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2014 OPERATING BUDGET BRIEFING NOTE

Ferry User Fee Revenue & Fleet Replacement

Purpose:

- This briefing note identifies historical Ferry user fee changes, operating revenues, operating expenses, capital costs and cost recovery rates.
- This briefing note provides information on the replacement plan for the ferry fleet including financing.

Issues and Background:

- The 2014 Recommended Operating Budget for Parks, Forestry and Recreation includes increased Ferry user fees of approximately 4% in order to fund increased contributions to the Ferry Replacement Reserve. On January 15, 2013, City Council (EX27.1) approved the establishment of the "Ferry Replacement Reserve" to provide funding for the replacement of the City's aging Ferry fleet servicing over 1.1 million passengers per year to the Toronto Islands.

Key Points:

- The 2014 Recommended Operating Budget includes an average increase of 4% to ferry user fees from 2013 to 2014 effective March 1, 2014 following City Council approval of the 2014 Operating Budget, resulting in incremental ferry fee revenues of \$0.246 million.
- Single Ticket fees will increase by \$0.25 to maintain a rounded fee for customer convenience. Prepaid Single Ticket fee discounts have been calculated on the rounded fee.
- Monthly passes and Vehicle fees will increase by the rate of inflation of approximately 2.25% rounded to the nearest \$0.25 increment for customer convenience.
- Since 2010, ferry fees on average have increased by 3% annually aligning with expected inflationary increases.
- The 2014 increase in Ferry fee revenue will increase the contribution to the Ferry Replacement Reserve by \$0.246 million for a total contribution in 2014 of \$0.746 million.
- Although there was \$0.2 million one-time revenue from advertising and sponsorships, this is not an ongoing source of funding for the ferry replacement plan.

Ferry Fees by Category									
User Fee Description	2010	2011	2012	2013	2014 Budget	Increase Since 2013	Percentage Increase From 2013	Increase Since 2010	Annual Average Increase Since 2010
Single Tickets									
Ferry Service Adult Ticket	\$ 6.50	\$ 6.50	\$ 7.00	\$ 7.00	\$ 7.25	\$ 0.25	3.57%	\$ 0.75	2.88%
Ferry Service Junior 2-14 Years Ticket	\$ 3.00	\$ 3.00	\$ 3.50	\$ 3.50	\$ 3.75	\$ 0.25	7.14%	\$ 0.75	6.25%
Ferry Service Student under 19 Ticket	\$ 4.00	\$ 4.00	\$ 4.50	\$ 4.50	\$ 4.75	\$ 0.25	5.56%	\$ 0.75	4.69%
Ferry Service Senior Ticket	\$ 4.00	\$ 4.00	\$ 4.50	\$ 4.50	\$ 4.75	\$ 0.25	5.56%	\$ 0.75	4.69%
Ferry Service Children Under 2 Ticket	Free	Free	Free	Free	Free	Free	Free	Free	Free
Monthly Passes									
Ferry Service Adult Pass	\$ 88.00	\$ 88.00	\$ 90.00	\$ 90.00	\$ 92.00	\$ 2.00	2.22%	\$ 4.00	1.14%
Ferry Service Junior 2-14 Years Pass	\$ 45.00	\$ 45.00	\$ 46.00	\$ 46.00	\$ 47.00	\$ 1.00	2.17%	\$ 2.00	1.11%
Ferry Service Senior Pass	\$ 65.00	\$ 65.00	\$ 67.00	\$ 67.00	\$ 68.50	\$ 1.50	2.24%	\$ 3.50	1.35%
Ferry Service Student under 19 Pass	\$ 65.00	\$ 65.00	\$ 67.00	\$ 67.00	\$ 68.50	\$ 1.50	2.24%	\$ 3.50	1.35%
Prepaid Ticket									
Ferry Service Island Resident Discount (20%)	\$ 5.20	\$ 5.20	\$ 5.60	\$ 5.60	\$ 5.80	\$ 0.20	3.57%	\$ 0.60	2.88%
Ferry Service Adult Discount (10%)	\$ 5.85	\$ 5.85	\$ 6.30	\$ 6.30	\$ 6.53	\$ 0.23	3.65%	\$ 0.68	2.91%
Ferry Service Junior 2-14 Years Discount (10%)	\$ 2.70	\$ 2.70	\$ 3.15	\$ 3.15	\$ 3.38	\$ 0.23	7.30%	\$ 0.68	6.30%
Ferry Service Senior Discount (10%)	\$ 3.60	\$ 3.60	\$ 4.05	\$ 4.05	\$ 4.28	\$ 0.23	5.68%	\$ 0.68	4.72%
Ferry Service Student Under 19 Discount (10%)	\$ 3.60	\$ 3.60	\$ 4.05	\$ 4.05	\$ 4.28	\$ 0.23	5.68%	\$ 0.68	4.72%
Vehicles									
Ferry Service Small Vehicles	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 102.25	\$ 2.25	2.25%	\$ 2.25	0.56%
Ferry Service Large Vehicles	\$ 125.00	\$ 125.00	\$ 125.00	\$ 125.00	\$ 127.75	\$ 2.75	2.20%	\$ 2.75	0.55%
Average							4.07%		3.07%

- Ferry Service (Marine Operations) has historically recovered its direct operating expenses through user fees, but falls short of funding the estimated Full Cost of the Ferry Service which also includes Capital Costs, Indirect Division Expenses, and Indirect Corporate Overhead Costs.
- While Ferry Service user fees are classified as market rates, the current fee categories and relative prices are largely based on historical fees and cost recovery percentages are largely based on volumes.
- The projected volumes and recommended user fees for 2014 results in an estimated full cost recovery percentage of 59%.
- Since the Ferry Service has historically recovered greater than 100% of its direct operating costs through user fees, the division began contributing a portion of its net operating income towards Capital through the Ferry Fleet Replacement Reserve starting in 2013.
- No specific official user fee policy for cost recovery currently exists for the Ferry Service.
- The full user fee policy for Parks, Forestry and Recreation is pending the PFR User Fee Policy report.

The following table illustrates the Direct and Full Cost Recovery percentages for the Ferry Service:

Marine Operations - User Fee Cost Recovery Estimates					
Category	2010	2011	2012	2013 Forecast	2014 Budget
User Fee Revenue	6,438,931	6,588,783	7,422,469	7,169,048	6,841,907
Direct Operating Cost	5,406,378	5,586,132	5,562,401	5,862,400	6,352,600
Direct Operating Cost Recovery %	119%	118%	133%	122%	108%
<i>Capital Expenses</i>	<i>2,741,860</i>	<i>2,741,860</i>	<i>2,741,860</i>	<i>2,741,860</i>	<i>2,741,860</i>
Direct Operating & Capital Expenses	8,148,238	8,327,992	8,304,261	8,604,260	9,094,460
Direct Operating & Capital Cost Recovery %	79%	79%	89%	83%	75%
<i>Indirect Division Costs</i>	<i>497,821</i>	<i>507,929</i>	<i>513,053</i>	<i>526,333</i>	<i>545,204</i>
Division Costs (Operating & Capital)	8,646,060	8,835,921	8,817,313	9,130,593	9,639,664
Divisional Cost Recovery (Operating & Capital) %	74%	75%	84%	79%	71%
<i>Estimated Indirect Corporate Overhead Costs</i>	<i>1,614,208</i>	<i>1,666,116</i>	<i>1,661,029</i>	<i>1,746,680</i>	<i>1,885,860</i>
Estimated Full Costs	10,260,000	10,502,000	10,478,000	10,877,000	11,526,000
Full Cost Recovery %	63%	63%	71%	66%	59%

Notes:

1. Direct Operating Costs are based on actual expenditures from SAP excluding capital and indirect costs.
2. Full Costs include Direct Operating Costs, Capital Expenses, Indirect Division Costs and Indirect Corporate Overhead Costs in accordance with Accounting Services' Full Cost Recovery model.

Ferry Replacement Funding Strategy:

- The Parks, Forestry and Recreation 2014 – 2023 Recommended Capital Plan includes a replacement plan for the 4 ferries over the next 20 years providing higher capacity passenger vessels constructed to meet the specific needs of transporting passengers to/from the Toronto Island.
- The first ferry costing \$11 million has project funding cash flowed between 2015 and 2018 which is fully funded from debt.
- The second ferry is estimated at \$10.150 million and is cash flowed over 2019 to 2021, fully funded from cash-in-lieu reserve funds.
- The replacement of the 3rd and 4th ferries in 2027 and 2032 costing \$10.150 million each is expected to be fully funded from the Ferry Replacement Reserve.

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