net operating surplus to the TTC Stabilization Reserve Fund for utilization against the 2008 TTC Operating Budget shortfall.

6) Forward this report to the Ontario Minister of Transportation, the Ontario Minister of Public Infrastructure Renewal, and to the Ontario Minister of Finance, for information.

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

8) Forward this report to the Greater Toronto Transportation Authority, for information.

BUDGET HIGHLIGHTS

The highlights of the 2008 TTC Operating Budget are as follows:

- Continuing growth in the economy and employment is expected in 2008.

- Ridership is expected to be 464 million in 2008, 20 million higher than the 2007 adjusted budget of 444 million.

- Service levels in 2008 include 7.7 million hours and 213 million kilometres of service to accommodate a ridership level in the range of 464 million.

- Revenues will increase by about $61 million over the 2007 budgeted level primarily because of the increased level of budgeted ridership and the November 2007 fare increase.

- Expenditures will increase by approximately $75 million primarily as a result of increased service costs to meet demand and to implement both peak and off-peak elements of the multi-year Ridership Growth Strategy, the impact of the 2005 Collective Bargaining Agreements (CBAs), increases in benefit costs, higher costs for accident claims, bus part cost increases and, improved facilities maintenance. No provision has been included for the impact of the next CBAs effective April 1, 2008. Each of these is described in further detail in Part 3 of this report.

- For purposes of this report, subsidy is shown as $271.8 million. Subsidy has been assumed to be flat-lined at the 2007 budgeted level. This excludes a $17.6 million long-term subsidy receivable from the City with regard to 2008 post-retirement benefit non-cash expenses (consistent with previous accounting treatment approved by Council).

- Year-end workforce will increase by 414 additional TTC operating positions. See Part 4 of this report for additional details.

- There currently exists an operating budget shortfall of about $14 million (before factoring in the impact of the next CBAs effective April 1, 2008).

FUNDING

In 2007, the City of Toronto budgeted an operating subsidy for the TTC conventional system of $271.8 million. For 2008, a subsidy level of approximately $285.4 million is required to balance the operating budget – assuming no further fare increases and no service reductions and excluding the post-retirement benefit non-cash expenses. However, at this time, the City of Toronto has not confirmed that any increase in subsidy for 2008 will be forthcoming. Therefore, if subsidy is flat-lined at 2007 levels, there will be a shortfall of approximately $14 million as shown in the table below:

2008 Operating Subsidy Required	$ 285.4 Million	*
2007 Operating Subsidy	271.8 Million	
Shortfall	$ 13.6 Million	*

*Does not include any provision for the impact of the renegotiation of the Commission's Collective Bargaining Agreements (CBAs) which expire March 31, 2008. Each 1% increase in wages/benefits equates to about $8 million annually in the TTC Operating Budget ($6 million for the 2008 Operating Budget).

Note that the Operating Subsidy Required does not include post-retirement benefit non-cash expenses of $17.6 million ($17.6 million in 2007) which are to be financed through a long-term subsidy receivable from the City pursuant to City Council's direction of May 17, 2005.

Until the 2008 City transit operating subsidy is known, it is not possible to make recommendations on how to address the remaining 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 2007 was budgeted at 454 million (adjusted to 444 million – see below) increasing from 445 million rides in 2006.

During 2007, the TTC has experienced a continuation of the positive trend in ridership growth that began in 2005, and ridership is expected to grow to 462 million (restated to 452 million). This continued growth in ridership is due to a number of factors including:

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

- Higher than anticipated sales growth of Metropasses reflecting:
    - Continued positive impact of the Metropass "price freeze" in 2005 and 2006 which kept the monthly pass below $100;

    - Continued growth of the VIP Program both in terms of additional 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 and 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 2008 are:

- Continued moderate employment and GDP growth in 2008 for the Toronto area economy. Recently published forecasts estimate GDP and employment growth for the Toronto CMA at 3.7% and 1.4%, respectively; and

- Continued capture of new ridership due to underlying factors positive for transit including gasoline prices and support for environmentally friendly commuting modes.

Ridership in 2008 will be moderated by:

- The November 2007 fare increase which saw tickets/tokens increase by $0.15 per ride and Metropasses increase by approximately $9 per month; and

- The lowering of the trip rate used to book Metropass ridership. The rate declined recently reflecting the fact that the economics of the pass improved due to the introduction of transferability and the Federal Tax Credit. (It should be noted that, for comparability, <u>the original 2007 ridership budget of 454 million has been restated to 444 million to reflect the reduced Metropass trip rate.</u>)

Other risks that could negatively impact ridership growth in 2008 include:

- Sustainability of City of Toronto employment growth;
- Strength of the Canadian dollar;
- Level of energy prices; and
- Concerns over financial market liquidity.

Based on the most recent economic forecasts for 2008 and the impact of planned improvements to service and fare offerings, TTC ridership is forecast to increase to 464 million in 2008 (20 million higher than the 2007 adjusted budget). The ridership budget does not reflect any changes to the current fare structure in 2008 and does not provide for the introduction of the U-Pass.

2008 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 $58.3 million higher than the 2007 Budget due to the higher projected ridership in 2008 (464 million versus 444 million in the 2007 Budget) and the annualized impact of the November 2007 fare increase partially offset by the change in the fare media mix. The supporting budget documentation reflects ridership and revenue based on 464 million rides in 2008.

Other revenues are expected to increase by about $2.7 million, as a result of increased in cost recoveries for outside city services, increased advertising revenues, as well as modest increases in commuter parking, rental revenues and, increased interest accrued on bank balances.

PART 2: Service

Service levels in 2008 are budgeted to accommodate a ridership level in the range of 464 million. 2008 service levels have been adjusted to include additional resources to support the anticipated growth in ridership to 464 million, the annualized effect of service adjustments introduced in 2007, the introduction of both peak and off-peak Ridership Growth Strategy (RGS) service initiatives in late 2008, and increases in service to compensate for calendar adjustments, traffic congestion, construction and the impact of additional low-floor buses. The RGS off-peak service improvements include the provision of full day service on all routes to match the subway hours of operation.

PART 3: Operating Expenses

The day-to-day expenses associated with running the TTC are budgeted to increase by approximately $74.6 million in 2008. The increases fall into the following areas:

1. Service Adjustments: $20.9 million. The primary drivers of this increase include: (a) the introduction of additional service to accommodate the 2008 budgeted ridership level of 464 million (at a cost of $9 million), (b) the annualized effect of the 2007 service additions to accommodate the 2007 budgeted ridership ($5 million); (c) the cost to support the introduction of peak and off-peak service improvements as part of the Ridership Growth Strategy (at a cost of $4 million in 2008) and (d) the impact of calendar adjustments, construction and low-floor buses ($3 million).

2. Wage and Benefit Increases based on the current CBAs: $11.9 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, 2007 wage increase has been incorporated into the budget. An additional 1.0% pension contribution rate increase effective January 1, 2008 has been included. No provision has been made for the impact of the yet to be negotiated CBAs effective from April 1, 2008.

3. Other Employee Costs: $8.9 million. These costs are expected to increase by approximately $19.5 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 $7.1 million is attributable to the CBA and a further $3.5 million to the service increases – 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 2008 post-retirement benefit non-cash expenses (dental and healthcare) which will be covered through a long-term subsidy receivable from the City.

4. Accident Claims: $7.2 million. The substantial increase in accident claims costs is based on a recent actuarial forecast and the impact of legislated changes and actual experience. No-fault claims volume has increased by 10% in the first half of 2007 and no-fault claims costs are up approximately 25% over the past three years as a result of increased costs of adjudication and settlement.

5. Bus Parts: $4.6 million. Replacement parts on newer buses (especially hybrid buses) are significantly higher than on older standard (diesel) buses. The retirement of older buses combined with the increased volume of hybrid buses and buses coming off warranty account for this increase. It is anticipated that annual increases in this order can be expected for the next several years.

6. Facilities Maintenance: $4.1 million. A series of facilities maintenance initiatives are planned to get underway (or increase in volume) in 2008. The most significant ones amongst these include increases in surface track maintenance, non-destructive testing of rail (using a consultant and specialized equipment) and replacement of escalator steps.

7. Depreciation: $2.9 million. Included in the TTC Capital Budget are assets that are not fully funded by the TTC's funding partners (e.g. computer hardware and software, automotive non-revenue vehicles, tools and shop equipment, revenue collection equipment). The TTC share of the net cost of these assets is capitalized and amortized over their useful lives as depreciation expense is charged to the TTC Operating Budget. For 2007 and 2008, the TTC share is at relatively high levels and, as a result, there is an increase in the TTC depreciation expense amount.

8. Safety Culture Initiative $2.6 million: A consultant will be retained under a three year contract to develop and implement a comprehensive strategy aimed at cutting lost time occupational injury rates between 40% and 60%. Deliverables include leadership development, skills transfer, employee engagement in a behavioural safety program and software licensing. The costs for the contract will be offset in saving from WSIB costs, replacement labour and related savings. Our cost benefit analysis indicates that the program will generate positive cash flow in year 4 even with the minimum 40% reduction in injuries and will generate significant savings each year beyond that. The program is aimed at reversing a long term upward trend in occupational injury rates by transforming the basic safety culture and instilling safety as a value by employees at all levels in the Commission.

9. Workforce Changes: $2.5 million. This increase represents the cost in 2008 of new non-service workforce additions. The single largest component relates to the addition of 20 personnel associated with the third year of the 5-Year Subway Zone Patrol Strategy ($1.1 million). It should also be noted that 9 positions have been added in the ITS Department to replace contracted resources. This 2-3 year plan to convert external resources to TTC workforce is designed to ensure that required skill sets are retained to maintain and support applications critical to the Commission. This shift will also see an estimated savings in the order of $1.5 million annually upon completion (approximately $0.2 million in 2008).

10. Material Price Increases: $2.0 million. An allowance of 2% for CPI has been provided for inflationary increases on the purchase of goods and services.

11. Calendar Impact: $2.0 million. In 2008, there is one more weekday as a result of the leap-year which results in increased service costs.

12. Family Day: $1.5 million. The addition of this newly announced Provincial statutory holiday will result in increased labour and benefit costs of $1.5 million and lost revenues of approximately $1.0 million for a net $2.5 million unfavourable impact on the TTC Operating Budget.

13. System Cleanliness: $1.5 million. Introduction of an improved maintenance and cleanliness program for subway stations which will incorporate cleaning and replacement of ceiling slats as well as wall tiles and terrazzo floors, improved maintenance of public washrooms and, increased frequency of cleaning of track level walls and painting of station ceilings.

14. Training: $1.1 million. Increased training resources, including apprentices in the bus and subway vehicle maintenance areas, are required.

15. Other: $0.9 million. All other changes net out to an increase of about $0.9 million.

Exhibit 1 (attached) provides a summary of the Commission's 2008 budgeted revenues and expenditures and subsidy requirement.

Efficiencies

It should be noted that the operating subsidy per rider for the TTC (in 2007 $) has been reduced from 81 cents in 1992 to 60 cents in 2007 – a decline of more than 25% over the past 15 years. Over that same period, after adjusting for inflation, total operating subsidy has been reduced by $54 million from $326 million to $272 million.

Staff continue to seek cost savings or ways to avoid cost increases. Several initiatives have either commenced or will shortly and are expected to have a favourable financial impact on expenses in future years. These include the Safety Culture Initiative (to improve safety), a Health & Wellness program (to improve attendance) and, the conversion of contracted resources to employees (noted above). Most recently, a decision was made in August to lock-in diesel fuel prices for the calendar year 2008 at a rate slightly below the current contract. Based on current prices it is anticipated that this decision will save in the order of $7 million next year.

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 2008 operating budget.

The TTC operating workforce level is projected to be 10,249 at December 31, 2008; a net increase of 414 from the 2007 approved level of 9,835 and consists of: service requirements to meet the projected ridership level of 464 million and implement RGS service improvements (378), the third year of the 5-Year Subway Zone Patrol Strategy (20), system cleanliness and appearance improvements (19), non-service related training requirements (13), Health and Wellness resources to support the Commission's Attendance Management Program 2-year plan (9), the first year of a multi-year plan to convert a number of existing contracted IT project resources to TTC positions (9) and various other staffing net changes (5). These increases are offset by reductions due to the replacement of the CLRV truck/body operating program with the CLRV Streetcar Life Extension Overhaul capital project (-24) and the completion of ALRV Mid-Life Phase 1 work (-15).

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.

2009 OUTLOOK

For 2009, 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 next set of Collective Bargaining Agreements (effective April 1, 2008)
- annualization effects from:
  - service increases in 2008 to accommodate 464 million riders
  - opening of Mount Dennis bus garage ($9 million annually) and implementation of Ridership Growth Strategy peak and off-peak period service improvements in 2008 (approximately $31 million annually)
- changes in the level of service to accommodate 2009 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 (e.g. improved service, introduction of the U-Pass)
- future energy price increases (and availability of hydro rebate programs)
- future diesel fuel prices (current contract expires December 31, 2008)
- increasing costs for parts on newer vehicles

Once the CBAs are finalized, staff will provide the Commission with pro formas that cover the duration of these agreements.

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November 12, 2007
42-107-34

Attachments: Exhibit 1

Companion Reports: TTC 2008 Operating Budget Overview
TTC 2008 Departmental Goals & Objectives
TTC 2008 Organization Charts

EXHIBIT 1

TORONTO TRANSIT COMMISSION
2008 OPERATING BUDGET
($000s)

REVENUES	2007 BUDGET	2008 BUDGET	2008 vs 2007 BUDGET CHANGE
Passenger Revenues	769,000	827,300	58,300
Outside City Services & Charters	14,856	16,282	1,426
Advertising	14,700	15,400	700
Rent Revenue	8,261	8,411	150
Commuter Parking	2,452	2,656	204
Other Income	1,843	2,110	267
TOTAL REVENUES	811,112	872,159	61,047
EXPENSES			
CGM's Office	10,288	11,022	734
Engineering & Construction Branch	2,377	3,007	630
Executive Branch	67,081	69,312	2,231
Operations Branch	661,208	689,739	28,531
Other Employee Costs	196,500	216,000	19,500
Vehicle Fuel	59,882	64,917	5,035
Traction Power	34,543	33,420	(1,123)
Utilities	19,823	19,601	(222)
Depreciation	15,000	17,900	2,900
Taxes and Licences	2,386	2,260	(126)
Accident Claims & Insurance	24,196	30,788	6,592
Non-Departmental Expenses/Cost Recoveries	12,209	17,137	4,928
Unspecified Budget Reduction	(5,000)	-	5,000
TOTAL EXPENSES *	1,100,493	1,175,103	74,610
LESS: Post-Retirement Non-Cash Benefits **	(17,600)	(17,600)	-
NET EXPENSES	1,082,893	1,157,503	74,610
Operating Subsidy Required	271,781	285,344	13,563
2007 Operating Subsidy	271,781	271,781	
SHORTFALL	-	13,563	

* No provision for impact of Collective Bargaining Agreement effective April 1, 2008.

** Pursuant to City Council's direction, a long-term subsidy receivable from the City has been created to finance these expenses.