TORONTO TRANSIT COMMISSION
REPORT NO.

MEETING DATE: June 8, 2011

SUBJECT: 2012 TTC OPERATING BUDGET

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission:

1) Approve the preliminary 2012 TTC Operating Budget as described in this report and as summarized in Exhibit 1;

2) Note that based on current City of Toronto operating subsidy levels and the current fare structure, the TTC 2012 Operating Budget includes a base budget shortfall of about $39 million as summarized below:

Expenditures *	$1,507 Million
Revenues	1,039 Million
	468 Million
2011 City Operating Subsidy	429 Million
Shortfall	$ 39 Million

* Includes no provision for the impact of the yet-to-be determined Collective Bargaining Agreements effective April 1, 2011. Each 1% increase in wages/benefits equals about $10 million annually in the TTC Operating Budget.

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 2012 Transit Operating subsidy to the TTC;

   (b) confirmation of the establishment of an additional long-term subsidy receivable in the amount of $13.68 million to cover post-retirement benefit non-cash expenses for 2012 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 $14.0 million to cover accident claims non-cash expenses for 2012 consistent with previous accounting treatment approved by Council as noted in (b) above;

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

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

7) Forward this report to Metrolinx for information.

BUDGET CONTEXT

The City of Toronto is facing a $774 million operating budget pressure in 2012. To develop a balanced 2012 Operating Budget will be a major challenge and the City Manager has advised that it will require every City Program and Agency to exercise cost constraint, to maximize non-tax revenues, and to ensure that scarce resources are utilized to deliver services that fulfill Council's priorities in the most cost effective manner.

To address this challenge, Council has approved the implementation of a Service Review Program in 2012 consisting of a Core Service Review, Service Efficiency Review and a Comprehensive User Fee Review. These reviews are expected to generate benefits and cost savings to help mitigate the 2012 operating pressure and, in the longer term, will contribute toward resolving the City's deficit.

The Service Review Program will be undertaken concurrently with the preparation of the 2012 budgets and the TTC will be involved in each of the three elements of this program: (1) a Core Service Review will examine what services the TTC is delivering, (2) a Service Efficiency Review will look at how TTC services are delivered, and (3) a Comprehensive User Fee Review will be carried out to examine all user fees currently in place (this should afford the opportunity to give consideration to a multi-year fare strategy - with a view to linking it to an overall fare/subsidy strategy taking into account appropriate targets for ridership levels, service initiatives and revenue/cost ratios). Results of these reviews are to be integrated into the 2012 Operating Budgets after Council decisions in September at which time final direction and guidelines will be provided. TTC staff will revise the budget based on this information and submit a final budget for approval by the Commission in the fall of this year.

BUDGET HIGHLIGHTS

The highlights of the 2012 TTC Operating Budget are as follows:

- Continuing moderate growth in the economy and employment is expected in 2012.
- Ridership is expected to be 502 million in 2012, 15 million (3.1%) higher than the 2011 budget of 487 million. Refer to Part 1 of the Operating Budget Overview section of this report for more details.

- Revenues are projected to increase by about $32 million primarily as a result of the increased level of budgeted ridership. Further information is contained in Part 2 of the Operating Budget Overview.

- Service levels in 2012 are based on current standards and will accommodate a ridership level in the range of 502 million. 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 $71 million (5%) over the 2011 budgeted level. Key elements of the increase include: energy cost escalation, increased service to accommodate the higher ridership level, wage and benefit increases as a result of the Commission's current collective bargaining agreements with its employees, general inflation, increased vehicle maintenance programs and, continued customer service improvements. Major changes in expenditures are described in further detail in Part 5 of the Operating Budget Overview section of this report.

- Subsidy is shown as unchanged from the 2011 budgeted level of $429.1 million. This amount excludes the long-term subsidy receivables from the City in the amounts of $13.68 million with regard to 2012 post-retirement benefits non-cash expenses and $14.0 million with regard to 2012 accident claims non-cash expenses (consistent with previous accounting treatment approved by Council).

- Year-end workforce will increase by 128 additional TTC operating positions as outlined in Part 6 of the Operating Budget Overview.

- Based on current subsidy levels there is a projected shortfall in the 2012 operating budget of about $39 million (before factoring in the impact of the next CBAs effective April 1, 2011).

FUNDING

In 2011, the City of Toronto approved an operating subsidy for the TTC conventional system of $429.1 million. A subsidy level of $468.1 million is required to balance the operating budget next year – assuming no fare increase and no service reductions and excluding post-retirement benefits and accident claims non-cash expenses and excluding any requirements as a result of the CBAs currently under negotiation. If subsidy is flat-lined at the 2011 level, there will be a $39 million shortfall in the 2012 budget as shown below:

2012 Operating Subsidy Required	$ 468.1 Million
2011 Operating Subsidy	429.1 Million
Shortfall	$ 39.0 Million*

* represents 2.6% of the expense base of $1.5 billion.

There are essentially three options available to address the projected $39 million shortfall: (1) reduce expenditures, (2) increase fares, or (3) increase subsidies.

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 partially mitigate the impact of normal annual cost increases. Given the TTC's current cost structure, where approximately 82% of expenses are for wages and benefits and vehicle energy, the only real mechanism to significantly reduce costs is to substantially reduce service. Service reductions are not proposed as part of this preliminary budget: the level of service level is essentially unchanged in 2012 with the exception of the introduction of additional service, based on current standards, to accommodate an additional 15 million riders (i.e. a projected ridership level of 502 million).

When the 2012 operating subsidy is confirmed, and in conjunction with the Service Review Program, recommendations on how to address the shortfall will be made.

2012 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 is projected to experience ridership growth in the range of 2.7% during 2011 (over the 2010 actual of 477 million rides) reflecting the net impact of various factors. Year-end ridership is currently forecast to be upwards of 490 million (compared to the budget of 487 million).

Millions	2011 BUDGET	2011 PROBABLE	2012 BUDGET	2012 BUDGET vs 2011 BUDGET
Ridership	487	490	502	15

For 2012, moderate economic and employment growth for the Toronto area economy is anticipated. It is expected that ridership will be in the order of 502 million next year – an increase of 15 million rides (3%) over the 2011 budget. These ridership projections do not reflect the impact of any changes to the fare structure or mix.

PART 2: Revenues

Passenger fares account for almost 95% of TTC revenues. Based on the current fare structure and mix, farebox revenues are expected to increase by $29.6 million in 2012 over the 2011 budgeted level.

Other revenues are expected to increase by about $2.6 million, as a result of increased cost recoveries for outside city services, higher rental revenues and increased commuter parking lot revenues. Advertising revenues remain unchanged pending the outcome of a Request for Proposals that has been issued to secure a new contract effective January 1, 2012.

PART 3: Service

Service levels in 2012 are budgeted to accommodate a ridership level in the range of 502 million. The service budget includes approximately 8.6 million hours and 232 million kilometres of service which represent marginal increases over 2011 levels in the order of 3.3% in service hours and 2.7% in service kilometres. The 2012 service budget is based on current service standards and provides for the annualized impact of 2011 service changes, a higher budgeted ridership level, 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 cost saving initiatives and improvements:

1. Diesel Fuel – in most recent years, action was taken to lock-in the price for the Commission's diesel fuel requirements at rates well below the original projections which resulted in significant savings relative to budget (in 2010, for example, more than $15 million was saved relative to budget). Staff is currently monitoring market prices for 2011 and 2012 with a view to minimizing the diesel fuel bill while protecting against significant variations in price for the upcoming year. To this end, staff continue to work with the City on the development of a fuel hedging strategy.

2. Bio-diesel fuel – the decision to discontinue the use of bio-diesel in our bus fleet has reduced annual fuel costs by approximately $1.5 million.

3. Green Power - the decision to discontinue the purchase of green power has reduced hydro costs by approximately $0.7 million per year.

4. Conversion of contracted IT resources to staff positions – has reduced costs and resulted in the retention of critical skills within the TTC and provided for necessary business continuity. Total annual savings are in the order of $1.7 million.

5. Hybrid Bus Fuel Savings - the use of hybrid buses has resulted in the consumption of approximately 4 million fewer litres of diesel fuel annually resulting in a savings of about $4 million per year.

6. Elimination of Adult Tickets – the elimination of Adult tickets as a defensive measure against increasing levels of fare media counterfeiting reduced revenue losses by between $3 million to $4 million annually.

7. Fare Evasion – Through the "Fare is Fair" strategy, the TTC's Transit Enforcement Officers are proactively enforcing fare payment to ensure everyone pays the appropriate fare when entering the system. Through education, awareness and ultimately, enforcement, Transit Enforcement Officers work with other TTC personnel to reduce fare evasion across the system. Fare evasion accounts for an estimated revenue loss of between $10 and $20 million annually.

8. Accident Claims – in an effort to contain the ever-increasing cost of accident claims for transit operators, the TTC, CUTA and OPTA made submissions to the Province seeking an exemption for all public transit organizations from no-fault insurance. Bill 173, the Ontario Budget Bill received Royal Assent on May 12, 2011 and it is anticipated that this change will save several millions of dollars per annum for the TTC once its impact is fully realized. In addition, 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.

9. 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.

10. 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.

11. Safety Culture – A consultant was 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 included 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 April 2011, it is estimated that about $5 million in lost-time injury costs have been avoided. During this time, the lost-time injury rate has fallen by about 30%.

12. 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 pilot exercises at

selected work locations over the past 3 years showed that the sick day absence rate decreased by about 0.7% (from 6.6 % to 5.9%) 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.

13. 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.

14. 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 has been introduced. Also, a next train arrival system is in place and the next vehicle arrival system for surface vehicles is in the process of being rolled out in order to provide customers with real-time information related to the arrival of the next vehicle.

15. 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.

16. Warranty Recoveries – as a result of the addition of staff resources, increased monies (as much as $0.8 million in 2010 alone) will be recovered from suppliers for warranty work completed by TTC personnel on the bus fleet.

17. Administrative Fees and Life Insurance Premiums – as a result of a joint tender with the City of Toronto and Toronto Police Services, it is estimated that the TTC will achieve projected savings of $14 million over the next five years due to lower administration fees and insurance premiums.

18. Other – additional initiatives include: an extensive review of various on-line and hard copy legal publications has reduced these costs ($24K); with upgraded software and improvements in production workflow, colour copying charges have been reduced through the maximization of the number of images printed per sheet ($53K); reduced recruitment advertising expenses through increased usage of TTC website ($35K); making “Coupler” an on-line only publication (approximately $150K), and; earlier intervention strategies under the Commission’s attendance management program and increased involvement of in-house medical resources will lower requirements for independent medical examinations ($50K).

Notwithstanding these efforts, the fiscal challenge facing the Commission in 2012 is neither 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 2011 and is amongst the highest for municipal transit agencies - not only in Canada and North America, but, around the world. The 2011 budget included a subsidy of about 88 cents per rider which is virtually the same level of subsidy per rider received in 1992 (expressed in 2011 dollars). This is significantly below the subsidy per rider levels of many other major transit agencies which, for 2009, ranged from a low of $1.19 for Montreal to a high of $5.40 for Atlanta. 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 $71.2 million (about 5%) in 2012. No provision has been incorporated into the 2012 budget with regard to the Collective Bargaining Agreements that expired March 31, 2011 pending the outcome of negotiations. The increases fall into the following areas:

1. Diesel Fuel: $31.2 million. Based on a City of Toronto budget guideline for a projected 35% increase in the price per litre over current average budgeted prices for 2011, and an allowance for a detergent additive required for the hybrid bus fleet, it is estimated that diesel fuel costs will increase by $31.2 million in 2012. An additional $3.7 million has been incorporated into the service expense line (below) to reflect the fuel requirement for the service increases planned for 2012. As in the past, staff continue to monitor spot market and future prices for diesel fuel (in conjunction with the City) with a view to minimizing the overall fuel bill and to minimizing price volatility.

2. Service: $19.3 million. The primary drivers of this change include an increase in the hours and kilometers of service to be provided (based on current standards) to meet the increase in projected ridership of 502 million customers in 2012.

3. Other Employee Costs: $ 8.6 million. These costs are expected to increase by approximately $10.7 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 $2.0 million reduction in administration fees and insurance premiums as a result of a recent tender for these services. Of this increase, approximately $2.1 million is attributable to the service element (above) and has been included in that item. It should be noted that of the total Other Employee Costs budget, approximately $13.7 million has been incorporated into the budget for 2012 post-retirement benefit non-cash expenses (dental and healthcare) which will be covered through a long-term subsidy receivable from the City.

4. Bus Maintenance Programs: $4.5 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 engine controls, exhaust systems) and include additional systems such as cameras and stop announcements which must be maintained. The cost of maintaining the bus fleet will increase with more buses coming off warranty, a maintenance contract required for the camera system (which is also off warranty), the addition of urea fluid to meet new emissions standards and upgraded lubricants and coolants.

5. Inflationary Price Increases: $3.1 million. A general allowance of approximately 2% has been provided for inflationary increases on the purchase of goods and services,

other than those items already provided for separately elsewhere in this budget.

6. Calendar Adjustment: $2.8 million. With 2012 being a leap year, there will be one more week day to provide transit service which will result in increased costs.

7. Leased Facilities: $2.6 million. The annualization of the cost of the leased facility for the Revenue Operations department along with inflationary increases on other leased facilities, predominantly office space, account for this increase.

8. Text Messaging: $1.3 million. This reflects a preliminary assessment of the costs associated with sending text messaging to customers to confirm surface vehicle arrival information. The business model is still under development and the Commission will consider a pricing decision in the next few months.

9. Efficiencies: ($2.5 million). The key factor behind this improvement is a change in various preventive maintenance programs for the bus fleet (including moving from a 3-year cycle to a 4-year cycle, changes to production volumes, and increased intervals for brake relines) which has resulted in the reduction of 12 maintenance positions and associated material requirements.

10. Other: $0.3 million. All other changes net out to an increase of about $0.3 million.

In addition, it should be noted that, in most recent years, the cost of accident claims has increased by $5 to $10 million. For 2012, however, the budget has been held flat as a result of the recent passing of Bill 173 which provides an exemption from no-fault insurance for public transit operators. It is anticipated that this legislative change will have a significant favourable impact on accident claims costs on an annualized basis once it works its way through the system. The impact will need to be assessed over time and, in conjunction with our actuary and the claims budget will be adjusted as appropriate in the future. Of the 2012 total estimated accident claims expense, approximately $14 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 2012 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 benefit costs.

Exhibit 1 (attached) provides a summary of the Commission's 2012 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 2012 operating budget. In addition, it is important to note that there is currently a sizeable number of TTC employees who are in a position to retire. If a greater than average number were to do so in any given year, this could present significant logistical challenges to the TTC from an operational perspective.

The TTC operating workforce level is projected to increase by 128 positions from 10,706 to a total of 10,834 at December 31, 2012. The increase consists of: 24 positions required to maintain existing service levels and an additional 164 positions to accommodate an increased ridership level. These increased resource requirements are partially mitigated by the following reductions: 53 fewer operational personnel primarily reflecting the introduction of the new Toronto Rocket subway trains (which are expected to require less maintenance work than the H4/H5 subway trains they are replacing) and a shift in the preventive bus maintenance program from a 3-year to a 4-year cycle, and 7 fewer positions required due to the completion of the Orion V bus panel replacement work.

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 growth in its workforce relative to population, ridership and service growth.

	Change from 1992 to 2012
Population	+ 20.8%
Ridership	+ 24.2%
Service Level (hours)	+ 24.6%
Service Level (kilometres)	+ 24.0%
Operating Budget Workforce	+ 14.7%

FUTURE OUTLOOK

For 2013 and beyond, it is anticipated that costs will increase in line with inflation for most elements of the operating budget before incorporating any impact from the following items:

- Wage and benefit impacts of the next set of Collective Bargaining Agreements
- Future energy price increases
- Increasing costs for parts on new vehicles
- Opening of new lines (e.g. Eglinton Cross-town)
- Opening of new maintenance & storage facilities (e.g. Ashbridges Bay)
- Adoption of Public Sector Accounting Standards
- Pension solvency requirements
- Legislation affecting accident claims

Without factoring in these cost elements, if we assume that ridership will grow based on current economic forecasts and that corresponding service is added (based on current standards), and that all other costs increase in line with current experience or based on actual or anticipated contractual commitments, and if fares are held constant and subsidy is flat-lined at the 2011 level, the TTC's financial situation will continue to present a significant challenge in the coming years. The gap between revenues and expenses can be expected to grow by about $50 to $70 million per year. Action is required and a plan is necessary in order to address not only the immediate need for additional funding in 2012 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 customers, the citizens of the City of Toronto and for the Greater Toronto Area overall. Therefore, 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. It is expected that this work will be carried out concurrently with the City's Service Review Program this year and that it will provide valuable input and guidance for future budgets.

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May 26, 2011
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Attachment: Exhibit 1 – 2012 Operating Budget Summary

EXHIBIT 1
TORONTO TRANSIT COMMISSION
2012 OPERATING BUDGET

($000s)

	2011 BUDGET	2012 BUDGET	2012 vs 2011 BUDGET CHANGE
REVENUES			
Passenger Revenues	948,050	977,600	29,550
Outside City Services & Charters	17,748	18,451	703
Advertising	20,250	20,250	-
Rent Revenue	8,829	9,190	361
Commuter Parking	9,470	11,146	1,676
Other Income	2,434	2,310	(124)
TOTAL REVENUES	1,006,781	1,038,947	32,166
EXPENSES			
CGM's Office	14,349	13,869	(480)
Engineering & Construction Branch	3,828	6,460	2,632
Executive Branch	84,771	84,838	67
Operations Branch	842,521	858,733	16,212
Other Employee Costs *	257,925	268,620	10,695
Vehicle Fuel	86,296	121,219	34,923
Traction Power	37,623	39,500	1,877
Utilities	20,431	20,959	528
Depreciation	26,400	27,137	737
Taxes and Licences	3,906	3,098	(808)
Accident Claims & Insurance **	32,937	33,044	107
Non-Departmental Expenses/Cost Recoveries	24,905	29,571	4,666
TOTAL EXPENSES	1,435,892	1,507,048	71,156
Operating Subsidy Required	429,111	468,101	38,990
2011/12 Operating Subsidy	429,111	429,111	
ADDITIONAL SUBSIDY REQUIRED	-	38,990	***

* City Council's approval of the 2006 TTC and Wheel-Trans operating budgets included the establishment of a long-term receivable from the City for budgeted non-cash expenses related to post-retirement benefits. The budget for these expenses has been deducted to match the City's subsidy for the current year. For 2012, the budget is $13.680 million ($13.375 million in 2011).

** City Council's approval of the 2010 TTC and Wheel-Trans operating budgets included the establishment of a long-term receivable from the City for budgeted non-cash expenses related to accident claims. The budget for these expenses has been deducted to match the City's subsidy for the current year. For 2012, the budget is $14 million ($14 million in 2011).

*** Represents 2.6% of the expense base of $1.5 billion.