

December 18, 2009

Ms. Ulli Watkiss
City Clerk
Toronto City Hall
100 Queen Street West
Toronto, ON
M5H 2N2

Dear Ms. Watkiss:

At its meeting on Wednesday December 16, 2009 the Commission considered the attached report entitled, "2010 TTC Operating Budget".

The Commission adopted the Recommendation contained in the report, as listed below:

It is recommended that the Commission:

- 1) Approve the 2010 TTC Operating Budget (summarized in Exhibit 1) as described in this report and as set out in the 2010 TTC Operating Budget Overview document, and
- 2) Note that based on current City of Toronto operating subsidy levels and the new fare structure approved by the Commission on November 17, 2009, the TTC 2010 Operating Budget includes a requirement for additional subsidy of about \$46 million as summarized below:

| | |
|-----------------------------|--------------------|
| Expenditures | \$1,380 Million |
| Revenues | <u>940 Million</u> |
| Subsidy Needed | 440 Million |
| 2009 City Operating Subsidy | <u>394 Million</u> |

| | |
|-----------------------------|----------------------|
| Additional Subsidy Required | <u>\$ 46 Million</u> |
|-----------------------------|----------------------|

- 3) Note that staff will be working to develop a multi-year plan, in consultation with City of Toronto staff, to establish a fare/subsidy strategy taking into consideration appropriate targets for ridership levels, service initiatives and revenue/cost ratios.
- 4) Forward this report to the City of Toronto requesting approval of:
 - (a) the required 2010 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 2010 consistent with previous accounting treatment approved by Council, and;
 - (c) confirmation of the establishment of an additional long-term subsidy receivable in the amount of \$25.8 million to cover accident claims non-cash expenses for 2010 consistent with previous accounting treatment approved by Council as noted in (b) above, and;
- 5) 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.
 - 6) Forward this report to the Federal Minister of Transport, Infrastructure and Communities, for information.
 - 7) Forward this report to Metrolinx for information.

The Commission also adopted the following motion:

Whereas the preparation of the TTC's 2010 Operating Budget for the conventional system has been underway for several months and has already undergone considerable review and scrutiny; and

Whereas, at present, there remains a \$46 million funding shortfall; and

Whereas the 2010 transit operating subsidy to be provided by the City of Toronto has not as yet been confirmed,

That staff continue to work with the City in an effort to resolve the shortfall and report back to the Commission as soon as possible.

The foregoing is forwarded to the City Budget Committee for approval of Recommendation No. 4 embodied in the report.

Sincerely,

Original signed by

Vincent Rodo
General Secretary
1-11
Attachment

TORONTO TRANSIT COMMISSION

REPORT NO. 12

MEETING DATE: December 16, 2009

SUBJECT: 2010 TTC OPERATING BUDGET

ACTION ITEM:

RECOMMENDATION

It is recommended that the Commission:

1) Approve the 2010 TTC Operating Budget (summarized in Exhibit 1) as described in this report and as set out in the 2010 TTC Operating Budget Overview document, and

2) Note that based on current City of Toronto operating subsidy levels and the new fare structure approved by the Commission on November 17, 2009, the TTC 2010 Operating Budget includes a requirement for additional subsidy of about \$46 million as summarized below:

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| Additional Subsidy Required | <u>\$ 46 Million</u> |

3) Note that staff will be working to develop a multi-year plan, in consultation with City of Toronto staff, to establish a fare/subsidy strategy taking into consideration appropriate targets for ridership levels, service initiatives and revenue/cost ratios.

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

(a) the required 2010 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 2010 consistent with previous accounting treatment approved by Council, and;

(c) confirmation of the establishment of an additional long-term subsidy receivable in the amount of \$25.8 million to cover accident claims non-cash expenses for 2010 consistent with previous accounting treatment approved by Council as noted in (b) above, and;

5) 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.

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

7)Forward this report to Metrolinx for information.

BUDGET HIGHLIGHTS

The highlights of the 2010 TTC Operating Budget are as follows:

- Flat or modest growth in the economy and employment is expected in 2010.
- Ridership is expected to be 462 million in 2010, 11 million lower than the 2009 budget of 473 million. Refer to Part 1 of the Operating Budget Overview section of this report for more details.
- Passenger Revenues are projected to increase by \$48 million as a result of the January 3, 2010 fare increase, however, this will be partially offset by a lower average fare per rider (loss of \$12 million), resulting in a net increase over the 2009 budgeted level of about \$36 million. Further information is contained in Part 2 of the Operating Budget Overview.
- Service levels in 2010 will be largely unchanged from 2009 and will be sufficient to accommodate a ridership level in the range of 462 million. The first phase of the Transit City Bus Plan is scheduled to commence in September. Additional details are provided in Part 3 of the Operating Budget Overview.
- Cost containment measures are detailed in Part 4 of the Operating Budget Overview section of this report. Various expenditure elements including diesel fuel, accident claims, energy conservation, safety, attendance management, etc., are being examined to minimize costs.
- Expenditures are expected to increase by approximately \$82 million (6%) over the 2009 budgeted level. Key elements of the increase include: wage and benefit increases as a result of the Commission's collective bargaining agreements with its employees, energy cost escalation, general inflation, a modest increase in service hours (including the implementation of the first phase of the Transit City Bus Plan), increased facility and vehicle maintenance programs, health & safety and attendance management initiatives, subway station cleanliness/finishes improvements and, increased depreciation costs. Major changes in expenditures are described in further detail in Part 5 of the Operating Budget Overview section of this report.
- Subsidy is assumed to be flat-lined at the 2009 budgeted level of \$394.1 million. This excludes long-term subsidy receivables from the City in the amounts of \$17.6 million with regard to 2010 post-retirement benefits non-cash expenses (consistent with previous accounting treatment approved by Council) and \$25.8 million with regard to 2010 accident claims non-cash expenses.
- Year-end workforce will increase by 144 additional TTC operating positions as

outlined in Part 6 of the Operating Budget Overview.

- Based on current subsidy levels and the projected increase in passenger revenues from the fare increase, there is a projected shortfall in the 2010 operating budget of about \$46 million.

FUNDING

In 2009, the City of Toronto budgeted an operating subsidy for the TTC conventional system of \$394.1 million. A subsidy level of \$440.0 million is required to balance the operating budget next year – assuming no further fare increases and no service reductions and excluding post-retirement benefits and accident claims non-cash expenses. At this time, the City of Toronto has not yet confirmed the 2010 subsidy level and, therefore, if subsidy is flat-lined at the 2009 level, additional subsidy of \$45.9 million is needed as shown below:

| | |
|---------------------------------|------------------------|
| 2010 Operating Subsidy Required | \$ 440.0 Million |
| 2009 Operating Subsidy | <u>394.1 Million</u> |
| Shortfall | <u>\$ 45.9 Million</u> |

There are essentially three options available to address the projected \$46 million

shortfall: (1) increase fares, (2) reduce expenditures, or (3) increase subsidies:

- The implementation of the January 3, 2010, fare increase as approved by the Commission on November 17, 2009, will generate an additional \$48 million of passenger revenues in 2010.
- Staff continue to seek savings or ways to contain costs as outlined in Part 4 of the Operating Budget Overview section of this report. While these initiatives will have a favourable impact on costs, they will only blunt the impact of normal annual cost increases. Given the TTC's current cost structure, where approximately 80% of expenses are for wages and benefits and vehicle energy, the only real mechanism to significantly reduce costs is to substantially reduce service. While service reductions are not proposed as part of this budget - as this would be inconsistent with the Ridership Growth Strategy initiatives that have been successfully implemented this decade - the service level is largely unchanged in 2010 with the exception of the introduction of the first phase of the Transit City Bus Plan commencing in September of next year.

- The 2010 City transit operating subsidy has not yet been confirmed.

Until the 2010 operating subsidy is known, it is not possible to make recommendations on how to address the remaining shortfall.

2010 OPERATING BUDGET OVERVIEW

PART 1: 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 2009 (over the 2008 actual of 467 million rides) reflecting the net impact of various factors. Year-end ridership is now forecast at 470 million (compared to the budget of 473 million).

| Millions | 2009 BUDGET | 2009 PROBABLE | 2010 BUDGET | 2010 BUDGET vs 2009 BUDGET |
|-----------------|------------------------|--------------------------|------------------------|---|
| Ridership | 473 | 470 | 462 | (11) |

For 2010, flat or moderate economic and employment growth for the Toronto area economy is anticipated. Combined with the expected loss of approximately 11 million rides due to the January 3, 2010, fare increase, it is expected that ridership will be in the order of 462 million next year. These ridership projections do not reflect the impact of any further changes to the fare structure or mix.

PART 2: Revenues

Passenger fares account for almost 95% of TTC revenues. Based on the fare increase to be implemented on January 3, 2010, farebox revenues are expected to increase by \$48 million in 2010 over the 2009 budgeted level. This increase will be partially offset by a \$12 million loss in revenue attributable to a 2½ cent drop in the average fare per rider experienced in 2009 due to higher Adult Metropass sales and greater utilization of concession fares which is expected to continue in 2010. The net result is that passenger revenues are projected to be about \$36.3 million higher than the 2009 Budget.

Other revenues are expected to decrease by about \$0.6 million, as a result of increased cost recoveries for outside city services, higher rental revenues and increased commuter parking lot revenues, which are more than offset by lower advertising revenues and lower interest earnings.

PART 3: Service

Service levels in 2010 are budgeted to accommodate a ridership level in the range of 462 million. This includes 8.4 million hours and 224.7 million kilometres of service which represent marginal increases over 2009 levels of approximately 1.4% in service hours and 0.5% in service kilometres. The 2010 service budget provides for the annualized impact of 2009 service changes, a lower budgeted ridership level, the introduction of the first phase of the Transit City Bus Plan (i.e. bus service every 10 minutes on 21 Transit City Bus Network routes during the day and evening on a daily basis, starting in September), and will include additional resources to accommodate overcrowding, road congestion, vehicle capacity changes and to maintain service levels during TTC and City construction projects.

PART 4: Cost Containment Measures

Numerous strategies have been employed and various efficiencies have been achieved over time with a view to containing the impact of normal cost increases on the operating budget. Following is a list of current cost saving initiatives and improvements:

1. Diesel Fuel – in the fall of 2008, action was taken to lock-in the price for the Commission's 2009 diesel fuel requirements at rates well below the originally projected budget requirement – resulting in a reduction of approximately \$22 million in the 2009 operating budget requirement. Staff is currently monitoring market prices for 2010 with a view to minimizing the diesel fuel bill while protecting against significant variations in price for the upcoming year.
2. Bio-diesel fuel – the decision to discontinue the use of bio-diesel in our bus fleet will reduce fuel costs by approximately \$1.5 million in 2010.

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 to be achieved upon full implementation.
4. Hybrid Bus Fuel Savings - the use of hybrid buses will result in the consumption of approximately 4 million fewer litres of diesel fuel annually resulting in a savings of about \$4 million per year.
5. 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 this action reduced revenue losses by between \$3 million to \$4 million in 2009.
6. Accident Claims – in an effort to contain the ever-increasing cost of accident claims, the TTC, CUTA and OPTA have made submissions to the Province seeking an exemption for all public transit organizations from no-fault insurance. This initiative, if successful, has the potential to save many millions of dollars. 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 were added in 2009 to help the Commission deal with this in a responsible way.
7. Energy Management – as part of its Environmental Plan supporting the City of Toronto's Climate Change, Clean Air and Sustainable Energy Action Plan, the Commission has embarked upon detailed energy reviews of some of its facilities and has developed energy management action plans. The 2010 – 2014 Capital Program includes funds for various energy management projects including facility energy conservation, demand management and efficient lighting.
8. Facility Maintenance - consistent with the Work Safe – Home Safe initiative, efforts are underway to provide better and more functional equipment in garage and shop environments to facilitate a safer work environment which will assist in minimizing lost-time injuries.
9. 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. For the period from January 2008 through September 2009, it is estimated that about \$1.9 million in lost-time injury costs have been avoided. During this time, lost- time injuries have fallen by about 25% and the current trend is on target for a 60% reduction as early as the end of 2010.
10. Attendance Management Program/Health & Wellness – analysis of current absence rates and trends and the Commission's legal duty to accommodate has identified the 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 at selected work locations

showed that the sick day absence rate decreased by about 1% (from 6.3 % to 5.3%) compared to non-pilot locations. It is estimated that this reduction in sick time and the corresponding overtime hours avoided will more than offset the costs of this program. This strategy is consistent with and supports the corporate culture shift initiative: Work Safe – Home Safe.

11. SBA Costs – costs for the short-term sickness plan (Sick Benefits Association) for hourly-rated employees have been reduced by about \$1.5 million in the 2010 operating budget as a result of a reduction of about 0.6% in the overall absence rate. While difficult to pin-point, this favourable trend can be attributed to the combined impact of the facility maintenance program, the attendance management initiative and the Work Safe – Home Safe program.
12. Green Procurement Policy – recognizing the importance that 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.
13. Geospatial Initiatives - an updated TTC website which is more accessible, more user-friendly and with enhanced functionality has been introduced. In conjunction with this, an internet trip planner tool is currently being developed. Also, a next train arrival system is in place and the next bus arrival system will be implanted in 2010 in order to provide customers with real-time information related to the arrival of the next vehicle.
14. Property Development Plan – a review has been undertaken with a view to taking advantage of the untapped potential of transit properties by working in consultation with City staff and Build Toronto. While this will have longer-term impacts, steps are underway to proceed with these opportunities.
15. Warranty Recoveries – as a result of the addition of staff resources, it is projected that an additional \$0.8 million will be recovered from suppliers in 2010 for warranty work completed by TTC personnel on the bus fleet.

Notwithstanding these efforts, the fiscal challenge facing the Commission in 2010 is not unique nor is it short-term: transit of and by itself is not a money-maker. The TTC's revenue/cost ratio was budgeted at 70% in 2009 and is amongst the highest for municipal transit agencies - not only in Canada and North America, but, around the world. The 2009 budget included a subsidy of about 83 cents per rider which is virtually the same level of subsidy per rider received in 1992 (expressed in 2009 dollars), which

is significantly below the subsidy per rider levels of many other transit agencies.

Projections indicate that the Commission will continue to face significant additional incremental funding requirements (see the Future Outlook section at the end of this report).

PART 5: Major Changes in Operating Expenses

The day-to-day expenses associated with running the TTC are budgeted to increase by approximately \$81.6 million (about 6%) in 2010. The increases fall into the following areas:

1. Wage and Benefit Increases based on the current CBAs: \$31.1 million. The April 1, 2008 Collective Bargaining Agreements (CBAs) included wage increases of 3.0% per year effective April 1 in each of 2009 and 2010. The annualized impact of the April 1, 2009 wage increase has been incorporated together with the April 1, 2010 wage increase and certain other benefit improvements. An additional 0.5% pension contribution rate increase effective January 1, 2010 has also been included.
2. Other CBA Impacts: \$9.1 million. As a result of fewer new hires anticipated in 2010, the hourly-rated workforce will become more senior in their years of service. Consequently, higher costs will be experienced due to wage progression, increased average wage rates and greater vacation entitlements.
3. Other Employee Costs: \$7.0 million. These costs are expected to increase by approximately \$16.7 million in total mainly due to the impact of increased labour costs and inflationary and utilization increases for both healthcare and dental benefits – net of a \$1.5 million reduction in SBA costs. Of this increase, approximately \$9.7 million is attributable to the CBAs and service elements and has been included in those items. It should be noted that of the total Other Employee Costs budget, approximately \$17.6 million has been incorporated into the budget for 2010 post-retirement benefit non-cash expenses (dental and healthcare) which will be covered through a long-term subsidy receivable from the City.
4. Service: \$ 7.9 million. The primary drivers of this change include an increase in the provision to maintain service levels during City and TTC construction projects, the introduction of the first phase of the Transit City Bus Plan (i.e. bus service every 10 minutes on 21 Transit City Bus Network route starting in September), the addition of 20 Route Supervisors to assist with customer, employee and operational needs, and additional resources to accommodate overcrowding and to compensate for road congestion and vehicle carrying capacity.
5. Diesel Fuel: \$6.0 million. Based on a projected 6% increase in the price per litre over

current average contracted prices for 2009, the inclusion of a provision for supply volume variability, an allowance for a detergent additive required for the hybrid vehicles, and a slight increase in the fuel consumption rate, it is estimated that diesel fuel costs will increase by \$6.0 million in 2010. An additional \$1.1 million has been incorporated into the service expense line noted above to reflect the fuel requirement for the service adjustments planned for 2010.

6. Vehicle Maintenance Programs: \$5.3 million. Replacement parts on newer low-floor and hybrid buses are significantly more expensive than for older standard buses. Also, newer buses contain more sophisticated technological components (e.g. multiplex computer wiring, electronic engines, exhaust systems) and include additional systems such as cameras and stop announcements which must be maintained. The retirement of older buses combined with the increased volume of hybrid buses (approximately 40% of the fleet) and buses coming off warranty, together with increased efforts and parts to maintain the aging streetcar fleet accounts for the bulk of this increase. It is anticipated that annual increases in this order can be expected as the new subway and streetcar (LRV) fleets replace older vehicles.
7. Facility Maintenance Programs: \$3.5 million. A series of facility maintenance initiatives are planned, or will increase in activity level, in 2010. This includes complying with TSSA directives for elevators, escalators and HVAC equipment, the acquisition of tools & equipment to improve safety, the replacement of ballast on the Queensway streetcar right-of-way, the rental of sweeper equipment for use on streetcar switches and special track work, track replacement at streetcar stops and the installation of metal clad roofing at selected locations to protect vital electrical equipment.
8. Depreciation: \$3.5 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, amortized over their useful lives and charged as depreciation expense to the TTC Operating Budget. For 2009 and 2010, the TTC share is at relatively high levels and, as a result, there is an increase in the TTC depreciation expense amount.
9. Work Safe – Home Safe: \$3.2 million. A one-time contractual performance payment is due if a 40% to 60% reduction in lost-time injuries is experienced. Current results show a reduction of 25%, with a trend line that indicates that a 60% reduction could be achieved as early as the end of next year.
10. Health and Safety Initiatives: \$3.0 million. This increase reflects services associated with the Fitness for Duty program, as well as additional resources to address increasingly heavier farebox vault weights at the divisional locations, a backlog of fire alarm deficiencies, and to support and coordinate the increased volume of maintenance activity throughout the transit network.
11. Subway Station Cleanliness/Finishes: \$2.8 million. Additional resources (39) are required to support the continuation of the multi-year program introduced in 2008 to improve cleanliness of stations - including an increased focus on escalators - and to address floor and wall finish deficiencies.
12. Other Workforce Changes: \$2.7 million. This increase represents costs associated with additions in 2010 that are not included in the other expenditure elements already discussed.

13. Overtime: \$ 2.7 million. Every effort is made to minimize overall labour costs by striking an appropriate balance between additional workforce and the use of overtime to address short-term needs or requirements that are not predictable that may result in service disruption or cancellation. The increased cost for 2010 reflects an adjustment for actual experience in recent years, increased workforce gapping, increased one-time or fixed terms requirements (e.g. training on new vehicles), and increased costs associated with late-ins due to service delays as a result of emergencies, accidents and special events.
14. Material Price Increases: \$2.3 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.
15. Contracted Services: \$2.3 million. This increase is required to support increased requirements for telephone services, IT systems maintenance and software licence fees.
16. Attendance Management: \$2.1 million. An increased focus on early intervention to ensure that absent employees return to work as soon as possible, including providing alternate work, will be supported by additional Health & Wellness Specialists. Early results at selected work locations showed that the sick day absence rate decreased by a full percentage point compared to non-pilot locations. This program is consistent with the Work Safe – Home Safe initiative.
17. Downsview Park Warehouse: \$1.4 million. As a result of structural problems at an existing TTC facility, the Commission recently approved the temporary lease of facilities for the storing of certain parts and supplies that must be maintained in inventory. This lease requirement will continue until the new LRV Maintenance and Storage facility is completed.
18. Subway Zone Patrol Strategy: \$1.0 million. The next phase of this multi-year plan (which commenced in 2006) to enhance public safety and security requires an additional 20 positions. Discussions are ongoing with the City and Toronto Police Services to confirm the distribution of work and resources between the parties with a view to ensuring that the TTC's transit security and policing requirements are adequately addressed.
19. Accident Claims: (\$6.7) million. Based on a recent independent actuarial assessment, escalating costs associated with the adjudication and settlement of accident claims submitted to the Commission account for a \$19.2 million increased requirement. Of the 2010 total estimated accident claims expense, approximately \$25.8 million relates to non-cash expenses that will be paid out in future years when certain claims are settled. Consequently, these costs are not included in the 2010 subsidy requirement and will be recovered at a later date through a long-term subsidy receivable from the City. This budgeting and accounting treatment is consistent with the treatment approved by City Council for the non-cash expenses associated with post-retirement medical and dental costs and is supported by City staff. Council approval will be sought through the submission of this budget. On a year-over-year basis, the \$19.1 million increase in total accident claims expenses, is completely offset by the exclusion of the \$25.8 million in non-cash expenses, thus yielding an overall reduction of \$6.7 million.
20. Ontario Harmonized Sales Tax: (\$4.0) million. With the introduction of the 13% OHST effective July 1, 2010, it is projected that the net impact on the operating budget will be a

reduction of about \$4 million in 2010 as a result of the continued 100% rebate of the GST portion of the tax (5%) and a 78% rebate of the PST portion of the tax (8%).

21. Natural Gas: (\$2.6) million. An anticipated 26% drop in the budgeted average price of this heating fuel next year accounts for this decrease.
22. Training Requirements (\$1.4) million. Due to reduced new operator training requirements.
23. Increased Bus Warranty Recoveries: (\$0.8) million. Increased recoveries from suppliers for warranty work completed by TTC personnel.
24. Other: \$0.2 million. All other changes net out to an increase of about \$0.2 million.

Exhibit 1 (attached) provides a summary of the Commission's 2010 budgeted revenues and expenditures and subsidy requirement.

PART 6: 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, 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 2010 operating budget.

The TTC operating workforce level is projected to increase by 144 positions from 10,622 to a total of 10,766 at December 31, 2010. The increase consists of: 38 net positions required for service adjustments/improvements (including 88 positions for Transit City Bus Plan requirements, 20 additional Route Supervisors, 20 additional positions to cover increased vacation entitlements, and 10 other positions to support existing service levels which are partially offset by a reduction of 100 positions associated with lower ridership levels in 2010 due to the Commission-approved fare increase and other net service changes); the ongoing subway station cleanliness/finishes improvements (39), the elimination of 35 unfunded Special Constable positions (from 2008 and 2009) which are not required due to Toronto Police Services additions in 2009 and the addition of 20 TTC positions required for the upcoming year of the Subway Zone Patrol Strategy, Health and Safety requirements (including Work Safe – Home Safe initiatives) (15), Bus Maintenance support for the cameras and stop announcements equipment recently installed on vehicles (12), additional positions for divisional support (11),

increased resources to meet ITS requirements (10), resources to maintain and support an increase in the number of Pass Vending Machines (8), requirements to support Streetcar Reliability initiatives (8), resources for the Rail Yard Gate Staffing Plan (7), Health & Wellness resources to support the Commission's Attendance Management Program (5), and various other changes (6).

Each revenue and expenditure element shown above, as well as the workforce changes, is described in greater detail in the 2010 Operating Budget Overview document.

FUTURE OUTLOOK

As a preliminary step in the process to develop a multi-year strategy, a very rudimentary pro forma projection of revenues and expenditures for the years 2010 to 2013 has been prepared based on the following assumptions:

- ridership will remain flat at the 2010 level of 462 million
- fares and the fare mix will remain unchanged from the January 3, 2010 level
- service initiatives in place will remain
- service adjustments are predominantly related to maintaining service standards
- implementation of the first phase of Transit City Bus Plan
- a new LRV carhouse will open in 2012/2013
- the impact of Transit City Rail Plan initiatives will occur in the later years of this period
- labour costs are as per the current Collective Bargaining Agreements
- accident claims and energy costs are estimated to increase at 10% per year
- the impact of pension solvency has yet to be determined
- all other costs are estimated to increase in line with current experience or based on actual or anticipated contractual commitments
- subsidy has been flat-lined at the 2009 level

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

2010-2013 PRO FORMAS**(Millions)**

| | 2010 | 2011 | 2012 | 2013 |
|-----------------------------|--------|--------|--------|--------|
| Rides | 462 | 462 | 462 | 462 |
| Revenues | \$ 940 | \$ 940 | \$ 940 | \$ 940 |
| Expenses (per City) | 1,380 | 1,462 | 1,541 | 1,629 |
| Total Subsidy Required | 440 | 522 | 601 | 689 |
| Total Subsidy Available | 394 | 394 | 394 | 394 |
| Additional Subsidy Required | 46 | 128 | 207 | 295 |
| Revenue / Cost Ratio | 68% | 64% | 61% | 58% |

Ridership and services levels, as well as the fare structure, have been held constant and labor costs are unchanged from the current Collective Bargaining Agreements in this table in order to conservatively estimate how the TTC's financial situation will continue to present a significant challenge in the coming years. Even without these

additional cost pressures, as shown by the table, the amount of additional subsidy required grows by about \$80 to \$90 million per year and is estimated to reach almost \$300 million by 2013. Action is required and a plan is necessary in order to address not only the immediate need for additional subsidy in 2010 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. Therefore, consistent with the Commission's direction at its meeting of November 17, 2009, staff will be working to develop a multi-year plan, in consultation with the City, to establish a fare/subsidy strategy taking into consideration appropriate targets for ridership levels, service initiatives and revenue/cost ratios.

December 11, 2009
42-107-34

Attachments: Exhibit 1

EXHIBIT 1
TORONTO TRANSIT COMMISSION
2010 OPERATING BUDGET
(\$000s)

| | 2009 | 2010 | 2010 vs 2009 |
|---|------------------|------------------|----------------------|
| | <u>BUDGET</u> | <u>BUDGET</u> | <u>BUDGET</u> |
| <u>REVENUES</u> | | | <u>CHANGE</u> |
| Passenger Revenues | 851,725 | 888,000 | 36,275 |
| Outside City Services & Charters | 18,055 | 18,475 | 420 |
| Advertising | 16,000 | 14,150 | (1,850) |
| Rent Revenue | 8,997 | 9,233 | 236 |
| Commuter Parking | 6,834 | 8,857 | 2,023 |
| Other Income | 2,699 | 1,300 | (1,399) |
| TOTAL REVENUES | <u>904,310</u> | <u>940,015</u> | <u>35,705</u> |
| <u>EXPENSES</u> | | | |
| CGM's Office | 12,481 | 13,985 | 1,504 |
| Engineering & Construction Branch | 3,414 | 3,514 | 100 |
| Executive Branch | 72,916 | 79,404 | 6,488 |
| Operations Branch | 772,822 | 825,223 | 52,401 |
| Other Employee Costs | 237,900 | 254,600 | 16,700 |
| Vehicle Fuel | 80,892 | 88,016 | 7,124 |
| Traction Power | 35,435 | 34,900 | (535) |
| Utilities | 22,082 | 19,598 | (2,484) |
| Depreciation | 20,700 | 24,200 | 3,500 |
| Taxes and Licences | 3,719 | 3,943 | 224 |
| Accident Claims & Insurance | 36,247 | 55,495 | 19,248 |
| Non-Departmental Expenses/Cost Recoveries | 19,357 | 20,456 | 1,099 |
| Unspecified Budget Reduction | (2,000) | - | 2,000 |
| TOTAL EXPENSES | <u>1,315,965</u> | <u>1,423,334</u> | <u>107,369</u> |
| LESS: Post-Retirement Non-Cash Benefits * | (17,600) | (17,600) | - |
| LESS: Accident Claims Non-Cash Expense ** | - | (25,750) | (25,750) |
| NET EXPENSES | <u>1,298,365</u> | <u>1,379,984</u> | <u>81,619</u> |
| Operating Subsidy Required | 394,055 | 439,969 | 45,914 |
| 2009/10 Operating Subsidy | <u>394,055</u> | <u>394,055</u> | |
| ADDITIONAL SUBSIDY REQUIRED | <u>-</u> | <u>45,914</u> | |

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

** The establishment of a long-term subsidy receivable in the amount of \$25.750 million to cover accident claim non-cash expenses for 2010 has been discussed with City staff and City Council approval will be sought through the submission of this budget.