



2019 TTC and Wheel-Trans Operating Budgets

Date: January 24, 2019
To: TTC Board
From: Chief Financial Officer

Summary

This report is seeking the approval of the staff-recommended 2019 TTC Conventional and Wheel-Trans Operating Budgets with \$2,059 million in total expenditures and \$763 million in total requested City subsidy in support of projected 2019 ridership of 526.3 million revenue rides.

2019 Recommended Operating Budget										
(\$ Millions)	TTC Conventional			Wheel-Trans			Combined			
Description	Expense	Revenue	Net	Expense	Revenue	Net	Expense	Revenue	Net	
2018 Approved Budget	1,844	1,247	597	153	9	144	1,997	1,256	741	
2019 Proposed Budget	1,910	1,288	622	149	8	141	2,059	1,296	763	
Total 2019 Pressure	\$	66	41	25	(4)	(1)	(3)	62	40	22
	%	3.6%	3.3%	4.1%	-2.5%	-6.0%	-2.3%	3.1%	3.2%	3.0%

A key goal of the 2019 Operating Budget process was to preserve service improvements and initiatives introduced and/or reinstated over the past five years including:

- ✓ Two-hour Transfer (**Introduced in 2018 with a 2019 annual cost of \$20.5 million**)
- ✓ Capacity Improvement Initiatives (**Introduced in 2018 with a 2019 annual cost of \$13.5 million**)
- ✓ Toronto-York Spadina Subway Extension
- ✓ 10 Minute Network
- ✓ All-Day Everyday Bus Service Restored
- ✓ Expanded Express Bus Network
- ✓ Expanded Blue Night Network
- ✓ Early Sunday Opening
- ✓ Free Child Rides
- ✓ Subway Resiliency
- ✓ PRESTO implementation

The recommended 2019 Operating Budget ensures the TTC is able to build on its 2018 service accomplishments, including the capacity to deliver 100% of all planned service. Among other actions to achieve this, an additional 5 subway trains, 87 buses and 56 streetcars/buses were put into service during the year.

When staff began developing the 2019 Operating Budget, budget pressures of \$182.8 million were initially identified (\$177 million for TTC and \$5.8 million for Wheel-Trans). Extensive budget and line-by-line reviews were conducted to eliminate, reduce or offset this but \$96.4 million in pressure remained.

Key Components of 2019 Funding Pressure		
Key 2019 Incremental Pressures (\$Millions)		
PRESTO Transition	18.5	Council Directions
Two Hour Transfer (annualization)	14.4	
Capacity Improvements (annualization)	8.5	
2019 Service to Adhere to Service Standards	5.0	
Collective Bargaining	29.2	Economic Factors
Diesel Price	13.0	
Eglinton Crosstown - Bus Augmentation	7.8	
Total Key 2019 Incremental Pressures	96.4	

TTC staff continued to review opportunities for operational efficiencies, reductions in non-service related expenditures, and opportunities to expand non-fare revenue. The outcome was a 2019 Operating Budget that addresses the \$96.4 million pressure in three ways:

Recommended Path to Balancing the 2019 Budget (\$Millions)		
TTC Expenditure and Non-Fare Revenue Review (No Reductions in Service)		
TTC Conventional Reductions in Base Expenditures	45.5	Includes \$24 million in undetermined corporate reductions
Wheel-Trans Reductions in Base Expenditures	3.3	
City of Toronto Subsidy		
2019 Increased Funding Request	22.0	
TTC Fares		
10 Cent Fare Increase	25.6	April 1 implementation (No Change To Adult Cash Fare)
Total	96.4	

TTC and Wheel-Trans Base Funding Reductions

In addition to \$86.4 million in identified offsets or reductions to initial 2019 budget pressures which totalled \$182.8 million, staff are recommending that the 2019 Operating Budget include \$45.5 million in reductions to TTC base expenditures as well as a \$3.3 million reduction in overall Wheel-Trans funding.

These reductions will not impact service provided and are based on a combination of efficiencies expected to be gained in 2019 through completed capital initiatives,

audit recommendations, a review of historical spending patterns and \$24 million in undetermined corporate reductions which will be determined in-year based on spending experienced across numerous Corporate accounts.

Accounts under review for the \$24 million corporate budget reduction are outlined on page 13 and are focused on items that would avoid any service reduction. This strategy places TTC at significant risk of running a deficit in 2019 but was necessary to avoid any reduction to service, limit the required City subsidy increase, and keep the recommended fare increase in line with inflation since the previous fare increase two years ago.

City Subsidy Request

The staff-recommended 2019 Operating Budget contemplates a \$22 million or 3% increase in City funding above 2018 approved funding levels.

This requested increase is essential to enable the TTC to deliver on Council priorities and to accommodate unavoidable inflationary and other cost pressures.

TTC Fares

As a final measure to balance the 2019 Operating Budget while preserving all service gains achieved over the past five years, TTC staff are recommending a 10 cent fare increase effective April 1, 2019 to provide \$25.8 million in anticipated additional Conventional and Wheel-Trans revenue net of PRESTO commissions.

It is recommended that this increase be applied across all fare types with the exception of Adult Cash fares which would remain unchanged at \$3.25.

Of note, the \$25.8 million in revenue from the recommended fare increase is lower than the \$34.0 million full year costs of enhancements approved as part of the 2018 Budget (Two-hour transfer - \$20.5 million & Capacity Improvements \$13.5 million).

Recommendations

It is recommended that the TTC Board:

1. Approve the recommended 2019 TTC Conventional Operating Budget as detailed in this report, with gross expenditures of \$1.911 billion, revenues of \$1.289 billion and net subsidy requirement of \$621.9 million, reflecting an additional \$25.3 million operating subsidy over the 2018 budgeted level;
2. Approve the recommended 2019 Wheel-Trans Budget as detailed in this report, with gross expenditures of \$149.0 million, revenues of \$8.1 million and net subsidy requirement of \$140.9 million, reflecting a reduction of \$3.3 million from the 2018 budgeted level;

3. Approve a 10 cent fare increase as described in this report and Appendix C effective April 1, 2019 generating \$25.8 million in passenger revenues, net of PRESTO fees;
4. Request that City Council approve a variable increase to the Transportation Services managed Lane Occupancy fee, to recover incremental costs of required additional service hours to maintain service standards resulting from lane occupancy permits;
5. Approve a 2019 year-end workforce complement of 15,951 positions as described in Appendix G; and
6. Forward this report to the City Budget Committee and the City Manager as the official 2019 Operating Budget submission for the Toronto Transit Commission.

Financial Summary

Budget Direction

The 2019 budget process and directions are guided by the Long Term Financial Plan that was before Executive Committee on March 19, 2018 (*EX32.1 City of Toronto Long-Term Financial Plan*). Executive Committee requested the City Manager to report back on individual strategies and key actions contained within the Long-Term Financial Plan to Executive Committee, as appropriate, following the start of the 2018 to 2022 term of Council.

The *2019 Budget Process, Directions and Guidelines* memo directed that all City Programs, Agencies and Accountability Offices absorb program costs and pressures so that their 2019 Net Operating Budget equaled their 2018 Net Operating Budget. This directive established a 2019 target of a 0% subsidy increase for the TTC and Wheel-Trans Operating Budget.

At the same time, the TTC Board and City Council directed staff to introduce the two-hour transfer and initiate 2018 capacity improvements. As detailed in reports to the TTC Board on November 28, 2017 and May 8, 2018 these two initiatives increased annual costs by \$34 million, with \$22.9 million being the resulting 2019 incremental subsidy pressure. In addition, the Board directed TTC staff on June 12, 2018 to include incremental PRESTO transition costs in the 2019 budget, resulting in a further \$18.5 million pressure. Combining these directions with 2019 service changes to adhere to Board-mandated service standards, TTC staff were directed in effect to add \$46.4 million in net costs to the budget, not including additional economic and other cost pressures.

Budget Summary

Staff have identified substantial reductions to offset 2019 cost pressures, without impacting service levels or standards. However, the impact of key prior year decisions and unavoidable pressures outlined in the following table have resulted in a need for a combined \$22 million subsidy increase and a 10 cent fare increase.

2019 Key Cost Drivers (\$Millions)				
Description	Gross	Revenue	Net	Pos.
2018 Approved Budget*	1,997.1	1,256.2	740.9	15,805
<u>Prior Year Decisions</u>				
PRESTO Transition Costs	18.5		18.5	23
Two Hour Transfer	(0.1)	(14.5)	14.4	11
2018 Capacity Improvements	10.5	2.0	8.5	
2019 Service Initiatives to adhere to service standards	5.0		5.0	66
<u>Major Unavoidable Pressures</u>				
Collective Bargaining	29.2		29.2	
Diesel Price Change	13.0		13.0	
Eglinton Crosstown - Bus Augmentation	7.8		7.8	
Total Prior Year Decisions and Economic Factors	83.9	(12.5)	96.4	100
% Change from 2018	4.2%	(1.0%)	13.0%	0.6%
Proposed Fare Increase	1.3	26.9	(25.6)	
Wheel-Trans Reductions in Base Funding	(3.8)	(0.5)	(3.3)	17
TTC Conventional Reductions in Base Funding	(19.0)	26.5	(45.5)	29
Total TTC 2019 Operating Budget	2,059.5	1,296.6	762.9	15,951
Change from 2018	62.4	40.4	22.0	146
	3.1%	3.2%	3.0%	0.9%

*Includes 2018 Council approved in-year adjustments

Equity/Accessibility Matters

The TTC is strongly committed to making Toronto's transit system barrier-free and accessible to all. We believe all customers should enjoy the freedom, independence and flexibility to travel anywhere on the public transit system. All expenditures required to meet the TTC's accessibility and equity requirements are provided for in these budgets, including a \$1.6 million increase in funding for elevator maintenance and continued implementation of Wheel-Trans Family of Services.

We are also aware that a 10 cent fare increase will be an affordability issue for some TTC customers. While this impact will not be fully mitigated, actions will be taken in 2019, in addition to past fare policy initiatives, to lessen this impact. New and continued initiatives include:

- ✓ No change in adult cash fare which will remain at \$3.25;
- ✓ Free PRESTO cards have been distributed to Toronto Community Housing residents;
- ✓ Full year implementation of the Two Hour Transfer; and
- ✓ Children under 12 ride free.

The TTC continues to work with the City on Fair Pass Discount Program implementation. Phase One of the Program was launched on April 4, 2018 and is now available to residents receiving Ontario Disability Support Program (ODSP) and Ontario Works (OW) assistance who are not already in receipt of monthly transportation support of \$100 or greater.

Customers who are eligible for this program receive a 33% discount on the adult single fare or a 21% discount on the price of a monthly adult pass.

Subject to City Council budget approval, future phases of the Fair Pass Discount Program will extend eligibility to residents receiving housing support or child-care fee subsidies and other Toronto residents living with a household income under the Low-income Measure (LIM) plus 15 per cent.

Decision History

At its meeting on November 28, 2017, the TTC Board approved:

- 1) The 2018 TTC and Wheel-Trans Operating budgets:
[http://www.ttc.ca/About the TTC/Commission reports and information/Commission on meetings/2017/Nov 28/Reports/2 2018 TTC and Wheel Trans Operating Budgets Decision.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20on%20meetings/2017/Nov%2028/Reports/2%202018%20TTC%20and%20Wheel%20Trans%20Operating%20Budgets%20Decision.pdf)
- 2) The implementation of a two-hour transfer policy on PRESTO:
[http://www.ttc.ca/About the TTC/Commission reports and information/Commission on meetings/2017/Nov 28/Reports/Decisions/1 Introducing a Two-Hour Transfer Policy Decision.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20on%20meetings/2017/Nov%2028/Reports/Decisions/1%20Introducing%20a%20Two-Hour%20Transfer%20Policy%20Decision.pdf)

At its meeting on May 8, 2018, the TTC Board approved capacity improvements, with a total net cost of \$13.5 million, of which \$8.5 million reflected to full year effect in 2019.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission on meetings/2018/May 8/Reports/Decisions/7 Capacity Improvements on Bus and Subway Services Decision.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20on%20meetings/2018/May%208/Reports/Decisions/7%20Capacity%20Improvements%20on%20Bus%20and%20Subway%20Services%20Decision.pdf)

At its meeting on June 12, 2018, the TTC Board directed staff to include PRESTO transitional costs in the 2019 operating budget.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission on meetings/2018/June 12/Reports/Decisions/13 PRESTO Update and Transit Overview Decision.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20on%20meetings/2018/June%2012/Reports/Decisions/13%20PRESTO%20Update%20and%20Transit%20Overview%20Decision.pdf)

At its meeting on March 19, 2018, Executive Committee adopted with amendments the City of Toronto Long-Term Financial Plan. Guided by the Long Term Financial Plan, the 2019 Budget Process, Directions and Guidelines report mandated: “all City Programs, Agencies and Accountability Offices absorb program costs and pressures so that the 2019 Net Operating Budget equals the 2018 Net Operating Budget.”

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX32.1>

Comments

Part 1: 2019 TTC Conventional Operating Budget

2019 Conventional Budget Pressures and Actions Taken

The 2019 recommended TTC Conventional operating budget includes an increased subsidy request of \$25.3 million and fare changes to increase revenue by \$25.6M.

TTC Conventional Subsidy Pressures and Reductions Summary		
2019 Budget Process to-date	Amount (\$M)	Page Reference
2019 Budget Pressures	177.0	8
Actions taken to reduce 2019 Pressures	(102.1)	9
Remaining Pressure (Funding Shortfall)	74.9	
Additional Expenditure Reductions		
Undetermined Corporate Reduction	(24.0)	13
Remaining Pressure (Before Fare Increase)	50.9	
Fare Change		
10 cent fare increase	(25.6)	Appendix C
2019 Incremental Subsidy Request	25.3	

The \$177 million in opening budget pressures spanned a wide range of prior year impacts, economic factors, operating impacts of capital and other costs.

Key Cost Drivers	
2019 TTC Conventional Base Operating Budget (\$Millions)	TTC Net
Prior Year Impacts	
PRESTO - Transition (June 12, 2018 Board Report)	18.5
Two Hour Transfer (November 28, 2017 Board Report)	14.4
Reversal of Stabilization Reserve Draw	14.0
Capacity Improvements (May 8, 2018 Board Report)	8.5
2019 Service to Adhere to Standards	5.0
Workforce: ESA 48 (July 10, 2018 Board Report)	4.5
Consolidated Warehouse (October 16, 2017 Board Report)/Leslie Barns	4.3
Subtotal: Prior Year Impacts	69.2
Economic Factors	
Collective Bargaining	29.2
Diesel Price	22.5
Employee Benefits (Inflation/Utilization)	10.8
Traction Power & Utilities	6.0
Material Price Inflationary Increase	4.5
Subtotal: Economic Factors	73.0
Operating Impacts of Capital	
McNicol Bus Garage (primarily Master Sign-up)	2.9
SAP	1.9
Vision	1.6
Other IT Systems	1.6
Other (Primarily: Rail Cars and Markham Road)	0.7
Subtotal: Operating Impact of Capital	8.7
Eglinton Crosstown Bus Supplemental Service	7.8
Operator Hiring and Legislated Training	4.1
Bus replacement of Streetcar Service	3.3
Maintenance (Elevator contracts, TR Re-Wheel, generators/line testing)	3.9
Safety/Reliability	3.5
Office Space Management	1.5
Other	2.0
Subtotal: Base Changes	26.1
Total TTC Conventional Operating Budget Key Cost Drivers	177.0

Budget Reductions and Efficiencies Identified

Following the identification of the 2019 budget pressures, extensive budget and line-by-line reviews were conducted that reduced the TTC Conventional subsidy pressure by \$102.1 million. The reductions were limited to ones with no service impact.

Actions Taken to Reduce Pressure	
2019 TTC Conventional Base Operating Budget	
(\$Millions)	TTC Net
Operating Budget Identified Pressure	177.0
Operating Impacts of Capital	
Bus Fleet Renewal	(4.8)
Legacy Streetcar Retirements	(1.7)
Automatic Train Control	(0.8)
Base Changes	
<i>Line by Line Review</i>	
Benefits	(16.6)
Traction Power	(14.4)
<i>Expenditure Reductions</i>	
Diesel	(9.5)
Absorption of Material Price Increase	(4.5)
Paid Emergency Leave Elimination	(4.1)
AG Procurement Recommendations	(2.0)
Other Expenditure Reductions	(4.9)
<i>Funding Strategies</i>	
Stabilization Reserve Draw	(15.4)
Accident Claims	(10.0)
Revenue Changes & Initiatives	
Average Fare (Net of Ridership Change)	(6.0)
Short-Term Revenues	(4.6)
Lane Occupancy: Cost Recovery	(0.3)
Ancillary Revenue Changes	(2.5)
Subtotal: Reduction Actions	(102.1)
2019 TTC Conventional Pressure After Reduction Actions	74.9
Additional Actions Taken:	
Undetermined Corporate Reduction	(24.0)
Fare Increase, Effective April 1, 2019	(25.6)
2019 TTC Conventional Subsidy Pressure	25.3

Operating Impact of Capital

Significant capital investments are being made to renew the bus fleet, reducing the average age of a TTC bus. As the proportion of vehicles under warranty increases, related maintenance costs will be reduced. In addition, the newer buses are on average more fuel efficient than older vehicles resulting in a 3% improvement in 2019 fuel consumption rates compared to the 2018 budget. Overall, the 2019 fuel consumption rate is expected to be 11% lower than in 2015, just four years ago.

Maintenance savings will also be achieved due to the renewal of the streetcar fleet, with all 204 new streetcars expected to be received by the end of 2019. In addition, the Line 1 Automatic Train Control signal project will eliminate the need for six Signal Technician positions in 2019.

Line-By-Line Reviews

In 2018, the TTC Conventional subsidy requirement benefited from lower traction power and utility costs (\$16 million) and lower employee benefits costs (\$13 million). These items were reviewed to determine what proportion of the underspending would likely be sustained into 2019 and a combined \$31 million was removed from the 2019 budget.

Expenditure Reductions

Expenditure reductions of \$25 million were incorporated as follows:

Diesel

TTC has secured hedges for approximately 45% of its 2019 first-half requirements and 65% of the second-half. The average hedge price of \$1.01/litre was significantly lower than the market price projection of \$1.13/litre at the start of the budget process resulting in a \$6.5 million budget reduction. Assumed price for the unhedged portion was also reduced given recent market trends, resulting in a further \$3 million reduction.

Absorption of Material Price Increase:

Through a series of departmental spending reviews focused on non-labour expenditures, reductions were identified that permitted the absorption of anticipated material price increases of \$4.5 million.

Personal Emergency Leave

In the 2018 budget, \$4.1 million was added to account for the impact of provincially-mandated paid personal emergency leave days. With the elimination of these leave days effective January 1, 2019, this cost has been removed from the budget.

City Auditor General Procurement Recommendations

In 2018, the TTC began to implement City Auditor General Procurement Recommendations related to:

- Blanket Contracts
- After-Market Warranties
- Improved core management processes
- Telecommunication Processes
- Accounts Payable.

These initiatives are expected to yield an additional \$2 million in combined savings in 2019.

Other Expenditure Reductions

A variety of reductions were made through the following initiatives:

- A review of material and contracted service expenditures and cost recovery opportunities, identified \$2 million in reductions, on top of the aforementioned absorption of the material price increase and procurement initiatives.
- A municipal capital exemption from property taxes on TTC leased properties was obtained in 2018 and results in savings of \$1.7 million.
- Reduced depreciation expense for assets funded through the operating budget saved \$1.2 million.

Funding Strategies

Accident Claims (One-Time) (Appendix H)

The Long-Term Liability Reserve was established to manage the annual variation in accident claim payments. Based on the current accident claim payment trends and the reserve balance, it is proposed to reduce the net accident claims budget by \$10 million. This is primarily reliant on a \$7 million draw from the Long-Term Liability Reserve. This approach will be manageable if total payments are typical but is inherently one-time in nature and will need to be reviewed if total payment amounts are atypically high.

Stabilization Reserve (One-Time) (Appendix I)

The 2018 Budget included a \$14 million draw from the Stabilization Reserve that ultimately was not required. It is proposed to draw \$15.4 million during 2019.

Revenue Changes & Initiatives

Given that 97% of TTC non-subsidy operating revenue is from passenger fares, TTC has relatively limited options to increase revenues outside of fare and subsidy increases. Staff reviewed all opportunities though and have budgeted \$17.9 million gross (\$13.4 million net) in additional operating revenue in addition to fare increase revenues.

Passenger Revenue

In 2018, TTC experienced a decline in total measured ridership but total revenue remained relatively consistent. The 2019 recommended budget assumes a stabilization of measured ridership and a continuation of the 2018 experience on average fare resulting in a net revenue gain of \$6 million.

To protect passenger revenue, a Revenue Protection Initiative is included in the budget to support fare inspection. Currently fare inspections are focused on proof-of-payment streetcar routes. With automated fare collection now occurring across all modes, TTC will review and strengthen its inspection activities using a risk-based approach to provide a consistent and more visible deterrent to fare evasion.

It is proposed to add 70 Transit Enforcement personnel comprised of 45 Fare Inspectors, 22 Transit Enforcement Officers and 3 Administrative & Supervisory support. The cost for these roles will be offset by incremental passenger revenue. In addition to protecting TTC passenger revenue, the presence of these personnel in the system will enhance system security.

Short-Term Rental Revenues

Existing leases on land being acquired as a future rail yard are expected to provide \$2.2 million in lease revenue in 2019. In addition a temporary construction license issued by TTC to a third party will provide \$2.4 million in revenue in 2019. In both cases these new revenues are short-term and are expected to be substantially eliminated by 2021.

Lane Occupancy Cost Recovery

Additional service hours are sometimes required to maintain service standards when traffic lanes are closed to facilitate private development work. We are recommending that the TTC work with City Transportation Services to recover these incremental costs via the City's lane occupancy fee. The current lane occupancy fee is based on City parking rates and does not currently factor in incremental costs incurred by TTC.

If implemented, applications for a lane occupancy permit will be assessed for expected traffic and resulting service delay impacts. Should the expected change in required driving time result in a TTC's crowding standard being exceeded, additional service will be added and the resulting incremental costs will be charged through the lane occupancy fee. Where possible, City Transportation staff will work with developers to identify alternate solutions to either limit or eliminate the TTC service cost impact and therefore the cost to developers.

Through this initiative, TTC expects to recover costs of \$0.3 million in 2019 and \$1 million upon full implementation in 2020. As an added benefit, it is expected that this will be an added incentive for developers to expedite their work to minimize lane closures, helping traffic flow generally.

Ancillary Revenue Changes

Increased ancillary revenues are expected to total \$2.5 million. This includes, increased interest income on bank balances as a result of higher interest rates, as well as additional rental income and outside City service revenue. In addition to the \$2.5 million increase that is included in the budget, TTC will pursue additional revenue opportunities, such as promotion efforts to increase commuter parking lot utilization, to offset part of the \$24 million in undetermined corporate reductions.

Undetermined Corporate Reductions

In addition to the \$102.1 million of reductions detailed above, the budget includes a further \$24 million in undetermined corporate reductions. Although it is routine as part of a budget process to impose corporate cost reductions, the 2019 budget includes a significant amount of undetermined corporate cost reductions (i.e. savings that need to be found) in order to preserve service improvements, limit the subsidy increase request and limit the fare increase. This approach incorporates considerable risk into the Budget as discussed in Appendix D and increases the risk that the TTC will incur a deficit in 2019. An illustrative cost-saving scenario is set out in the following table.

Undetermined Corporate Reduction: Potential Sources		
Source	Potential reduction	Condition Required to Achieve
Eglinton Crosstown	7.8	Successful collection of Eglinton Crosstown incremental service costs.
Diesel	4.0	Recent sharp reduction in market price must be sustained all year. Current market price is approximately 0.90/litre, 2018 average was \$1.04/litre.
Departmental non-labour expenses	4.0	Deferral or elimination of any discretionary items and would require continued improvement in bus & streetcar reliability, with delivery of new vehicles, yielding savings above the \$6.5 million already included in the budget.
Potential Labour underspending	3.2	Given the presence of 271 new operating positions and ongoing attrition, it is possible that some positions may be filled later than their budgeted start date.
Corporate Accounts	3.0	Assumes reduced funding requirements based on initiatives to improve inventory management, reduce vacation carry-overs and increased cost recoveries.
Employee Benefits	2.5	Assumes health and dental inflation increase will be 2% or lower instead of the 5% recommended by the plan administrator based on market trends to account for \$2M. Remaining \$0.5M to be achieved through absence management initiatives.
PRESTO Commissions	2.5	PRESTO revenue as a percentage of total passenger revenue will need to be 85% as opposed to the 89% originally budgeted for the full year. All monthly pass transactions are now on PRESTO and token and ticket sales will end in August, making this assumption difficult to achieve.
Accident Claims	2.0	This will reduce net budget to \$18M, \$5 Million below 2018 Actual results. This reduction is reliant on a corresponding draw from City's Long term Liability Reserve, which is not be sustainable for future years.
Traction Power and Utilities	2.0	Electricity price would need to be 2.5% lower than budget. This may occur with favourable variances on the highly variable global adjustment charge.
Revenue Initiatives	1.0	Promotion and other initiatives to increase commuter parking lot utilization rates.
Total Potential Sources	32.0	
Corporate Reduction Required	24.0	
Percentage Achievement Needed To Achieve Required Reduction	75%	

TTC Conventional Subsidy Requirement

After the application of all budget reductions and the recommended fare increase effective April 1, the TTC Conventional Subsidy request is \$621.9 million, an increase of \$25.3 million over 2018. The remaining drivers of this subsidy requirement are summarized in the following table.

2019 TTC Conventional Key Remaining Cost Drivers					
Description	(\$Millions)	Gross	Revenue	Net	Pos.
2018 Approved Budget*		1,844.2	1,247.6	596.6	12,670
<u>Prior Year Decisions</u>					
PRESTO Transition Costs		18.5		18.5	23
Two Hour Transfer		(0.1)	(14.5)	14.4	11
2018 Capacity Improvements		10.5	2.0	8.5	
2019 Service Initiatives to adhere to service standards		5.0		5.0	66
2018 Mid-Year Workforce Increase: ESA 48		4.5		4.5	
Consolidated Warehouse/Leslie Barns		4.3		4.3	
<u>Economic Factors</u>					
Collective Bargaining		29.2		29.2	
Diesel Price Change		13.0		13.0	
<u>Operating Impact of Capital</u>					
McNicoll Bus Garage (primarily Master Sign-up)		2.9		2.9	19
SAP		1.9		1.9	6
Vision		1.6		1.6	6
Bus Fleet Renewal		(4.8)		(4.8)	
Other Impact of Capital (Net)		(0.2)		(0.2)	5
<u>Base Changes</u>					
Eglinton Crosstown Supplemental Service Recovery		7.8		7.8	
Operator Hiring and Training		4.1		4.1	31
Bus Replacement of Streetcar Service		3.3		3.3	17
Toronto Rocket Re-Wheeling		1.5		1.5	8
Revenue Protection Initiative		4.5	4.5	0.0	70
Accident Claims		(3.0)	7.0	(10.0)	
All Other Changes (Net)		(15.5)	15.1	(30.6)	9
<u>Undetermined Corporate Reduction</u>					
		(24.0)		(24.0)	
<u>Fare Increase</u>					
		1.3	26.9	(25.6)	
Total Changes (2018 Approved to 2019 Budget)		66.3	41.0	25.3	271
Total TTC 2019 Operating Budget		1,910.5	1,288.6	621.9	12,941
Change from 2018		66.3	41.0	25.3	271
		3.6%	3.3%	4.2%	2.1%

*Includes 2018 Council approved in-year adjustments

Service Budget

The 2019 service budget includes a 2% increase in service hours compared to the 2018 Service Budget. These hours primarily relate to the annualization of the 2018 capacity improvements and planned service to adhere to service standards as summarized in the following table.

Annual Service Hour Summary				
	Bus	Streetcar	Subway*	Total
2018 Service Budget**	7,111,800	1,034,300	1,118,500	9,264,600
2019 Service Changes				
Annualization of 2018 Capacity improvements	92,500	0	12,400	104,900
2019 Initiatives to Adhere to Service Standards				
Run as directed	19,400	0	0	19,400
Bus service reliability	18,900	0	0	18,900
Seneca service & Area Network Review	10,900	0	0	10,900
Buses replacing streetcars	62,800	(27,900)	0	34,900
All other changes (net)	24,500	(26,000)	1,800	300
Subtotal 2019 Service Changes**	229,000	(53,900)	14,200	189,300
2019 Service Budget**	7,340,800	980,400	1,132,700	9,453,900
Note: 2018 Service Budget amended to include in-year Capacity Improvements approved by TTC Board.				
*Includes SRT				
**Excludes Non-scheduled and Construction Service				

Part 2: 2019 Wheel-Trans Operating Budget

2019 Wheel-Trans Budget Pressures and Actions Taken

The 2019 recommended Wheel-Trans operating budget includes a decreased subsidy requirement of \$3.3 million, comprised of \$5.8 million in opening base pressures offset by \$9.1 million in budget reductions.

Key Cost Drivers	
2019 Wheel-Trans Base Operating Budget	
(\$Millions)	Wheel-Trans Net
Prior Year Impacts	
Workforce: ESA 48 (July 10, 2018 Board report)	2.2
PRESTO Transition	0.1
Subtotal: Prior Year Impacts	2.3
Economic Factors	
Collective Bargaining	1.4
Employee Benefits	0.6
Fuel: Diesel and Gasoline	1.0
Subtotal: Economic Factors	3.0
Base Changes	
Other	0.5
Subtotal: Base Changes	0.5
Total Wheel-Trans Budget Key Cost Drivers	5.8

Wheel-Trans Budget Reductions

Following the identification 2019 budget pressures, extensive budget and line-by-line reviews were conducted that has reduced the Wheel-Trans pressure by \$9.1 million. These reductions were identified and implemented while maintaining the service standard of accommodating 99.5% of ridership demand.

Actions Taken to Reduce Pressure	
2019 Wheel-Trans Base Operating Budget	
(\$Millions)	Wheel-Trans Net
Wheel-Trans Budget Identified Pressure	5.8
Base Changes	
<i>Line by Line Review</i>	
Wheel-Trans Contracted Taxis	(7.6)
<i>Funding Strategies</i>	
Accident Claims	(0.5)
Expenditure Reductions	
Fuel: Diesel and Gasoline	(0.4)
Bus Maintenance Requirements	(0.4)
Revenue Changes	
10-cent Fare Increase	(0.2)
Subtotal: Wheel-Trans Reductions	(9.1)
2019 Wheel-Trans Subsidy Reduction	(3.3)

Revised Ridership Forecast

Wheel-Trans Contracted Taxis

A revised growth assumption of a 2.8% ridership increase from 2018 ridership reduced the cost pressure by \$7.6 million, mainly due to a reduction in budgeted ridership on taxi services combined with a lower budgeted cost per trip.

Other Reductions:

Accident Claims

Consistent with TTC Conventional, the Wheel-Trans net accident claims budget is being reduced by \$0.5 million. While this budget should be sufficient for standard payments, any large settlements will require a draw from the Long-Term Liability reserve.

Bus Maintenance – New Fleet

Approximately 65 new smaller vehicles are expected to be received by year-end 2019, for a total of approximately 130 new smaller vehicles. These vehicles are expected to have lower operating costs compared to the existing Friendly Buses, saving \$0.4 million in maintenance costs.

Fuel

A comprehensive review of diesel & gasoline costs was undertaken, resulting in \$0.4 million in savings through:

- Further vehicle replacements in 2019, with 50% of the fleet being comprised of newer, smaller vehicles and are expected to be more fuel

efficient than the existing fleet, resulting in anticipated consumption savings.

- Hedging 56% of the 2019 diesel fuel requirements at an average price of \$1.01/litre compared to the market price of \$1.13 at the start of the budget process.

Investing for future efficiencies

As described in Appendix G, the Wheel-Trans budget includes the addition of 17 positions. The additional resources will accommodate the 2.8% increase in budgeted ridership in 2019 over 2018 actuals and will continue to support improving operational efficiencies in the delivery of Wheel-Trans Bus service. Appendix B shows the year-over-year changes in budgeted revenues and expenses relative to 2018.

Wheel-Trans Ridership

	2019 Budget	2018 Projected	2018 Budget
Ridership in ('000)	4,304	4,185	4,808
2019 Ridership increase relative to 2018		119	(504)
2019 Ridership percentage change relative to 2018		2.8%	-10.5%

The 2019 Wheel-Trans budget incorporates a 2.8% growth rate between the 2018 projected ridership of 4.2 million and the 2019 budgeted ridership of 4.3 million. Ridership demand has stabilized in 2018 after years of significant growth as a result of increased customer awareness of the Family of Services program and increased accessibility across the conventional system.

Part 3: Preliminary 2020-2021 Budget Outlooks

Preliminary net incremental outlooks for TTC Conventional and Wheel-Trans service reflect an anticipated incremental base subsidy requirement of \$108.6 million in 2020 and \$76.8 million in 2021 as outlined in the table below.

Inflationary pressures and reversal of one-time funding strategies to balance the 2019 budget comprise approximately 70% of the outlook pressures. Also reflected is the projected opening of Eglinton Crosstown in Q4 2021. These outlooks include the annualization of the recommended April 1, 2019 fare increase but do not include any other future fare increases.

Outlooks: Base Incremental Subsidy Requirements (\$Millions)		
TTC Conventional	2020	2021
<u>Economic Factors</u>		
Energy, Benefits, Material Price Increase	40.9	22.8
Collective Bargaining	25.2	27.1
<u>Operating Impact of Capital</u>		
Eglinton Crosstown	0.3	26.2
PRESTO Fees	7.2	0.6
Legacy Fare Media Elimination	(16.2)	
One Person Train Operation		(14.8)
Streetcar Retirement, New LRVs and Electric Buses	(5.1)	(1.7)
New Bus Garage/Maintenance Facilities	5.5	3.9
<u>Funding Strategies</u>		
Stabilization Reserve	15.4	
<u>Base Changes</u>		
Ridership Growth and Service Initiatives	11.2	7.1
Safety/Reliability	8.5	
All other changes (net)	9.4	(3.6)
<u>New & Enhanced</u>		
Service Improvements	1.8	7.0
Subtotal: TTC Conventional Base Subsidy Pressure	104.1	74.6
Wheel-Trans		
Economic Factors (Energy, Benefits, Material Price Increase)	1.0	0.5
CBA Increase	1.1	1.1
Ridership Increase (3% in 2020, 3% in 2021)	3.0	1.8
Family of Services Efficiencies	(1.1)	(2.2)
All other changes (net)	0.5	1.0
Subtotal: Wheel-Trans Base Subsidy Pressure	4.5	2.2
Overall Combined Base Subsidy Pressure	108.6	76.8

On-Going Major Transformational Projects

Several transformative projects are ongoing which will enhance customer service while generating costs savings and/or cost avoidance in future years. These include:

- Automatic Train Control/Implementation of One-Person Train Operation
- Legacy Fare Media Elimination
- Wheel-Trans Family of Services
- Purchase of Electric Buses
- VISION system to modernize the management of the bus and streetcar system
- SAP to modernize financial and human resources practices.

The financial impact of these transformational projects has been incorporated into the 2019 budget and reflected in the 2020 and 2021 Outlooks.

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Attachments

Appendix A TTC 2019 Operating Budget
Appendix B Wheel-Trans 2019 Operating Budget
Appendix C April 1, 2019 Recommended Fare Schedule
Appendix D Budget Risks
Appendix E TTC Ridership and Revenue Trends
Appendix F TTC Key Cost Drivers
Appendix G Workforce Complement
Appendix H Long-Term Liability Reserve
Appendix I TTC Stabilization Reserve

**TORONTO TRANSIT COMMISSION
2019 OPERATING BUDGET**

(\$000s)

	2018 BUDGET	2019 BUDGET	2019 vs. 2018 BUDGET CHANGE
REVENUES			
Passenger Revenues	1,170,260	1,195,800	25,540
Outside City Services & Charters	7,574	7,847	273
Advertising	28,350	28,375	25
Rent Revenue	10,590	13,789	3,198
Commuter Parking	10,836	10,882	46
Other Income	5,969	9,199	3,230
Stabilization Reserve Draw	14,000	15,691	1,691
Long-term Liability Reserve Draw	0	7,000	7,000
TOTAL REVENUES	<u>1,247,580</u>	<u>1,288,583</u>	<u>41,003</u>
EXPENSES			
CEO's Office	25,492	25,146	(347)
People Group	38,924	42,975	4,051
Strategy and Customer Experience Group	15,279	16,573	1,294
Engineering and Construction Group	4,664	4,633	(31)
Corporate Services Group	63,968	67,462	3,494
Operations Group	330,803	332,487	1,684
Service Delivery Group	755,202	770,626	15,424
Employee Benefits	304,905	307,407	2,502
Collective Bargaining Agreement	17,800	47,000	29,200
Vehicle Fuel	76,308	89,926	13,618
Traction Power	63,184	57,409	(5,776)
Utilities	31,093	28,751	(2,343)
Depreciation	27,186	25,954	(1,232)
Taxes, Licences and Insurance	8,498	8,764	266
Accident Claim Payments/Contribution to Reserve	30,200	27,200	(3,000)
Non-Departmental Expenses	24,115	31,828	7,713
PRESTO Commissions	26,600	50,400	23,800
Undetermined Corporate Reduction	0	(24,000)	(24,000)
TOTAL EXPENSES	<u>1,844,221</u>	<u>1,910,540</u>	<u>66,518</u>
Operating Subsidy Required	596,642	621,957	25,316
Operating Subsidy Available	<u>596,642</u>	<u>596,642</u>	<u>0</u>
TTC SUBSIDY SHORTFALL	<u>0</u>	<u>(25,316)</u>	<u>25,316</u>
WHEEL-TRANS SUBSIDY SURPLUS		3,316	
COMBINED SUBSIDY SHORTFALL		<u>(22,000)</u>	

Note:

1. All figures by group are subject to refinement.
2. 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. Consistent with the practice since then, the budget for these non-cash expenses has been deducted to match the City's subsidy for the current year.
3. Refer to Appendix B for details of the Wheel-Trans shortfall.
4. Refer to Appendix H for details on the contribution to reserve.

2019 WHEEL-TRANS OPERATING BUDGET			
(\$000s)			
	2018 BUDGET	2019 BUDGET	BUDGET CHANGE
PASSENGER REVENUE	8,631	8,111	(520)
EXPENSES			
SERVICE COSTS			
CONTRACTED TAXI SERVICE	71,319	58,994	(12,325)
BUS SERVICE			
Operators	27,202	31,492	4,290
Divisional Staff	590	591	1
Mobile Supervision	1,309	1,214	(95)
Dispatch	4,208	4,517	309
Equipment Maintenance	14,830	14,445	(385)
Vehicle Fuel	2,966	3,487	521
TOTAL BUS SERVICE	51,105	55,746	4,641
TOTAL SERVICE COSTS	122,424	114,740	(7,684)
ADMINISTRATION			
Senior Manager's Office	1,211	1,207	(4)
Reservations	2,840	3,116	276
Taxi Administration	250	293	43
Customer Service	3,697	4,839	1,142
TOTAL ADMINISTRATION	7,998	9,455	1,457
ACCIDENT CLAIM PAYMENTS/RESERVE CONTRIBUTION	850	350	(500)
NON-DEPARTMENTAL COSTS	4,788	5,109	321
LAKESHORE GARAGE COSTS	1,285	1,282	(3)
EMPLOYEE BENEFITS	14,710	16,150	1,440
COLLECTIVE BARGAINING AGREEMENT	800	1,933	1,133
TOTAL EXPENDITURES	152,855	149,019	(3,836)
OPERATING SUBSIDY REQUIRED	144,224	140,908	(3,316)
2018 NET OPERATING SUBSIDY AVAILABLE	144,224	144,224	
WHEEL-TRANS SUBSIDY REDUCTION	-	3,316	3,316

1. 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. Consistent with the practice since then, the budget for these non-cash expenses has been deducted to match the City's subsidy for the current year.

2. Refer to Appendix H for details on the contribution to reserve.

2019 RECOMMENDED FARE SCHEDULE
Effective April 1, 2019

Description	Current Fares	Recommended Fares	Price Change
Adult Fares			
Cash ¹	\$3.25	\$3.25	\$0.00
Token	\$3.00	\$3.10	\$0.10
E-Purse	\$3.00	\$3.10	\$0.10
Fair Pass - Single fare	\$2.00	\$2.05	\$0.05
Fair Pass - Monthly Pass	\$115.50	\$119.40	\$3.90
Regular Monthly Pass	\$146.25	\$151.15	\$4.90
12 Month Pass (Price per Month)	\$134.00	\$138.55	\$4.55
Post-Secondary Monthly Pass	\$116.75	\$122.45	\$5.70
U-Pass ²	n/a	\$70.00	
Senior Fares			
Cash	\$2.10	\$2.20	\$0.10
Ticket	\$2.05	\$2.15	\$0.10
E-Purse	\$2.05	\$2.15	\$0.10
Monthly Pass	\$116.75	\$122.45	\$5.70
12 Month Pass (Price per Month)	\$107.00	\$112.25	\$5.25
Student Fares			
Cash	\$2.10	\$2.20	\$0.10
Ticket	\$2.05	\$2.15	\$0.10
E-Purse	\$2.05	\$2.15	\$0.10
Monthly Pass	\$116.75	\$122.45	\$5.70
12 Month Pass (Price per Month)	\$107.00	\$112.25	\$5.25
Other Fares			
GTA weekly pass ³ (TTC portion 54%)	\$63.00	\$64.95	\$1.95
TTC portion	\$34.02	\$35.07	\$1.05
Day pass	\$12.50	\$13.00	\$0.50
Downtown Express Sticker	\$43.00	\$44.45	\$1.45
Notes:			
1. Adult cash fare last increased January 2016 (\$3.00 to \$3.25).			
2. U-pass current based on Board report Sept. 1st, 2019 start.			
3. Subject to Consultation with Regional Partners.			
New Fare Products Under Review			
	Status	Target Board Meeting for Consideration	
Weekly Max ¹	Under Review	February 27, 2019	
Employee Program - Formerly: Volume Incentive Pass (VIP)	Under Review	February 27, 2019	
PRESTO Tickets (Limited Use Media/LUMs)	Under Review and Public Consultations	April 11, 2019	
• Single fare price			
• Bulk price			
• Expiration dates			
Notes:			
1. Weekly Max is being planned in place of weekly passes, which will be discontinued as of March 31, 2019.			

Budget Risks

The 2019 Recommended Budget includes certain risks outlined below. These risks have been incorporated to avoid any impacts to service, limit our additional subsidy request and limit the recommended fare increase. Should even a few outcomes be unfavourable, there is a significant probability that a 2019 operating deficit will be incurred.

1. **Stabilization Reserve:** The budget assumes that a \$15.4 million one-time draw from the stabilization reserve will be made. In addition, to becoming a significant budget pressure for 2020, this exhausts a reserve which could have been used to cover any operating deficits, after approval from City Council to do so.
2. **Impact of Average Fare:** This budget assumes a continuation of the 5 cent increase in average fare experienced in 2018. Should the current customer trend to e-purse transactions stabilize or reverse, the improvement in the average fare experienced to date will not continue. Each 1 cent reduction in average fare results in a budget pressure of \$5.3 million.
3. **Diesel prices:** The budget assumes that the recent decline in the market price of diesel will be sustained throughout 2019. Every 1 cent increase in the average price of diesel will result in a 2019 budget pressure of \$0.4 million.
4. **Hydro rates:** Hydro rates applicable to TTC have an element of unpredictability due to the TTC being subject to global adjustment charges and potential Class A account rebates. Rate variances experienced in 2018 were very favourable to TTC and this experience has been reflected in the 2019 budget. It should be noted however, that increases due to global adjustment of up to 2 cents per KWH on a month-to-month basis are not uncommon. Every 1 cent change in the average KWH price results in a budget impact of more than \$5 million per year.
5. **Non-Labour Departmental Expenditure Budgets:** Overall, non-labour departmental expense budgets have been flat-lined on a year-over-year basis, with all 2019 cost pressures absorbed and a further \$4 million included in the potential sources for the undetermined corporate reduction. Cost pressures absorbed include service contracts related to new IT systems (e.g. SAP & Vision), new maintenance requirements, price inflation and requirements related to the increase in service hours. These actions have severely curtailed the TTC's ability to absorb the cost of any unexpected maintenance or repair requirements.
6. **Benefits:** \$16.6 million has been removed from the budget based on current trends and a further \$2.5 million identified as potential sources for the undetermined corporate reduction. There is some risk that benefit costs may increase from current levels due to high retirement levels currently experienced. New employees are not eligible for health & dental for 3 months and have no pension contributions for 6 months. Should future spending rates increase as

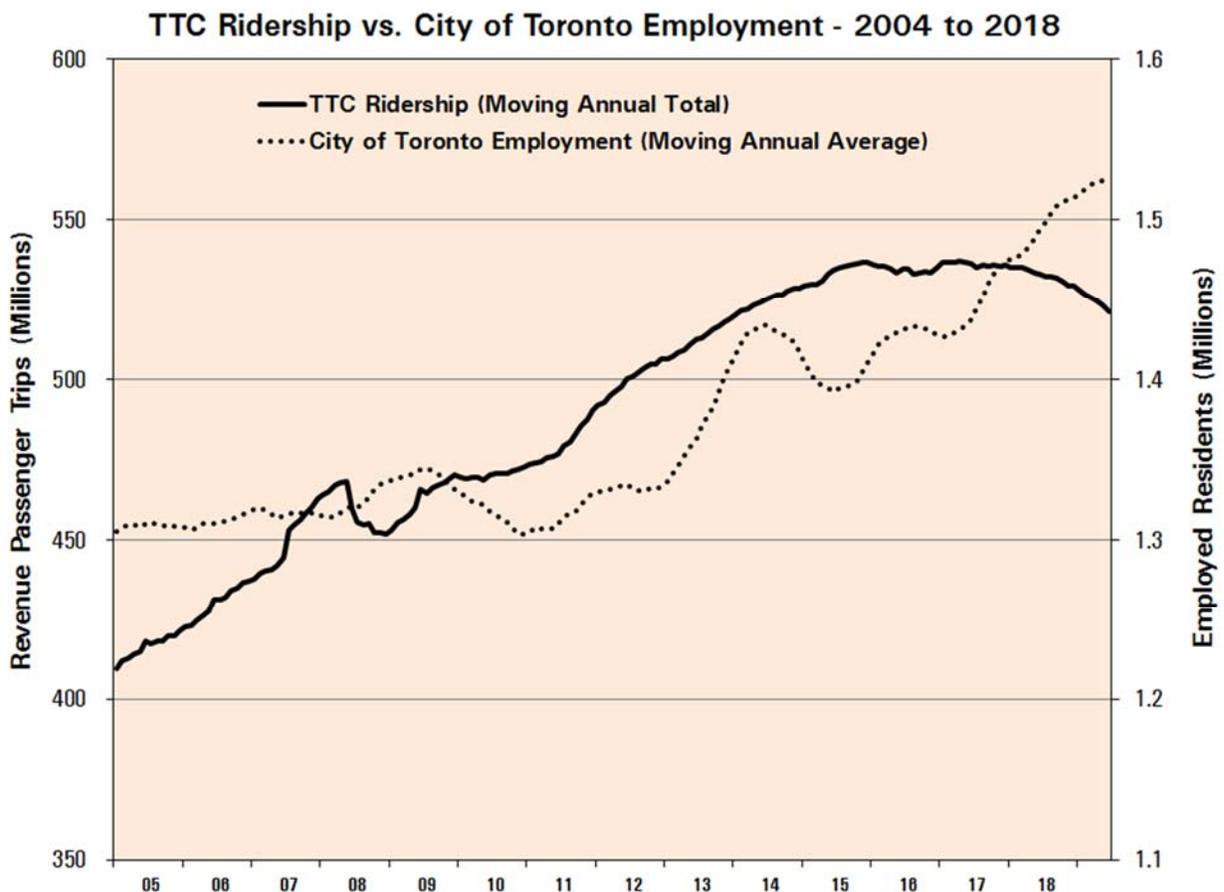
retirements stabilize, actual savings achieved could be considerably less than the amount assumed in the budget. In addition, every 1% change in inflation for health and dental costs has a \$0.6 million impact on the operating budget.

The foregoing risks and cost containment strategies not only impact the 2019 budget but also future years. For example, the Long-Term liability reserve is being relied upon to fund accident claims payments and has enabled a \$12 million net reduction in this budget, but this approach will not be sustainable. Similarly, this budget has incorporated a one-time draw from the TTC Stabilization reserve of \$15.4 million and assumes \$5 million in short-term lease and license revenue, which cannot be renewed.

TTC Conventional: Ridership and Revenue Trends

The starting point for the TTC operating budget process is the ridership forecast for the upcoming year. 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, vehicle parking availability and rates, congestion on public transit, customer mobility and availability of other transit options. Some factors affect ridership in the longer-term such as demographics and income level. Other factors such as energy prices, employment levels, tourism, retail trade, congestion, and significant world events can have both short and long-term ridership consequences.

Historically, over the long term, City of Toronto employment levels have had the most significant impact on ridership, as can be seen in the following chart:



The chart illustrates the close relationship between City of Toronto employment and TTC ridership for the past 14 years.

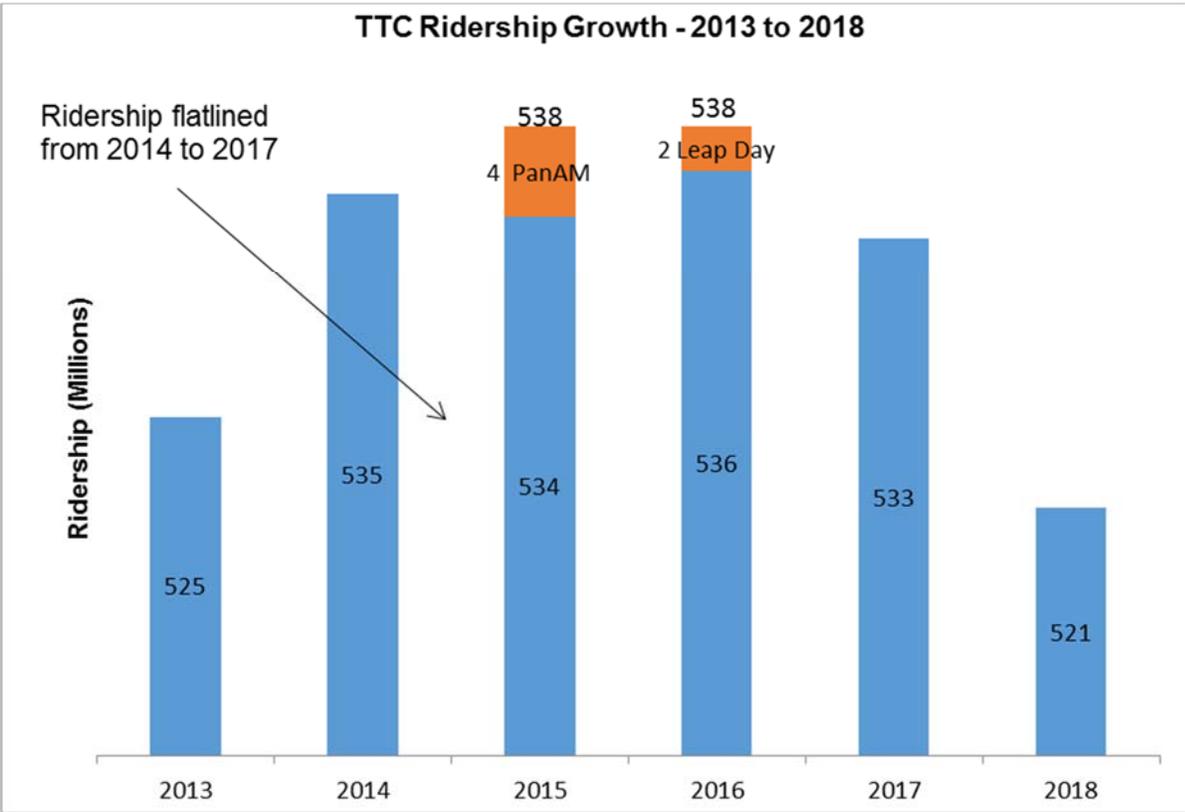
In recognition of the employment-ridership relationship, the TTC uses economic forecasts for the Toronto Census Metropolitan Area (CMA) that are produced by the Conference Board of Canada (CBoC) to establish its ridership forecasts. These

forecasts, which include predicted growth in employment, Gross Domestic Product (GDP), population, and inflation, are subject to ongoing refinement by the CBoC. This is illustrated in the following table, which compares the CBoC's three most recent economic forecasts for 2019:

TORONTO CMA ECONOMIC FORECASTS FOR 2019			
MEASURE	AS AT WINTER 2018	AS AT SPRING 2018	AS AT AUTUMN 2018
Employment	+2.1%	+1.3%	+1.5%
GDP	+2.3%	+2.3%	+2.4%
Population	+1.5%	+1.5%	+1.8%
CPI	+2.2%	+2.4%	+2.0%

Predicted employment growth of 1.5% is similar to the average annual employment growth of 1.6% from 2014 to 2017, which, in turn, was much lower than the average annual growth of 2.3% from 2010 to 2013.

The slowing employment growth rates are mirrored in the TTC's ridership growth. Average annual TTC ridership growth was 2.7% for 2010 to 2014 and 0.3% for 2015 to 2016. TTC ridership then declined by 0.9% for 2017 and declined by 2.3% for 2018, as illustrated in the following chart:



After increasing steadily for 12 years, revenue ridership stabilized in 2016 and declined in 2017 and 2018. This trend is similar to other large mature North American transit

systems, many of which are experiencing falling ridership on one or more of their transit modes. Ongoing analysis is required but contributors could include changes in demographics, travel behaviour and technology changing how people travel in cities. Transit systems are also finding that revenue control measures (e.g. monitoring fare payment) are more required than in the past, which in turn affects measured ridership. The TTC likely experienced some revenue (and measured ridership) loss during the PRESTO introductory period. Weekend subway closures may also be affecting weekend ridership. During 2018, although measured revenue ridership dropped by about 2%, the average fare increased by about 2% (to \$2.23) as some customers converted from monthly passes (e.g. Metropass) to single fares (e.g. PRESTO e-purse). As a result, total revenue was essentially flat despite the change in measured revenue ridership. The conversion from Metropass to e-purse could be affecting *measured* ridership to the extent that customers switching to e-purse ride less often than the estimate of 72 rides used for each adult monthly Metropass sold.

Based on the above-noted employment and ridership growth trends, 2019 TTC ridership is projected to be 526.3 million, with revenue of \$1,195.8 million as summarized in the following table.

Passenger Revenue and Ridership		
	Ridership	Revenue
2018 Actual	521.4	1,164.2
Economic Growth Factors	4.8	10.7
Two Hour Transfer	3.4	(14.5)
Service Improvements & Toronto-York Spadina Subway Extension	2.2	4.9
Revenue Protection Initiative	2.0	4.5
Other	(0.4)	(0.9)
Fare Increase	(0.7)	26.9
Shift from Legacy Metropass to PRESTO Epurse	(3.0)	0.0
Monthly Pass Trip Rate Reduction	(3.4)	0.0
Total Projected Change	4.9	31.6
2019 Budget	526.3	1,195.8

Prior to PRESTO, ridership was calculated based on customer surveys and a variety of sampling techniques, with only a small component of revenue ridership (tokens, cash) counted. The data now received from PRESTO devices provides greater detail for each and every revenue ride, as well as a greater degree of revenue ridership certainty as every revenue ridership tap is counted. This data can be further cross-referenced with other data such as customer groups and time of day. As a result, TTC's data analytics capabilities have been dramatically improved with the transition to PRESTO and, once TTC is fully PRESTO enabled in 2019, TTC will be able to better leverage the PRESTO ridership data to refine and improve its data modelling to more accurately estimate ridership forecasts and budgets going forward.

TTC Conventional: Key Cost Drivers

The impact of major initiatives previously approved and major economic factors combine to result in \$90 million in key cost drivers on the TTC Conventional operating budget.

PRESTO Transition

PRESTO transition is expected to have a net \$18.5 million impact on the TTC budget in 2019. This is primarily driven by an increase in PRESTO fees which are expected to increase by \$22.5 million to \$49.1 million for 2019, before consideration of the fare increase and based on an expected 89% adoption rate in 2019. Other PRESTO transition related cost pressures include:

- Annualization of the faregate maintenance contract (\$1.5 million)
- Capital to operating transition of TTC personnel to manage the farecard contract (\$1.8 million).
- Temporary Contracted Customer Service Associates who will provide support to customers at key transition times such as the end of legacy single fares (tokens, tickets). (\$0.9 million)

These cost pressures are partially offset by a reduction legacy fare media production, distribution and transaction costs, primarily due to the elimination of most pass products that combined are expected to save \$8.2 million.

Two-Hour Transfer

At the November 28, 2017 TTC Board meeting, Two-Hour Transfers on PRESTO were approved and this policy was implemented in August 2018. The full annual cost of this policy is \$20.5 million, of which \$14.4 million is an incremental impact in 2019 due to the annualization of this policy.

2018 Capacity Improvements

On May 8, 2018, the TTC Board approved a series of capacity improvements. These included:

- Improved service reliability on Line 1
- Service improvements to reduce crowding on 23 bus routes in peak periods and 26 bus routes in off peak periods.
- Implementation of new express bus services on 7 routes.

The full annual cost of these improvements is \$15.5 million gross and \$13.5 million net. As these improvements commenced operation in the fall of 2018, funding of \$8.5 million net of incremental revenue, is required to annualize these capacity improvements.

2019 Service Initiatives to Adhere to Service Standards

The budget includes the addition of 50,000 new annual service hours in 2019 to ensure that TTC Board approved service standards can be met. These 50,000 hours will be used for initiatives such as Bus Reliability and Run as Directed Buses to enable TTC to effectively respond to demand surges or traffic delays. Also included are additional service hours to address emerging requirements such as the expanded Seneca campus

on Finch Avenue East, which is scheduled to open in 2019. These incremental service hours will result in an incremental cost of approximately \$5 million.

Collective Bargaining Agreement

In 2018 new Collective Bargaining Agreements were reached with Local 5089 and Lodge 235 and imposed through interest arbitration for Locals 2 and 113. The largest union (Local 113) received 2% annual wage increases through interest arbitration, along with certain benefit improvements. When combined with the proposed commensurate increases for non-union staff to be considered at the January 24th TTC Board meeting, the 2019 incremental budget impact for TTC Conventional is \$29.2 million, and an additional \$1.4 million for Wheel-Trans.

Diesel Price

For 2018, TTC was able to secure fuel hedges at a very favourable price of \$0.86 per litre. While this yielded considerable savings in 2018, it has resulted in a cost pressure for 2019 of \$13 million, based on 2019 market forecasts and hedges secured to date which average \$1.01 per litre.

Eglinton Crosstown Supplemental Service Recovery

Additional service hours required to maintain existing transit service levels during construction projects are the responsibility of the project. Incremental service costs related to the Eglinton Crosstown project are not currently being reimbursed. While recovery of these costs will continue to be pursued, \$7.8 million has been added to the budget to recognize the considerable risk that collection efforts will not be successful.

Summary: Key Cost Drivers

The above key cost drivers combine to result in \$96.4 million 2019 subsidy pressure. These costs have been accommodated through:

- Requested \$22 million combined subsidy increase
- Fare increase effective April 1, 2019 to provide \$25.8 million
- Remaining \$48.6 million has been accommodated through a series of reduction actions (including Wheel-Trans) that do not reduce service. In addition, reduction actions have enabled the accommodation of other cost pressures noted below.

Other Cost Pressures

Mid-Year Workforce Increase

At the July 10, 2018 meeting, the TTC Board approved the addition of 184 TTC Conventional positions primarily to address overtime restrictions, resulting from ATU 113's decision to not renew an exemption agreement to the Employment Standards Act limit on overtime hours. With the overtime restrictions in place, the additional positions were required to avoid service cancellations and also ensure sufficient personnel were available to support weekend subway maintenance closures. While a large portion of the cost of these positions was funded through a reduction in budgeted overtime, a net \$4.5 million budget pressure remains.

Consolidated Warehouse

At the October 16, 2017 TTC Board meeting, the lease of a consolidated warehouse was approved. Construction of this purpose built facility will be complete in 2019. During move and set-up of the new facility lease costs will temporarily be incurred for both the new facility and existing warehouses resulting in this \$3.6 million pressure.

Leslie Barns

In the 2018 budget, a special gapping provision of \$1.4 million was applied as certain positions did not need to be filled due to the delayed delivery of the new LRV vehicles. As these vehicles will be delivered through 2019, half of this special provision will be reversed in 2019, with the remainder in 2020.

McNicoll Garage

McNicoll Garage is scheduled to open in 2020. To be ready to operate as scheduled, a Master Sign-up will be held in 2019. Depending on the results of this sign-up training programs will be required to ensure operators and other personnel are adequately trained for the opening of this new garage. The \$2.9 million required for 2019 includes 14 temporary auxiliary instructors to deliver the required training, 1 training clerk, 4 forepersons and backfill support for personnel who will be attending the training.

SAP/VISION

SAP and VISION systems are cornerstones of TTC's transformation initiative. With the systems in their first full year of operation in 2019, \$3.5 million is required for licenses, related managed services and workforce complement required to support the systems.

Operator Hiring and Training

Due to the need to hire and train 350 additional operators over originally planned levels in 2018, several training programs, including operator re-certifications were deferred. To address backlogged training and also establish capacity to hire and train operators without impacting recruiting for other positions, 5 HR positions, 6 instructors and 20 operator positions are requested. The 20 operator positions are required to provide adequate personnel to ensure service resiliency during operator recertification training and other non-driving duties.

Bus replacement of streetcar service

In 2018, required bus replacement of streetcar service due to delayed LRV deliveries and poor reliability of legacy fleet, was higher than budgeted. This replacement service is expected to continue in 2019 resulting in a \$3.3 million incremental budget requirement.

Toronto Rocket re-wheeling

Previously re-wheeling of Toronto Rocket subway cars occurred on a scheduled basis as part of capital overhaul programs. Going forward this process will occur on an as required basis as part of operating maintenance. Overall this is expected to be more cost effective, but results in a \$1.5 million operating budget requirement.

2019 Workforce Complement

The 2018 Toronto Transit Commission complement as approved by City Council on February 12, 2018 was 15,011 positions. Since then three in-year adjustments have been made.

In-Year Adjustments

At the City Council meeting on June 26, 2018, City Council approved the addition of 84 positions to support and deliver capacity improvement initiatives.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX35.40>

At the City Council meeting on July 23, 2018, City Council approved the addition of 209 positions in order to increase workforce resiliency and to address overtime, paid emergency leave and scheduling issues.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX36.47>

At the City Council meeting on December 4, 2018, City Council approved the addition of 501 positions to reflect existing full time equivalent positions.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.CC1.7>

2019 Complement

Based on the adjusted 2018 complement, the TTC approved complement will increase by 146 positions or 0.1% from 15,805 to 15,951 as shown in the table below:

2018 Approved Complement (As approved by City Council February 12, 2018)	15,011
Capacity Improvements on Bus and Subway Services	84
2018 Mid-Year Workforce Increase	209
Operating Variance Report for the Nine-Month Period Ended September 30, 2018	501
2018 Adjusted Complement	15,805
TTC Conventional – Operating Positions	271
Wheel-Trans Operating positions	17
Positions required for capital program delivery	(142)
2019 Requested Complement	15,951

The requested complement is allocated to the three budgets as follows:

Budget	2018*	2019	Change
Operating	12,670	12,941	271
Wheel-Trans	620	637	17
Capital	2,515	2,373	(142)
Total	15,805	15,951	146

*Includes in-year adjustments

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. 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 is proceeding with the hiring plan consistent with the increased service requirements incorporated within the 2019 operating budget.

TTC Operating Complement

The increase of 271 operating positions is comprised of the positions and initiatives which are outlined in the following table.

TTC Operating Complement					
	Operators	Operator Support Positions	Transit Inspection/ Enforcement	Other	Total
2018 Budget					12,670
2019 Initiatives					
<u>Prior Year Decisions</u>					
PRESTO				23	23
Two Hour Transfer	11				11
2019 Service Initiatives	62	4			66
<u>Operating Impact of Capital</u>					
McNicoll Bus Garage (Primarily Master Sign-up)		15		4	19
SAP				6	6
Vision				6	6
Other Impact of Capital (Net)				5	5
<u>Base Changes</u>					
Operator Hiring and Training	20	11			31
Bus Replacement of Streetcar Service	16	1			17
Toronto Rocket Re-Wheeling				8	8
Revenue Protection Initiative			70		70
All other changes (Net)				9	9
Total 2019 Initiatives	109	31	70	61	271
2019 Budget					12,941

Operators – 109 positions

109 operator positions are being added, primarily to accommodate 2019 service initiatives to adhere to service standards and to reflect the additional operators required for the bus replacement of streetcar service.

Operator Support Positions – 31 positions

This increase is comprised of 25 instructors, of which 14 are to support the Master Sign-up for the new McNicoll Bus Garage, which will open in 2020. Of the remaining 11, six are to clear the current backlog of prior year training requirements, resulting from the unexpected higher requirement to train new operators. and five are to train new operators for 2019 service initiatives and streetcar bus augmentation. The remaining 6 positions comprise of 5 HR staff to support operator hiring and attendance management a 1 position is a training clerk to coordinate Master Sign-up training requirements.

Transit Enforcement: Revenue Protection Initiative – 70 positions

This increase is comprised of 45 Fare Inspectors, 22 Enforcement Officers and three administrative/supervisory support staff. These positions are required to address fare evasion, engage and educate customers, expand to buses and subway, increase station vigilance, protect customers and respond to incidents.

Other – 61 net positions (detailed below)

Impact of PRESTO/Farecard Team – 23 positions

The increase of 23 positions is mainly to transition existing resources currently charged to capital to the operating budget. This Farecard Team is required to manage and analyse PRESTO revenue transactions and ridership data. This team will be comprised of various positions including financial and business analysts, customer experience and service positions, fare policy analysts, data analysts and technical support positions.

New Systems: VISION/SAP – 12 positions

A net of six positions are required as the VISION system is implemented mainly due to the transfer of positions from Capital to Operating. The VISION system will enhance route management to improve on-time performance and reliability. By 2020, complement requirements to maintain the system will be more than offset through complement deletions as a result of the gradual phase out of support for the legacy CIS system.

Six positions are required for SAP as a result of Wave 1 implementation. It should be noted that Wave 1 implementation has several interfaces with legacy systems and as a result requires additional workforce resources. With legacy system retirement in future waves some complement reductions are anticipated.

A net of 26 positions for various requirements including:

- Nine net positions resulting from the implementation of capital projects including McNicoll Bus Garage (4) and various IT projects (5).
- Eight positions will be transferred from Capital to Operating as a result of the Toronto Rocket Re-wheeling program reclassification.
- Two Video Service Technicians are required to deal with increased security footage requests.
- Two legislative positions including one Plumber for backflow prevention and one Freedom of Information Assistant.
- Three Transit Control Dispatchers to support existing service levels.
- Two positions to implement recommendations from the Auditor General audits, including one Warranty Claims Analyst and one Purchasing Card Coordinator.

Wheel-Trans Complement

The increase of 17 Wheel-Trans positions is comprised of the following:

2018 Wheel-Trans Complement (Including in-year adjustments)	620
Operators	8
Bus Maintenance Requirements	6
Dispatch & Service Support	4
Corporate Support	(2)
Trip Analyst	1
Total Wheel-Trans Complement Increase	17
2019 Wheel-Trans Complement	637

The additional resources will provide increased support within operations to achieve efficiencies in the delivery of Wheel-Trans Bus service. With these new resources, Wheel-Trans will continue to increase zone bus service to support Family of Services implementation, as well as schedule backfill trips efficiently onto buses. The additional resources will also support the provision of same-day on-demand service and update business practices in order to produce a more efficient schedule.

Capital Budget Complement

The Capital Budget year-end workforce will decrease by 142 positions as shown in the following table:

2018 TTC Capital Complement	2,515
Reductions through Held Capital Vacancies	(220)
Vehicle Overhaul Projects	(42)
Vehicle Programs Department	15
Farecard Team	(17)
Project Management Office	18
Scarborough Subway Extension	10
Yonge Subway Extension	13
Relief Line	17
TYSSE	(5)
Easier Access Project	11
Stations and Wheel-Trans Transformation	20
Other Facilities and Track Capital Work	31
All Other Changes (Net)	7
2019 Total Capital Complement Change	(142)
2019 TTC Capital Complement	2,373

Long-Term Liability Reserve

This reserve was created in 2014 specifically for TTC accident claim requirements. While long term accident claim requirements are generally constant, annual variations in cash payments exist based on timing uncertainty associated with actual accident claim payments.

To manage annual variation in accident claim expenses, while ensuring a constant annual budgeted reserve contribution, this budget incorporates authorization to contribute up to \$18.5 million (\$18.2 million for TTC and \$0.35 million for Wheel-Trans) to the Long Term Liability Reserve Fund (XR1728) in 2019.

TTC and Wheel-Trans will then be authorized to draw from this reserve as required to support actual accident claim payments at the time of settlement as summarized in the table below. Given the reduction made to the net accident claims budget in 2019, up to \$7 million of projected accident payments will be funded from through a draw from the current reserve balance, as outlined in the table below.

Long Term Liability Reserve (In \$000s)	Reserve / Reserve Fund Number	2019	2020	2021
		\$	\$	\$
Projected Opening Balance	XR1728	33,429.0	26,429.0	18,879.0
Budgeted Contribution		18,550.0	18,550.0	18,550.0
Projected Accident Claim Payments		(25,550.0)	(26,100.0)	(26,600.0)
Projected Closing Balance		26,429.0	18,879.0	10,829.0

TTC Stabilization Reserve

This reserve was created to stabilize the funding of TTC’s operating expenditures over time. For 2019, this reserve is projected to have an opening balance of \$22.3 million, comprised of a \$15.4 million balance available for general stabilization of TTC’s operating expenditures.

The remaining \$6.9 million was contributed to the reserve in 2018 and was received in connection with the construction of an inter-regional terminal at Kipling Station. This terminal will be on the site of a former commuter parking lot, on TTC owned land. As part of the arrangement, replacement parking spaces will be provided on hydro right of way lands. As the difference in land ownership will result in incremental TTC operating costs starting in 2019, the \$6.9 million will be drawn from the reserve annually over time to offset these incremental costs.

Projected Stabilization Reserve balances based on the 2019 budget are outlined in the following table.

TTC Stabilization Reserve (In \$000s)	Reserve / Reserve Fund Number	2019	2020	2021
		\$	\$	\$
Projected Opening Balance	XR1056	22,291.0	6,600.0	6,300.0
2019 One-Time Draw		(15,391.0)		
Annual Draw re Kipling Commuter Lot		(300.0)	(300.0)	(300.0)
Projected Closing Balance		6,600.0	6,300.0	6,000.0