TORONTO TRANSIT COMMISSION
REPORT NO. 3(a)

MEETING DATE: May 6, 2010

SUBJECT: 2010 TTC BUDGET UPDATE

ACTION ITEM

RECOMMENDATION

It is recommended the Commission receive the following report updating the status of the 2010 TTC Operating and Capital budgets and approve the following:

1. Service level changes at a cost of $2.9 million in 2010 and an annualized cost of $5.2 million (detailed in Appendix A) in response to the better-than-budgeted ridership so far this year suggesting a year-end ridership level of between 469-474 million (virtually unchanged from the 2009 level of 471 million):

   (i) reinstate the March 2010 service cut effective with the September Board period;
   (ii) cancel the planned September 2010 Board period service cuts;
   (iii) reduce overcrowding on the Bloor-Danforth line by adding an extra peak period train commencing with the September 2010 Board period;

2. Introduction of the first phase of the "Station Manager Deployment" program commencing with the September 2010 Board period and that the total workforce component of 42 be accommodated through the redeployment of other workforce positions to ensure no net increase in overall staff complement;

3. Requesting the City of Toronto to add $5.2 million of the projected 2010 operating surplus to the TTC Stabilization Reserve such that this amount will be drawn out in 2011 to offset the annualized costs of the 2010 service changes included in Recommendation 1 of this report; and,

4. Forward this report to the City of Toronto Budget Committee for information.

Noting that:

1. staff will provide a further budget update as to the status of these initiatives at the September meeting of the Commission; and,

2. it is currently anticipated that the 2011 budgets will be formally presented to the Commission for consideration at the January 2011 meeting.

FUNDING

Primarily as a result of ridership projected to be in the range of 469-474 million as compared to the budgeted ridership of 462 million, it is currently projected that there will be a 2010 Operating Budget surplus in the order of $20 million. This 2010 surplus is sufficient to fund the service changes needed to accommodate the additional ridership in 2010 (at a cost of $2.9 million) and to cover the 2011 annualized costs of that service ($5.2 million). The Station Manager Deployment staffing will be accommodated through the redeployment of other workforce positions to result in no net increase in year-end headcount. In addition, as outlined later in this report, the projected 2011 operating and 10-year capital program funding shortfalls demonstrate, once again, the need for the establishment of a stable, predictable and long-term funding strategy to meet the transit needs of the City of Toronto.

DISCUSSION

RIDERSHIP

Ridership in 2009 topped the 471 million level, an all-time TTC record. This was in spite of the worst global economic recession since the Great Depression of 1929. This was in direct contrast to many of the major mass transit systems in North America, as shown in Table 1 below:

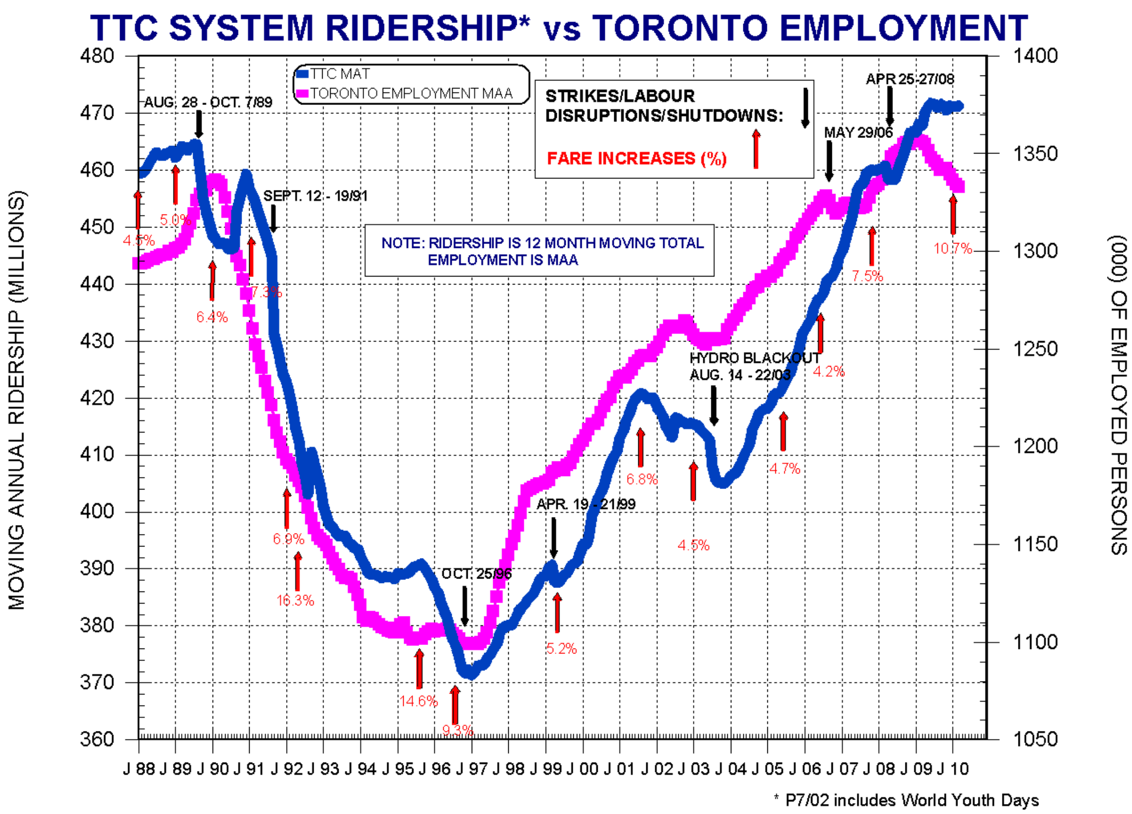
TABLE 1

(RIDERSHIP - MILLIONS)	2008	2009
TTC	467	471
New York	2,205	2,052
Chicago	293	290
Philadelphia	226	210

The TTC's ability to ride out this recession is attributed largely to the service increases implemented in 2008 as part of the TTC's Ridership Growth Strategy. The resultant amount of service is the highest level the TTC has ever operated.

With the implementation of the January 3, 2010 fare increase and the dampening effect the fare increase was projected to have, ridership for 2010 was budgeted at 462 million. Levels were to be ratcheted down in two equal tranches, a March and a September service cut. This would mean that the average level of service would have been commensurate with a ridership level of 462 million by year-end.

Historically, one of the most significant variables in determining TTC ridership is the City of Toronto employment levels. As can be seen from the following chart, over the long-term, changes in City of Toronto employment levels track changes in TTC ridership quite closely.



As can also be seen from the far right of the chart, starting in 2009, City of Toronto employment started to drop, but TTC ridership continued to grow. That trend has continued in 2010, despite the fare increase. The best explanation for this divergence from the traditional relationship is the higher levels of service being operated. Results for the past 4 months are as follows:

	EMPLOYMENT CHANGE	RIDERSHIP CHANGE
December	(2.8%)	+2.2%
January	(2.4%)	+1.1%
February	(1.7%)	0.0%
March	(1.4%)	+0.2%

While the mild and relatively snow-free winter contributed somewhat to the ridership results, good weather cannot explain this alone.

For 2010, flat or moderate economic and employment growth was anticipated for the Toronto economy at the time the budget was prepared. Combined with the expected loss of ridership due to the fare increase, ridership for 2010 was budgeted at 462 million, down from the 471 million level achieved in 2009. Ridership results so far suggest 469-474 million will be the likely range for 2010 year-end ridership results. To put this into perspective, this represents a small variance in the range of 1.5% to 2.5% above budget. Current City of Toronto economic forecasts predict employment may in fact grow by 0.6% by the end of the year.

All of this means that the service cuts implemented in March 2010 should be reversed, the September 2010 service cuts should be cancelled and an extra train should be added to the Bloor-Danforth line in September to address over crowding. Appendix A provides the impact of the service to be added.

Based on the 469 million level, passenger revenue will be about $12 million over budget. In addition, the implementation of temporary tickets last fall reduced token hoarding by about $5 million. The incremental revenue will be more than sufficient to fully fund the 2010 service needed to accommodate the extra ridership, both in 2010 and in 2011.

STATION MANAGER DEPLOYMENT

It has been a long-term plan for the TTC to introduce the concept of Station Manager. Many large transit systems around the world have utilized Station Managers to create a sense of station ownership amongst employees. Given the current climate of enhanced customer service and cleanliness expectations, rather than waiting until the future, TTC staff recommends implementing the Station Manager Deployment as soon as possible. This concept is consistent with the recent reallocation of 50 CIS Supervisors to on-street supervision to improve the quality of the service, address customer complaints and to provide an increase in the direct support available to Operators.

To accommodate this program, workforce will be reallocated from other duties to this to ensure no net year-end headcount change. A total of 42 positions will be needed to staff the deployment as shown in Appendix B. The Station Manager duties will be as follows:

- Customer/Collector Support
  - Customer communication and assistance
  - Response to subway delays/turnbacks
  - Collector performance and support
  - Station security and fare enforcement
  - Collector fare media assessment/distribution
  - Community liaison
- Station Condition
  - Cleanliness of stations/platforms

- Signage in station booths and bus bays
- PVM's, TVM's, transfer machines, elevators, escalators, stairwells and walkways
- Doors, automatic entrances, easier access gates and high gates
- Lighting and PA systems

The additional 42 positions needed for this initiative, scheduled to start in September, will be accommodated through the redeployment of approved workforce positions. To facilitate this, staff will undertake an assessment of current supervision levels in areas such as the Collectors and janitorial services.

In the long term, this deployment will be assessed and it is possible that the zones shown on Appendix B will be decreased providing extra coverage. Additional duties may also be added to the Station Manager duties.

PRO FORMAS

For 2010, the following results are currently projected:

	2010 BUDGET	**2010 PROJECTION**	**CHANGE**
Ridership	462 M	469 M	+ 7M
Revenue	$ 941 M	$ 958 M	+17M
Expenses	1,371 M	1,368 M	- 3M
Subsidy	430 M	430 M	-
Surplus	-	$ 20 M	$ 20 M

At 469 million rides, it is projected that passenger revenue will exceed budget by about $17 million this year. Expenses are currently projected to be about $3 million below budget as a result of the recent favourable settlement of a tax matter. This results in an estimated $20 million surplus for the 2010 Operating Budget – more than sufficient to offset the cost of the 2010 service level changes for both 2010 and 2011.

For 2011, preliminary pro forma projections – excluding the impact of the outcome of the next set of Collective Bargaining Agreements (the current agreements expire March 31, 2011) - suggest an Operating Budget shortfall of $58 million as follows:

	2010 BUDGET	**2011 PROJECTION**	**CHANGE**
Ridership	462 M	480 M	+ 18 M
Revenue	$ 941 M	$ 969 M	$+ 28 M
Expenses	$1,371 M	$1,457M	+ 86 M
Subsidy	$ 430 M	$ 430 M	-
Shortfall	-	$ 58 M	$ 58 M

Revenue is projected to grow by $28 million in 2011 as a result of an 18 million increase in ridership over the 2010 budget.

Expenses are projected to increase by $86 million in 2011 as follows:

Collective Agreements (wages, benefits, pensions) (no CBA impact re Apr 1/11 contract; for 2011, each 1% increase in wages equals about $7.5 million)		$13M
Other Employee Costs		15
Service • 2010 cuts restored • Accommodate overcrowding, i.e. ridership increasing to 480M (60 positions; annualized cost of $7.6M)	5 4	9
Energy (diesel fuel, hydro, natural gas)		14
Accident Claims		5
Other (depreciation, vehicle parts, inflation)		15
Allowance (1% of budget)		15
		$86M

Both the ridership and revenue projections are based on the current fare structure and will be reviewed and amended as additional data and ridership counts become available. The expenditure estimates are preliminary and will be the subject of considerable refinement and adjustment as the ridership level and service plans are determined and as costs are firmed up as the 2011 budget process progresses. The impact of the upcoming Collective Bargaining Agreements will also need to be factored into the expenditure estimates.

CAPITAL BUDGET

During the review process for the TTC's 2010-2014 Capital Program, which was ultimately approved by City Council on December 8, 2009, certain TTC projects were deferred to accommodate the City's established debt targets. These capital budget reductions included the following key decision points:

- project deferrals of $417 million beyond 2018 to offset an increased 1/3 City debt share on the 204 LRT car order, predominantly on mid-life bus rebuild and fire ventilation upgrade projects (June 2009);
- project amendments included in the Commission's consideration of the 2010-2014 Capital Program (September 24th Commission) which included changes to the bus and streetcar fleet, but primarily related to the further deferral beyond 2019 of the mid-life bus rebuild program ($411 million);
- project amendments (October 29th Commission) necessary to live within a City ten-year funding shortfall of no more than $300 million. This included deferrals (Fire Ventilation, Easier Access, CIS Replacement) and project deletions to "below the line" including Station Modernization and Industrial Facility requirements projects.

The combined impact of these amendments represented project deferrals or deletions (below the line) in the order of $1 billion.

Staff are currently reviewing the impacts of these amendments to confirm which elements need to be reintroduced and at the same time assessing other capital items which need to be considered for inclusion in the upcoming budget. A preliminary list of potential project add-backs/add-ins includes Bloor Danforth re-signalling, bus rebuilds, trains for increased service, platform edge doors, Toronto Rocket/T1 subway car fleet accommodation, AODA impacts, bus procurements and bus garage. The major potential increase to the capital program exceeds $2 billion over the next ten years and clearly establishes the necessity of continuing discussions with our funding partners to create a stable long term funding strategy for the base transit needs of the City of Toronto.

This challenge is even more pronounced given the recently announced deferral by the Province of $4 billion in funding over the next five years for several Transit City expansion projects. Staff will be assessing the impact on the size of the bus fleet and on available garage capacity – which will need to increase in the intervening years – to confirm what adjustments are required to the current capital budget as a result of the deferral of these Transit City projects.

Staff will soon be commencing the development of the 2011-2015 Capital Program budget and ten-year forecast with the perspective of identifying all potential capital requirements, on the basis of need rather than affordability. In past years, many initiatives were deferred outside of the envelope (limited based on funding targets or pending further clarity on the projects), but this has tended to result in an impending wave of future needs. These initiatives must all be considered to ensure that each is given the opportunity of an appropriate review and prioritization of the overall transit capital need. In addition, in most capital budget cycles the predominant focus was on the first five years of the ten-year plan, with largely allowances provided in the subsequent five years. As part of the 2011-2015 Capital Program budget development, greater emphasis will be placed on the latter five years to provide better definition of expected requirements so that the overall ten-year plan will be more representative of anticipated actual needs.

JUSTIFICATION

With ridership at record levels and the prospect of further growth in 2011, it is necessary to ensure that an appropriate level of service is in place to meet this demand. The cost of the service level changes proposed in this report can be adequately covered – this year and next – through the additional revenue available from the unanticipated increase in ridership levels in 2010. In addition, moving ahead with the Station Manager Deployment Program in 2010 is consistent with our need to both maintain and improve our service level and quality and to provide improved interaction with our customers and support for front-line staff. At the same time, some capital projects previously removed from the program must be reinstated while other projects must now be considered – all within the context of the needs of the overall system.

Reviews of service levels and quality and each element of our operating budget cost structure and the priority of capital investments will be the subject of review and discussion during the 2011 budget process over the coming months. Development of the operating and capital budgets will escalate in intensity through the late summer and into the fall of this year with staff preparation, Commission briefings and City reviews with the plan to formally present them to the Commission for approval in January.

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April 21, 2010
1-15-14

Attachments - Appendix A – 2010 Service Level Changes
Appendix B – Station Manager Deployment Program