TORONTO TRANSIT COMMISSION
REPORT NO.

MEETING DATE: December 14, 2011

SUBJECT: 2012 TORONTO TRANSIT COMMISSION FINAL BUDGETS

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve the following:

1. 2012 TTC Operating Budget

    - Approve the 2012 TTC Operating budget as summarized on Attachment A;
    - Approve a standard 10 cent fare increase on the adult token (and a pro-rata increase on all other fare media) effective January 1, 2012, as shown on Attachment B; and,
    - Approve-in-Principle a standard 10 cent fare increase on the adult token (and a pro-rata increase on all other fare media) in each of 2013, 2014 and 2015 as part of a multi-year financing strategy required to balance the Operating Budget over the next 4 years.

2. 2012 Wheel-Trans Operating Budget

    - Approve the 2012 Wheel-Trans Operating Budget as described on Attachment C.

3. 2012-2021 TTC Capital Budget

    - Approve the 2012-2016 TTC Capital Program and 10 Year Forecast as shown on Attachment D.

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

FUNDING

In view of the significant fiscal challenges facing the City of Toronto, the 2012 Operating Budget Directions and Guidelines from the City requested that the TTC achieve a 10%

operating budget reduction target. The targeted reduction for the 2012 TTC Operating Budget was approximately $46 million and the targeted reduction for the 2012 Wheel-Trans Operating Budget was approximately $9 million. In addition, the TTC was requested to present a Capital Program that lived within the City Debt Target. This report provides an update on the status of each of these budgets relative to the targets.

BACKGROUND

At its meeting on September 16, 2011, the Commission approved the preliminary budgets for the 2012 TTC Operating Budget, the 2012 Wheel-Trans Operating Budget and the 2012-2016 TTC Capital Program and 10 Year Forecast. The preliminary budgets were summarized as follows:

2012 TTC Operating Budget:

- June estimate of Shortfall: $85 million ($39 million largely to accommodate the increase in budgeted ridership from 487 million to 502 million and to account for an increase in diesel fuel prices; and, a $46 million subsidy cut from the City of Toronto).
- September estimate of Shortfall: $21 million
  - o A corporate downsizing program to save $14 million in 2012 and $16 million on an annualized basis.
  - o A return to pre-Ridership Growth Strategy loading standards effective with the January 2012 Board Period commencing January 8TH, 2012 and saving $14 million in 2012.

In order to help meet the City's budget reduction targets, effective January 2012 the TTC will restore service standards to those which were in use before implementation of the 2004 Ridership Growth Strategy. That Strategy aimed for greater customer comfort through various initiatives including reducing the level of crowding on all TTC services. By allowing crowding on TTC services to go back to the previous pre-2004 levels, the TTC can operate less service and, therefore, reduce its operating costs. However, even with these higher-crowding standards, the TTC's overall level of service in 2012 will be much higher than it was before 2004. This is necessary because the volume of people who travel on the TTC is much higher than was the case before 2004. In 2012, the number of on-the-street hours of service which the TTC will operate will be 16 percent higher than it was coming into 2004, with most of this increase being attributable to service improvements to TTC bus and streetcar services including operating these bus and streetcar routes for more hours every day to match the hours of operation of the subway. In comparison, the TTC's ridership in 2012 will be about 23 percent higher than it was going into 2004, thus necessitating that TTC services be overall, at higher levels than they were in 2004, regardless of which crowding standard is used.

2012 Wheel-Trans Operating Budget:

- June estimate of Shortfall: $16 million ($7 million in costs to accommodate the growth in demand and a $9 million subsidy cut from the City of Toronto)
- September estimate of Shortfall: $8 million after incorporating savings associated with discontinuing dialysis trips for ambulatory passengers who do not meet the Wheel-Trans eligibility criterion effective January 1, 2012 and other efficiency and scheduling savings.

2012-2021 TTC Capital Budget:

- The previous $2.3 billion 10-year funding shortfall in the base budget was reduced to a $1.5 billion shortfall in June through a series of deferrals and cuts. It was further reduced to $0.8 billion in the September report by even more deferrals required in an attempt to accommodate the City Debt Targets for the TTC.

The Commission was advised at that meeting that TTC staff would continue to examine budget assumptions, review the results of the City Service Efficiency Reviews and meet with the Commission's funding partners to look for options to address these shortfalls. This report responds to all of these items and makes recommendations to address them.

DISCUSSION

2012 TTC Operating Budget

There are a series of areas that staff has been examining to determine whether the budget allowances included in the September 16, 2011 preliminary budget approved by the Commission needed to be amended in the final budget. Each of these items is discussed below:

- Ridership: Ridership was budgeted at a record 503 million for 2012. Since September, ridership has continued to be strong. At the present time, it is possible that ridership may be as high as 507 million, more than half of the addition as a result of an increase of 1 trip per month in the average number of rides taken each month by Metropass riders. This additional ridership would generate an additional $5 million in passenger revenues.

- Service: Should the ridership materialize as is expected, staff will be bringing a recommendation forward to the Commission in June to add additional service in the September Board period to accommodate it. This could cost in the order of $1 to $2 million in 2012 with an annualized cost of about $4 million. If the ridership does not happen, no additional service will be added.

- Diesel Fuel: Based on prevailing market prices, diesel fuel could cost about $5 million less than predicted in the September report. However, given the volatility in the markets, particularly with the economic situation in Europe and the uncertain geo-political situation in the Middle East, staff is not yet banking on this saving.

- Accident Claims: While there have been favourable signs as a result of the changes in insurance regulations introduced by the Province earlier this year, it is too early to adjust the 2012 budget assumptions which call for a flat-lining of accident claims costs, following years of multi-million dollar increases.

- Collective Bargaining Agreements: These have not yet been settled, so it is not possible to make any adjustments to the budget at this time.

- Advertising Revenues: The Commission recently signed a new long-term 12-yr agreement that in the long run should provide the Commission with additional revenues. For 2012, an additional $5 million has already been added to the budget. For the last part of 2011, advertising revenues have been soft and below expectations. No further change in the 2012 budget allowance has been made.

- Absenteeism/Overtime: Staff has already reduced 2012 budgeted expenditures by $5 million and is working on plans to achieve this by the end of 2012.

- Contracting Out Opportunities: Staff has identified a total of $60 million in services currently performed in-house that will be examined for contracting out. While the current estimated possible savings could be in the range of $5 to $8 million, those possible savings will only be realized once this process has been completed and that is expected to be completed by the Fall of 2012.

Overall, while ridership and diesel prices are more favourable than they were estimated at in September, there is enough uncertainty in all of the items noted above that staff are not at this time making any changes in the budget provisions for them. In addition, as reported at the November Commission meeting, the Service Efficiency Study conducted by

Accenture (AMC) verified the 2012 savings previously incorporated into the preliminary 2012 budgets approved by the Commission in September.

Consequently, the 2012 TTC Operating budget shortfall remains at the level of $21 million for 2012.

2012 Wheel-Trans Operating Budget

All of the items described above apply proportionately to the Wheel-Trans operating budget.

In addition, staff continues to work with the local Toronto Hospital LHN and the Kidney Foundation in an effort to have the dialysis trips taken by ambulatory riders who do not qualify for the Wheel-Trans eligibility criteria paid for directly by the Province. If successful, those trips could be reinstituted upon securing that funding.

Also, at its meeting of November 8, 2011, the City of Toronto's Planning and Growth Management Committee referred a request from City Council to the TTC to consider the re-instatement of the Bathurst-Finch Community Bus. No adjustments have been made to Community Buses in the 2012 budget at this time. However, staff will be reviewing this matter in conjunction with Zone Buses and will report out to the Commission in 2012 with recommendations as appropriate.

Consequently, the Wheel-Trans Operating Budget shortfall remains at the level of $8 million for 2012.

Fare Increase to Offset TTC and Wheel-Trans Operating Budget Shortfalls

The combined total shortfall of the 2012 TTC and Wheel-Trans operating budgets is in the order of $29 million. The following table shows the currently forecasted change in ridership, revenues and expenses (note that the impact of the as yet unresolved Collective Bargaining Agreements has yet to be determined) for the TTC Operating Budget over the next few years. Assuming that subsidy remains at current levels, and without any fare increases, the 2012 TTC Operating Budget shortfall of $21 million will grow to over $200 million by 2015. This trend is clearly not sustainable and requires appropriate consideration of a multi-year ridership, service and fare strategy – starting with plans to address the 2012 shortfall.

(Millions)	2012 BUDGET	2013	2014	2015
Rides (without fare increases)	503	515	526	536
Revenues - Passenger	$970	$987	$1,002	$1,014
- Other	67	67	68	67
Total Revenues	1,037	1,054	1,070	1,081
Expenses*	1,473	1,538	1,627	1,703
Total Subsidy Required	436	484	557	622
Total Subsidy Available	415	415	415	415
Additional Subsidy Required	21	69	142	207

* Actual CBA settlement results TBD.

To offset the 2012 shortfall, staff is recommending a standard 10 cent fare increase on the adult token (and a pro-rata increase on all other fare media) effective January 1, 2012. Attachment C shows the proposed fare levels. The price of an adult token would rise by 10 cents to $2.60. Other fares are changed on a proportionate basis. Cash fares will remain at current levels as adult cash fares already include a 40 cent premium. This fare increase amounts to an annualized increase, since the time of the last increase in January 2010, of about 2% per year as compared to the change of about 6% in the Toronto CPI over the same period of time.

Looking beyond 2012, addressing the Commission's ongoing fiscal challenge will require a three-pronged approach. Staff must continue with its efforts to contain and reduce costs as was done for the 2012 budget (see the $64 million reduction in the TTC operating budget shortfall as set out in the September 16, 2011 budget report). As well, riders must do their part by contributing a fair share to the Commission's operating costs. Finally, any remaining balance should be provided through our funding partners. This approach resulted in considerable success during the 1970's and 1980's when reasonable annual fare increases, commensurate with service increases and system expansion supported by subsidy growth, resulted in a 70% growth in ridership at the same time that City population grew by about 15%.

With this in mind, staff is recommending that the Commission approve-in-principle a fare strategy of implementing a 10 cent fare increase on the adult token (and a pro-rata increase on all other fare media) in January of 2012, 2013, 2014 and 2015. As shown in the following table, based on current projections, the TTC Operating Budget shortfall will be eliminated for both 2012 and 2013. In addition, the shortfalls are much smaller in 2014 and 2015 compared to projections without any fare increases.

(Millions)	2012 BUDGET	2013	2014	2015
Rides (with annual 10¢ fare increases)	502	510	517	523
Revenues - Passenger	$1,000	$1,056	$1,112	$1,165
- Other	67	67	68	67
Total Revenues	1,067	1,123	1,180	1,232
Expenses*	1,473	1,536	1,621	1,693
Total Subsidy Required	406	413	441	461
Total Subsidy Available	415	415	415	415
Additional Subsidy Required	**(9)	(2)	26	46

* Actual CBA settlement results TBD

** 2012 TTC surplus to offset Wheel-Trans shortfall of $8 million

Wheel-Trans operating budget projections are shown in the attached Appendices 1 and 2. Assuming that subsidy remains at current levels, and without any fare increases, Appendix 1 shows that the shortfall will grow to about $16 million in 2014. Even with the introduction of annual fare increases, as show in Appendix 2, there is minimal impact on the shortfall (as fares typically only cover 5 – 6% of costs). An appropriate long-term funding strategy for Wheel-Trans is required.

While much work will be required to consolidate the three elements of this plan (cost containment, fares, subsidy), staff will continue to work with the TTC's funding partners to develop a strategy that balances the needs of the TTC, its customers, and the City of Toronto overall.

<u>2012-2016 Capital Program and 10 Year Forecast</u>

At the time of the Commission's approval of the 2011-2015 Capital Program and 10 Year Forecast in January of this year, there was a $2.3 billion funding gap between what was needed to fund the base capital program and the funding available. Following an extensive review and reassessment of our overall capital needs, adjustments were made to many projects within the capital budget including: Fire Ventilation upgrades, Easier Access, Industrial and Facility Renewal Requirements, Bus Purchases and Platform Edge Doors. As a result, at the time the preliminary 2012-2016 Capital Program and 10 Year Forecast was presented to the Commission on June 8, 2011, the funding shortfall had been reduced to about $1.5 billion. As this number was still well in excess of the City Debt Target available for the TTC, staff undertook a further review and at the September 16, 2011, Commission meeting presented a Shortfall Reduction Plan that reduced the shortfall by an additional $0.7 billion. The reductions at that time included the following projects:

- Deletion of 134 bus purchases
- Elimination of a Temporary Bus Storage Facility
- Deletion of 10 TR Subway Trains
- Elimination of 15 LRV Cars
- Deferral of work on the RT/T1 Rail Yard Accommodation
- Deferral of ATC on the Bloor-Danforth line
- Deferral of Fire Ventilation Upgrades
- Deferral of On-Grade Paving
- Deletion of Collector Booth Modifications

Following these amendments, the remaining shortfall was in the order of $0.8 billion.

Since September, staff has continued to work with the City and have identified additional funds available through increased Development Charge allocations for eligible growth projects ($44 million) and the application of capital financing from available Provincial reserves ($57 million). The City has also applied a further $700 million in assumed reserve funding to be provided from proceeds from the monetization of City assets, the use of surplus operating funds and additional contributions to transit from both the Federal and Provincial governments. This latter funding is assumed for new streetcar related projects which have exerted much of the pressure on the overall Capital Program. As a result, combined with the carry-forward of project funds not expended in 2011, sufficient funds are now available to accommodate the TTC's 2012-2021 base capital program needs in full.

With the City's debt targets stretched to the maximum and no further reductions possible to the Commission's necessary state-of-good-repair capital investments, additional Federal and Provincial funding is necessary to bridge any remaining funding gaps and to allow the TTC to address continued growth in ridership demand – 2012 will be the 5th consecutive year of all time high record ridership levels. TTC will continue to work closely with City staff to pursue Federal and Provincial funding on an urgent basis to meet these needs.

Transit Planning

At its meeting of September 19, 2011, the Commission requested that the Chief General Manager review and report back on the role of Metrolinx and the TTC on planning/operating transit responsibilities.

Metrolinx is the Province of Ontario agency established by the Metrolinx Act, 2006 to coordinate the planning and implementation of transportation in the Greater Toronto and Hamilton Area. In 2008 Metrolinx produced the Big Move Regional Transportation Plan to guide the development of transportation policy and funding priorities. Metrolinx is responsible for transportation operations such as GO Transit, the Presto fare card and the Airport Rail link and is also responsible for the Provincial funding for the Eglinton-Scarborough Crosstown transit project and will own and control this project. The legislation also permits Metrolinx to construct and operate local transit under agreement with municipalities. The TTC's planning and operations, in contrast, focus on local transit issues. TTC planning responsibilities include taking counts of passenger volumes on the TTC's local bus and streetcar services and adjusting service levels in response to changing demand, undertaking analyses of site-specific traffic operations to identify means of improving service reliability, preparing the schedules and operators' crews for all services, providing transit-related input to the City's planning department regarding local development applications, and identifying route changes in response to ongoing local community development. TTC planning staff also prepare reports regarding potential improvements to local transit services within Toronto, such as the Ridership Growth Strategy, or the forthcoming Finch Avenue Corridor Bus Improvements report. Similarly, the TTC's operations focus on the provision of local transit services within the City of Toronto – including bus, streetcar, and subway services – and on the maintenance of the TTC's various rolling stock fleets and fixed assets such as the subway tunnels and signal systems. In this way, the TTC's responsibilities and activities complement the broader inter-regional focus of Metrolinx.

JUSTIFICATION

Approval of a standard 10 cent fare increase on the adult token (and a pro-rata increase on all other fare media) is necessary in order to balance the 2012 TTC Operating and 2012 Wheel-Trans Operating Budgets. Also, approval of the revised 2012-2016 Capital Program and 10 year Forecast, inclusive of the revised funding, will reflect a fully funded capital budget over the next ten years.

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December 2, 2011
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Attachments