TORONTO TRANSIT COMMISSION
REPORT NO.

MEETING DATE: SEPTEMBER 18, 2008

SUBJECT: 2009 TTC OPERATING BUDGET

RECOMMENDATION

It is recommended that the Commission:

1) Approve the 2009 TTC Operating Budget (summarized in Exhibit 1) as described in this report and as set out in the 2009 TTC Operating Budget Overview document, and

2) Note that based on current City of Toronto operating subsidy levels and the current fare structure, the TTC 2009 Operating Budget includes a requirement for additional subsidy of about $87 million as summarized below:

Expenditures	$1,287 Million
Revenues	918 Million
Subsidy Needed	369 Million
2008 City Operating Subsidy	282 Million
Additional Subsidy Required	$ 87 Million

3) Approve the contribution of any 2008 net operating surplus to the TTC Stabilization Reserve Fund for utilization against the 2009 TTC Operating Budget, and

4) Direct staff to develop a multi-year plan that sets targets/goals for ridership levels, service initiatives, fares, revenue/cost ratios and, an overall strategy and financial model to address the fiscal challenges facing the TTC.

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

   (a) the required 2009 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 2009 consistent with previous accounting treatment approved by Council, and;

   (c) The contribution of any 2008 net operating surplus to the TTC Stabilization Reserve Fund for utilization against the 2009 TTC Operating Budget.

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

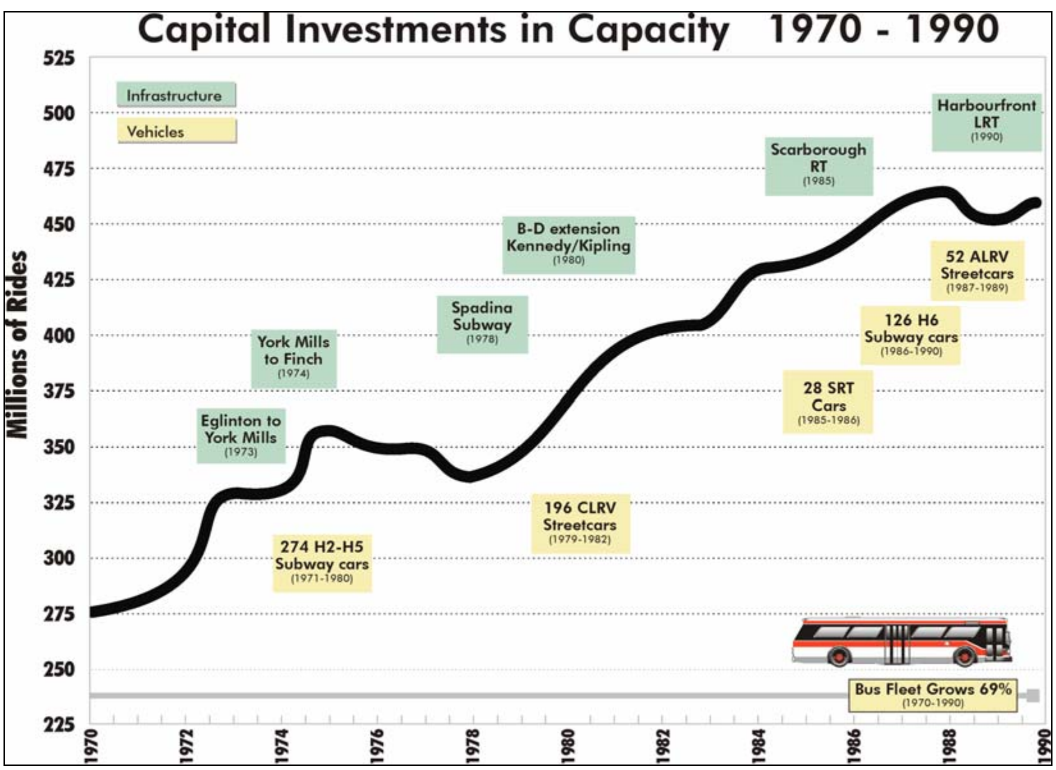
7) Forward this report to the Federal Minister of Transport, Infrastructure and Communities, for information.

8) Forward this report to Metrolinx for information.

BUDGET CONTEXT

Over the past several years, the TTC, with the support of City of Toronto, the Province of Ontario and the Government of Canada, has embarked on a series of initiatives to grow ridership. Since 1996, ridership has grown by about 30% while the City of Toronto population grew by about 10%. Undoubtedly, economic growth and high gasoline prices have contributed to this, however, it is also clear that the Ridership Growth Strategy has been effective in helping ridership outstrip population growth.

The last time the TTC has seen sustained growth well in excess of population growth was during the 1970s and 1980s. This was a 2-decade long period of systematic expansion of the rail system and extending bus service to all areas of the City (then called Metro Toronto). This was coupled with both sustained long-term funding (both operating and capital) and the "Users Fair Share" formula (having riders cover 68% of the cost of operating the system on a day-to-day basis and the Province and municipal governments sharing equally in the operating deficit). The result: a 70% growth in ridership compared to a population growth of 10%. The chart below clearly illustrates just how successful this strategy was.



It wasn't free. Significant capital and operating investments over the long haul were absolutely essential. Riders had to pay their share, but the results are undeniable.

The growth over the past decade or so proves that history can repeat itself. While some of the growth can be attributed to the recovery and rebound from the economic recession of the early 1990s, that recovery was in full swing by the turn of the century. This growth also hasn't been free. The Commission has invested significant amounts in bringing the system into a state-of-good repair. Fleets either have been or are in the process of being replaced with state-of-the-art new transit vehicles. Fixed assets are being modernized. In addition, the TTC's Revenue/Cost ratio has been systematically reduced from about 85% in the year 2000 to 76% in 2008. Clearly, the 3-fold plus increase in the cost of diesel fuel over the past few years ($30 million budget in 2005, $105 million in 2009) has been a contributor to this reduction. However, even more important has been the implementation of the Ridership Growth Strategy.

Under this strategy, the Commission has: (1) markedly improved off-peak service, (2) added 100 new buses to the fleet to increase bus service during rush hours, and is in the process of: (3) matching surface operating hours to the subway operating hours and (4) moving towards having all surface service operating at a maximum frequency of a vehicle every 20 minutes or less during off-peak hours. This represents the largest expansion in service in decades. And it's working.

At an 85% Revenue/Cost ratio, the Commission was hamstrung in attempts to add service to grow ridership. Adding service to allow ridership to grow simply wasn't possible. The Ridership Growth Strategy called for the intentional reduction to permit service improvements.

The 2009 budget continues this. Over $60 million dollars in extra service is being added. Much of this is the full-year cost of the service being added in the Fall of this year, but more is being done in 2009. Part 2 of this report provides full details. Just as the trend to enhanced service is being continued in 2009, unfortunately, so too is the trend to higher cost fuel. The budget for diesel fuel is up by almost $40 million. While the TTC will continue with its long-term strategy for locking in futures contracts to provide budget certainty, there's no doubt the quantum of fuel expenditures has jumped markedly.

Transit City, MoveOntario 2020 and the expansion of the Spadina Subway into York Region all point to an era of rail expansion to rival or surpass the expansion in the 1970s, and 1980s. The citizens of Toronto and the GTA have demonstrated over the past decade that they will use the system. All that's left to set the stage for a repeat of the growth in those remarkable decades is sustained, long-term predictable capital investment and operating funding and a long-term affordable target for the share to be paid by our riders.

BUDGET HIGHLIGHTS

The highlights of the 2009 TTC Operating Budget are as follows:

- Continuing growth in the economy and employment is expected in 2009.
- Ridership is expected to be 480 million in 2009, 16 million (3.4%) higher than the 2008 budget of 464 million.
- Revenues will increase by about $46 million over the 2008 budgeted level

primarily because of the increased level of budgeted ridership.

- Service levels in 2009 include 8.4 million hours (up 9%) and 226.5 million kilometres (up 6%) to accommodate a ridership level in the range of 480 million and to improve the quality of service to our customers.

- Expenditures will increase by approximately $133 million over the 2008 budgeted level. This increase is primarily a result of the annualized cost of service introduced in 2008, service required to maintain standards to meet estimated ridership demand in 2009 and to improve the quality of service, and a substantial increase in the Commission's energy costs (together these elements account for over 70% of the total increase). Major changes in expenditures are described in further detail in Part 3 of this report. No provision has been included for the impact of the yet-to-be finalized Collective Bargaining Agreements (CBAs) effective April 1, 2008, pending the outcome of the arbitration process currently underway.

- Cost containment measures that the Commission has undertaken are detailed in the section entitled "Cost Containment Measures" later in the report. Everything from diesel fuel to accident claims to energy conservation to safety and absenteeism improvements to staffing options are being examined to minimize costs.

- For purposes of this report, subsidy is shown flat-lined at the 2008 budgeted level of $282.6 million. This excludes the anticipated receipt of additional subsidy to address the financial impacts of the CBAs and a $17.6 million long-term subsidy receivable from the City with regard to 2009 post-retirement benefit non-cash expenses (consistent with previous accounting treatment approved by Council).

- Year-end workforce will increase by 567 additional TTC operating positions. See Part 4 of this report for additional details.

- There currently exists a requirement for additional subsidy of about $87 million.

FUNDING

In 2008, the City of Toronto budgeted an operating subsidy for the TTC conventional system of $282.6 million. A subsidy level of approximately $369.3 million is required to balance the operating budget next year – assuming no further fare increases and no service reductions and excluding the post-retirement benefit non-cash expenses and before the impact of the CBAs in each of 2008 and 2009. At this time, the City of Toronto has not confirmed the 2009 subsidy level and, therefore, if subsidy is flat-lined at the 2008 level, additional subsidy of $86.7 million is needed as shown below:

2009 Operating Subsidy Required	$ 369.3 Million
2008 Operating Subsidy	282.6 Million
Additional Subsidy Required	$ 86.7 Million

To address this additional subsidy requirement, there are essentially three options available:

(1) reduce expenditures, (2) increase revenues, or (3) increase subsidy. Firstly, staff continues to seek savings or ways to contain cost increases. A whole host of initiatives have been implemented or are being pursued that are expected to have a favourable financial impact on expenses immediately or in future years (see Part 3 of this report). Given the long list of cost containment measures the TTC is already undertaking, the solutions to balance the budget will come down to some combination of service, fares and subsidy.

Cutting service would be completely inconsistent with all of the Ridership Growth Strategy initiatives that have been so successfully implemented this decade. TTC surveys of both current and potential riders consistently show that high service levels and quality are the most effective contributors to growing ridershp.

Trying to balance the budget solely through fares would also be problematic. Reasonable fares are sustainable, however, history shows us that huge fare increases can have detrimental impacts. During 1992 and 1996 when the TTC was forced to implement double fare increases, ridership fell markedly. The TTC provides a high level of service city-wide. A high share of the cost of that service has always been paid for by riders and that should continue. The job at hand is finding a reasonable balance.

Covering the entire amount through increased subsidies also comes with some long-term risk. An over reliance on subsidies is especially problematic during economically uncertain times. If municipal tax revenues drop in response to economic decline, pressure to reduce transit subsidies will undoubtedly follow. That could result in the need for a double whammy on fares: the need to cover inflationary and cost pressures in the transit operation and the need to compensate for reduced subsidies. In economically uncertain times, this can have disasterous consequences. This is exactly what happened in the early 1990s. The City was in a recession. Subsidies were cut by 40% from 1992 to 1996. Fares were raised to compensate. As ridership fell, service was cut. The result: ridership fell almost from over 459 million in 1990 to 372 million in 1996 (a 19% drop). It took 12 years to recover from that decline.

All of this harkens for a comprehensive, long-term funding solution.

The fiscal challenge facing the Commission in 2009 is not unique nor is it short-term: transit of and by itself is not a money-maker. While the TTC's revenue/cost ratio (currently at 76%) is amongst the highest for municipal transit agencies - not only in Canada and North America, but, around the world - it is projected that for each rider in 2008, the Commission will receive about 61 cents in subsidy. While not insignificant, this is still substantially less than the subsidy level of 81 cents per rider (in 2007$) received in 1992 and is significantly below the subsidy per rider levels of many other transit agencies. Multi-year projections (see the Outlook section at the end of this report) indicate that the Commission will continue to face significant additional incremental funding requirements.

In addition to addressing the 2009 situation, it is proposed that staff develop a multi-year plan including setting targets for ridership levels, service initiatives, the fare structure, revenue/cost ratios, and an overall strategy and financial model to address the fiscal challenges projected over the next five years.

DISCUSSION: Operating and Capital Connection

The TTC is charged with the responsibility for providing efficient, safe and affordable public transit to the residents of the City of Toronto. The Commission's Operating and Capital budgets attempt to strike the correct balance between keeping the existing system operating efficiently and in a state-of-good-repair, while meeting the needs of our riders and maximizing the use and life of assets and providing for incremental expansion of both service and the overall transit network.

While the existing transit network must remain our first priority, with the rapid growth in the GTA and the City of Toronto over the past decade or so, and with the projected growth in population, employment and economic activity projected for the region over the coming decades, there is clearly a need to significantly expand Toronto's (and the GTA's) transit network. TTC's annual ridership level has grown from 372 million in 1996 to a forecast of 480 million in 2009: almost 30% growth at a time when the City of Toronto population has grown by approximately 10%. As in the 1970's and 1980's, continuous investment (both capital and operating) in new or improved transit capacity is required to sustain ridership levels and achieve ridership growth. The TTC's long-term plans for accommodating the growth envisioned by the City of Toronto's Official Plan were outlined in the 2009-2013 Capital Program and 10 Year Capital Forecast considered and approved by the Commission at its meeting of August 27, 2008. Key elements of the Capital Program include the following:

The Subway System

- Toronto Rocket (TR) Trains: 234 new subway cars are on order; they will be three times more reliable than the most reliable cars (T1) and can carry an extra 10%-13% more riders than current trains.

- YUS Re-Signaling and Automatic Train Operation: By replacing the existing 50 year-old signaling system on the Yonge Subway line with industry standard, state-of-the-art signaling equipment and equipping the line with automatic train control, closer headways (the time between trains) coupled with the new TR subway trains will result in a significant increase in carrying capacity and regularity of service will be improved.

- Union Station 2nd Platform: This project will help alleviate current overcrowding and will significantly increase the passenger boarding capacity of the station and should markedly reduce the dwell time for trains loading and off-loading customers; contributing to more regular service on the YUS subway.

- The Toronto-York Spadina Subway Extension (TYSSE) project is a $2.6 billion, 8.6 km extension of the Spadina Subway line that will involve the construction of six new stations: three will be located in Toronto, two in York Region, and one will straddle the boundary line between Toronto and York Region. The extension will run from the existing Downsview Station to Vaughan Corporate Centre and will span 6.2 km in Toronto and 2.4 km in York Region. It is anticipated that revenue service will commence in late 2015.

The Scarborough RT

- The SRT has been operating at capacity during rush hour for several years, with supplementary bus service in place to attempt to handle the growth. The existing Mark I cars are nearing the end of their useful life and it is intended that 36 new cars be purchased to replace this fleet and expand service to accommodate ridership growth. It is expected the new vehicles will be larger than existing vehicles, so the scope will include modifications to upgrade and convert the existing infrastructure. It is anticipated that these state-of-good-repair projects will be combined with the MoveOntario 2020 Rapid Transit Program initiative to extend the existing line to the vicinity of Malvern Town Centre.

Bus Fleet

- The Commission is in the process of replacing its aging buses with modern, accessible hybrid buses (370 over the next five years). Once completed, the TTC will have the largest fully accessible bus fleet in Canada and the largest hybrid fleet by far in Canada.

Streetcar and LRT Network

- The existing Streetcar Lines are all either freshly rehabilitated or are in the process of being rehabilitated. Where practical, such as on St. Clair Avenue, the lines have been converted to lines within separated right-of-ways to remove them from mixed traffic in an effort to improve the regularity of the service. Lastly, and most importantly, a new fleet of 204 accessible modern LRV's (Light Rail Vehicles) will be procured over the next few years to replace the aging existing fleets that are approaching the end of their useful life and a replacement LRV Maintenance and Storage Facility will be constructed in the Central area of the City to accommodate these vehicles.

Transit City

- Since the June 2007 announcement by the Province of Ontario of $17.5 billion in funding for the implementation of the MoveOntario 2020 Rapid Transit Program, considerable progress has been made on advancing the LRT lines contemplated under the Commission's Transit City Plan including: Sheppard East LRT, Etobicoke-Finch West LRT, Eglinton Crosstown LRT, Don Mills LRT, Jane LRT, Scarborough-Malvern LRT and, Waterfront West LRT. Transit City implementation objectives for the first priority lines include Sheppard (2013), Finch (2014), and, Eglinton Crosstown (2016).

Other

- Other initiatives of note within the Capital Program include:

    - The Station Modernization Program involves upgrading and modernizing both indoor and outdoor public spaces on the Bloor-Danforth Subway.

    - Improvements to accessibility in accordance with the Accessibility for Ontarians with Disabilities Act (AODA) requires full accessibility by 2025. The TTC is moving forward to achieve this goal with its bus fleet by 2010, its stations by 2020 and light rail by 2018. As well, the TTC is moving forward with plans for the procurement of 198 Wheel-Trans vehicles to replace and expand the existing fleet.

- An integrated ticketing system is being developed (GTA Farecard Project) to implement an automatic farecard (smartcard) system.

The plans are practical and achievable, but, they are dependent upon funding from all three orders of government – for both the capital funding to acquire or build them and the operating funding to operate and maintain them. It is anticipated that the Regional Transportation Plan to be released by Metrolinx this fall will begin to address these urgent needs and, it is hoped, lead to the funding commitments necessary to achieve them. In the near term, the TTC must continue to address the demand for its services and the plans to do so in 2009 are set out in the balance of this report and in the 2009 TTC Operating Budget Overview document.

RIDERSHIP

Ridership is affected by a combination of 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 longer-term such as demographics and income level. Others such as energy prices, 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.

As shown in the following table the TTC has experienced moderate ridership growth during 2008 reflecting the net impact of various factors, and year-end ridership is now forecast at 466 million (compared to the budget of 464 million). This estimate reflects the impact of the reduced forecast of employment/economic activity for the City of Toronto in the second half of the year, being offset by ridership gains from new riders attracted to transit by increased service and the high price of fuel.

Millions	2008 BUDGET	2008 PROBABLE	2009 BUDGET	2009 BUDGET vs 2008 BUDGET
Ridership	464	466	480	16

For 2009, continued moderate economic and employment growth for the Toronto area economy and the continued capture of new ridership due to underlying factors positive for transit including gasoline prices and support for environmentally friendly commuting modes, together with planned service increases, are expected to be key drivers towards increasing ridership to 480 million rides. This represents an increase of 16 million (3.4%) from the 2008 budgeted level and 14 million over the 2008 year-end probable of 466 million. These ridership projections do not reflect the impact of any changes to the current fare structure or mix.

2009 OPERATING BUDGET OVERVIEW

Preparation of the 2009 TTC Operating Budget has been advanced by approximately two months compared to prior years in order to meet the budget timelines established by the City of Toronto. This has resulted in the need to make earlier than anticipated projections for many budget elements – most notably for ridership. Consequently, there may be a requirement to amend certain revenue or cost elements following Commission approval (and before City Council considers the budget in late March of 2009). Any such amendments will be brought to the attention of the Commission for consideration. In addition, greater than usual variance in some elements of the budget may be experienced as a result. The budgets for diesel fuel, accident claims and the Commission's Collective Bargaining Agreements represent management's best estimates. Those figures will be finalized before the time City Council approves its operating subsidy figure early next year.

PART 1: Revenues

Passenger fares account for almost 95% of TTC revenues. Based on the current fare structure, farebox revenues are budgeted to be about $37.1 million higher than the 2008 Budget due to the higher projected ridership in 2009 (480 million versus 464 million in the 2008 Budget). The supporting budget documentation reflects ridership and revenue based on 480 million rides in 2009.

Other revenues are expected to increase by about $8.8 million, as a result of increased cost recoveries for outside city services, increased advertising revenues, increased commuter parking lot revenues from the introduction of paid parking at all locations, as well as modest increases in rental revenues and interest earnings.

PART 2: Service

Service levels in 2009 are budgeted to accommodate a ridership level in the range of 480 million. This includes 8.4 million hours and 226.5 million kilometres of service which represent increases over 2008 levels of approximately 9% in service hours and 6% in service kilometres. 2009 service has been adjusted to include: additional resources to maintain service standards and to support the anticipated growth in ridership to 480 million; the annualized effect of service adjustments introduced in 2008 including, the introduction of both peak and off-peak Ridership Growth Strategy (RGS) service initiatives in late 2008 (most notably the matching of surface routes to subway hours of operation); the opening of Mount Dennis Bus Garage, and; increases in service to compensate for calendar adjustments, traffic congestion, construction and changes to vehicle design. For 2009, additional resources have been incorporated into the budget to implement the first phase of RGS improvements to operate all routes at frequencies of 20 minutes or better and for streetcar services primarily associated with the implementation of service reliability measures on 501 Queen. Also, an allowance has been incorporated to provide service to accommodate ridership from adoption of a U-Pass by a major post-secondary institution in the Fall of 2009.

PART 3: Operating Expenses

The day-to-day expenses associated with running the TTC are budgeted to increase by approximately $132.6 million (about 11%) in 2009. While every effort is made to contain costs, there are some costs that the Commission has little ability to control (about one-quarter relates to energy cost increases) and there are others which are necessary in order to support significant improvements that have been made (or are planned) for TTC services and infrastructure for the benefit of riders and the City of Toronto (approaching one-half of the increase relates to additional service in 2009). Costs increases related to energy consumption and service adjustments account for over 70% of the total increase.

COST CONTAINMENT MEASURES

Numerous strategies have been employed and various efficiencies have been achieved over time which have resulted in the operating subsidy per rider for the TTC (in 2007 $) having been reduced from 81 cents in 1992 to 61 cents in 2008 – a decline of 25% over the past 16 years. Over that same period, after adjusting for inflation, total operating subsidy has been reduced by about $44 million from $326 million to $282 million. Also, the Commission's revenue/cost ratio (currently at 76%) continues to exceed most other North American and International municipal transit agencies (examples include Montreal at 59%, New York at 62%). Following is a list of current cost saving initiatives and improvements:

1. Diesel Fuel – in the fall of 2007, action was taken to lock-in the price for the Commission's 2008 diesel fuel requirements at a rate slightly below the previous contract price and, as it turns out, substantially below prevailing rates in 2008. Conservatively, this action resulted in savings of over $25 million against the 2008 operating budget. Staff is currently monitoring the futures market for 2009 with the intent of taking similar action to protect against significant variations in the price for diesel fuel for the upcoming year.

2. Bio-diesel fuel – at its meeting of August 27, 2008, the Commission approved the discontinuation of the use of bio-diesel in 2009 which will reduce fuel costs by approximately $1.5 million annually.

3. Conversion of contracted IT resources to staff positions - will reduce costs, retain critical skills within the TTC and provide business continuity. Total annual savings in the order of $1.7 million are expected upon full implementation.

4. Elimination of Adult Tickets – in June 2008, the Commission approved the elimination of Adult tickets as a defensive measure against increasing levels of fare media counterfeiting. It is expected that such action will reduce future revenue losses by between $3 million to $4 million annually.

5. Accident Claims – in an effort to contain the ever-increasing cost of accident claims, the TTC has made submissions to the Province seeking an exemption for all public transit from no-fault insurance. This initiative, if successful, has the potential to save many millions of dollars. Interim corrective action to curb the rising cost of adjudicating and defending claims includes the continued use of in-house TTC legal professionals rather than outsourcing. Staff resources have been beefed up in the summer of 2008 to help the Commission deal with this in a responsible way.

6. Energy Conservation, Efficiency and Demand Response Measures – as part of its Environmental Plan supporting the City of Toronto's Climate Change, Clean Air and Sustainable Energy Action Plan, over the last year or so, the Commission has embarked upon detailed energy reviews of some of its facilities and has developed energy management action plans. The 2009 – 2013 Capital Program includes funds of up to $3.0 million per year for energy management projects.

7. Safety Culture – A consultant has been retained under a three year contract to develop and implement a comprehensive strategy 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. Deliverables include leadership development, skills transfer, and employee engagement in a behavioural safety program. It is anticipated that the cost of the contract will be offset by savings from WSIB costs, replacement labour and related savings associated with a reduction in occupational injuries over time.

8. Attendance Management Program/Health & Wellness – analysis of current absence rates and trends has identified a requirement to increase pro-active case management of both short term illnesses and long-term absences and to provide more opportunities for alternate work for employees with medical restrictions. Results from a pilot exercise have indicated that the sick day absence rate decreased by about 5% (while non-pilot locations rates increased by about 2%) and it is, therefore, proposed to roll out this program commencing in 2009. This strategy is consistent with and supports the corporate culture shift initiative: Work Safe – Home Safe.

9. Green Procurement Policy – recognizing the importance that its purchasing decisions can make in contributing to environmental issues, on July 10, 2008, the Commission approved a Green Procurement policy to ensure that an environmentally responsible approach is taken in its procurement activities, all designed to achieve the lowest life-cycle cost after incorporating on-going maintenance and disposal costs in addition to initial purchase price.

10. Wheel-Trans - a voluntary comprehensive travel training program to demonstrate the "real life" benefits of TTC's accessible conventional transit network comprised of 28 accessible subway stations and 136 accessible bus routes by the end of 2008 (with all routes accessible by the end of 2010). In addition, new accessible taxi service contracts beginning in 2009 will raise the quality of service provided to customers and increase the availability of accessible taxis in the community. Other planned improvements include internet trip booking, confirmations and improved telephone response times.

11. Geospatial Initiatives - an updated TTC website which is more accessible, more user friendly and with enhanced functionality was launched this summer. In addition, next bus and next train arrival systems are being launched this fall to provide customers with real-time information related to the arrival of the next vehicle. An e-commerce initiative to allow customers to procure Metropasses over the internet and an internet trip planning tool are planned for implementation in 2009.

12. Hire in-house engineering staff instead of more expensive external consultants where a long-term need exists. The dollar savings from this has been incorporated into the 2009-2013 TTC Capital Budget.

13. Property Development Plan – a review has been undertaken with a view to more fully take advantage of the untapped potential of transit properties. While this will have a longer-term impact, steps are underway to move on these initiatives.

The $132.6 million in cost increases in the 2009 budget fall into the following areas:

1. Service Adjustments: $60 million. The primary drivers of this increase include: (a) the annualized effect of the 2008 service additions to accommodate: the 2008 budgeted ridership level of 464 million ($10 million), the introduction of peak ($8 million) and off-peak ($22 million) service improvements as part of the Ridership Growth Strategy and, the annualized impact of opening Mount Dennis Bus Garage ($6 million), (b) the introduction of additional service to accommodate the 2009 budgeted ridership level of 480 million (at a cost of $9 million), and (c) the introduction of the first phase of RGS improvements to operate all routes at frequencies of 20 minutes or better and for streetcar services primarily associated with the implementation of service reliability measures on 501 Queen ($5 million). The total cost of service identified here includes an allocation for diesel fuel ($9 million) and other employee costs/benefits ($10.1 million).

2. Diesel Fuel: $31 million. Based on annual consumption in the order of 84 million litres for current levels of service and based on diesel futures prices as at August 25, 2008, it is estimated that diesel fuel costs will increase by $31.0 million. An additional $9.0 million has been incorporated into the service expense line noted above to reflect the fuel requirement for the increased level of service planned for 2009.

3. Other Employee Costs: $11.6 million. These costs are expected to increase by approximately $21.7 million in total mainly due to the impact of increased workforce levels, associated labour costs and, inflationary and utilization increases for both healthcare and dental benefits. Of this increase, approximately $10.1 million is attributable to the service increases and has been included in the service adjustment item noted above. It should also be noted that of the total Other Employee Costs budget, approximately $17.6 million has been incorporated into the budget for 2009 post-retirement benefit non-cash expenses (dental and healthcare) which will be covered through a long-term subsidy receivable from the City.

4. Workforce Changes: $4.9 million. This increase represents costs associated with the annualized effect of workforce additions in 2008 and the cost of new workforce additions in 2009 that are not directly involved with the operation of new service. The principal drivers of this increase include the following required positions: 18 positions for training unrelated to new service additions, 11 for geospatial information systems (web site, next bus/next train arrival, e-commerce), 9 for the conversion of contracted IT resources, 9 associated with increased accident claims work, 6 for the elimination of adult tickets, 5 for the Attendance Management Program, 3 for Property Development initiatives and 3 for increased bus collision repair work.

5. Accident Claims: $4 million. Costs are expected to increase based on a recent actuarial forecast and the impact of legislated changes and actual experience which has shown escalating costs associated with the adjudication and settlement of accident claims. This increase will be further reviewed pending receipt of an updated actuarial forecast in late October.

6. Health and Safety Initiatives: $3.7 million. In support of the Safety Culture initiative, 20 positions have been added to assist in the behavioural accident prevention process through regular observations of work, analysis of data collected, identification of trends and removal of barriers to safe behaviour. In addition, 7 positions have been added to address the backlog of work orders issued for construction (many of a safety critical nature).

7. Other Energy: $3.6 million. Excluding diesel fuel, energy costs for hydro (traction power and AC power), natural gas and water are projected to increase as a result of rate increases, consumption increases and allowances for premiums associated with the acquisition of green power.

8. Facilities Maintenance: $3.1 million. Various initiatives in support of the maintenance of infrastructure and facilities are planned for 2009 including: the engagement of consultants to (i) make recommendations about minimizing electrical flashes caused by arc welding practices in order to reduce the risk of fire and explosion, (ii) develop standards regarding computer systems used for communications, and (iii) develop confined space entry plans; the replacement of subway radios, escalator steps, platform edge tiles, and glass; window polishing to remove scratchitti; structural inspection program improvements; additional prefabricated offices/trailers for various work sites; energy audits; and increased Ontario Fire Code inspections.

9. Depreciation: $2.8 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 2008 and 2009, the TTC share is at relatively high levels and, as a result, there is an increase in the TTC depreciation expense amount.

10. Material Price Increases: $2.6 million. A general allowance of approximately 2% for CPI has been provided for inflationary increases on the purchase of goods and services, other than those noted specifically above.

11. System Cleanliness/Appearance: $2 million. A continuation of the program introduced in 2008 to improve maintenance and cleanliness of the subway stations will include, for 2009, various wall tile, terrazzo floor, and ceiling work. In addition, a scratchitti abatement program on all rail vehicles will commence. Specifically, all internal glass on these vehicles will be covered with a scratch-resistant film which can be replaced more quickly and at a cheaper cost compared to glass.

12. Property Taxes: $1.4 million. Based on 2008 assessments, property taxes on certain properties have not been exempted under the City of Toronto Act and taxes on commuter parking lots are expected to increase in 2009.

13. Subway Zone Patrol Strategy: $1.3 million. The next phase of this multi-year plan (which commenced in 2006) to enhance public safety and security requires an additional 20 positions.

14. Other: $0.6 million. All other changes net out to an increase of about $0.6 million.

Notes:

- No provision has been incorporated into the 2009 budget with regard to the Collective Bargaining Agreements that expired March 31, 2008 pending the outcome of the arbitration process.
- The actual amount required for diesel fuel is subject to confirmation once a decision is made to lock-in the price for 2009.
- The actual amount required for accident claims is subject to confirmation pending an actuarial review of current year experience in late October.

Exhibit 1 (attached) provides a summary of the Commission's 2009 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 2009 operating budget.

The TTC operating workforce level is projected to be 10,816 at December 31, 2009; a net increase of 567 from the 2008 approved level of 10,249 and consists of: service requirements to meet the projected ridership level of 480 million and implement RGS service improvements (418), Health and Safety requirements, mainly Safety Culture initiatives (27), system cleanliness and appearance improvements (21), the upcoming year of the multi-year Subway Zone Patrol Strategy (20), training unrelated to new service requirements (18), Geospatial Information System Initiatives (11), the final year of a multi-year plan to convert a number of existing contracted IT project resources to TTC positions (9), additional staff to handle an increase in accident claims workload (9), elimination of adult tickets to tackle ticket counterfeiting (6), Health and Wellness resources to support the Commission's Attendance Management Program (5), additional resources for the Mount Dennis bus garage (3), resources to deal with various property development initiatives (3), an increase in bus collision work (3) and various other staffing net changes (14).

In a labour-intensive operation, additional service comes with labour resources to operate and maintain that service. The following table demonstrates that the TTC has been effective in controlling headcount with respect to ridership growth and population growth.

	1996 to 2009
Population Change	+10%
Ridership Change	+29%
Service Level Change	+31%
Operating Budget Workforce Change	+26%

Each revenue and expenditure element shown above, as well as the workforce changes, is described in greater detail in the 2009 Operating Budget Overview document.

FUTURE OUTLOOK

As a preliminary part of the process to develop a multi-year strategy, a five-year pro forma projection of revenues and expenditures has been prepared based on the following assumptions:

- ridership will increase by about 3% per year on average (over the 2008 base)
- fares will remain unchanged from current levels
- the fare mix will remain as at present
- revenue increases are primarily a function of the increased ridership
- service initiatives in place, or to be introduced in 2009, will remain
- service adjustments are predominantly related to maintaining service standards and meeting the ridership forecast
- a new LRV carhouse will open in 2012
- the impact of Transit City Plan initiatives will begin to occur in the later years of this period
- labour costs are as per the Collective Agreements expired March 31, 2008
- accident claims and energy costs are estimated to increase at 10% per year
- all other costs are estimated to increase in line with current experience or based on actual or anticipated contractual commitments
- subsidy available has been flatlined at the 2008 level

The following table summarizes the estimated ridership, revenues, expenses, subsidies, and revenue/cost ratios for the next five years.

2009-2013 PRO FORMAS
(Millions)

	2009	2010	2011	2012	2013
Rides	480	499	511	523	533
Revenues	$ 918	$ 949	$ 973	$ 996	$ 1,015
Expenses (per City)	1,287	1,368	1,443	1,526	1,619
Total Subsidy Required	369	419	470	530	604
Total Subsidy Available	282	282	282	282	282
Additional Subsidy Req'd	87	137	188	248	322
Revenue / Cost Ratio	71%	69%	67%	65%	63%

While these estimates are not all inclusive (most notably CBA impacts are excluded) and are subject to change, as shown by the table, the amount of additional subsidy required grows by about $50 to $75 million per year and is estimated to exceed $320 million by 2013. Clearly action is required and a plan is necessary in order to address not only the immediate need for additional subsidy in 2009 but, also, to develop a strategy that will address the longer term requirements of the Toronto Transit Commission in order to continue to meet the needs of our riders, the citizens of the City of Toronto and for the Greater Toronto Area overall.

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September 14, 2008
42-107-34

Attachments: Exhibit 1

Companion Report: 2009 TTC Operating Budget Overview

EXHIBIT 1
TORONTO TRANSIT COMMISSION
2009 OPERATING BUDGET
($000s)

REVENUES	**2008 BUDGET**	**2009 BUDGET**	**2009 vs 2008 BUDGET CHANGE**
Passenger Revenues	827,300	864,425	37,125
Outside City Services & Charters	16,282	18,055	1,773
Advertising	15,400	17,000	1,600
Rent Revenue	8,460	8,997	537
Commuter Parking	2,656	6,834	4,178
Other Income	2,061	2,699	638
TOTAL REVENUES	872,159	918,010	45,851
EXPENSES*			
CGM's Office	11,594	12,074	480
Engineering & Construction Branch	3,007	3,303	296
Executive Branch	68,225	71,830	3,605
Operations Branch	689,664	741,146	51,482
Other Employee Costs	216,000	237,700	21,700
Vehicle Fuel	64,917	104,903	39,986
Traction Power	33,420	35,683	2,263
Utilities	19,601	22,159	2,558
Depreciation	17,900	20,700	2,800
Taxes and Licences	2,260	3,720	1,460
Accident Claims & Insurance	30,788	34,347	3,559
Non-Departmental Expenses/Cost Recoveries	17,728	17,337	(391)
Unspecified Budget Reduction	(2,790)	-	2,790
TOTAL EXPENSES	1,172,314	1,304,902	132,588
LESS: Post-Retirement Non-Cash Benefits **	(17,600)	(17,600)	-
NET EXPENSES	1,154,714	1,287,302	132,588
Operating Subsidy Required	282,555	369,292	86,737
2008 Operating Subsidy	282,555	282,555	
ADDITIONAL SUBSIDY REQUIRED	-	86,737	

* The 2008 and 2009 impacts of the yet-to-be finalized Collective Bargaining Agreement (effective April 1, 2008) have not been incorporated into these budgets in accordance with the City of Toronto's direction.

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