STAFF REPORT
ACTION REQUIRED

2017 TTC and Wheel-Trans Operating Budgets

Date:	November 21, 2016
To:	TTC Board
From:	Chief Executive Officer

Summary

This report is seeking approval of the 2017 TTC and Wheel-Trans Operating Budgets which requires a decision regarding a fare increase.

The report provides a history of how the budget shortfall has been reduced by about $170M, from the $231M initial shortfall (including the City of Toronto's 2.6% subsidy reduction) to the current shortfall of about $61M, assuming a 10-cent fare increase is approved by the TTC Board. The shortfall is comprised of about $35M shortfall related to TTC and $26M related to Wheel-Trans.

The report also provides a number of options for the Board's consideration to reduce the remaining shortfall.

Recommendations

It is recommended that the Board:

1. Approve expenditure reductions totalling approximately $91M, as detailed in this report ($15.8M as endorsed by the TTC Budget Committee on September 21, 2016 and a further net $75M reduction), noting this includes a $5M unspecified budget reduction that is yet to be determined;

2. Approve the following revenue increases totalling $41.4M, as follows:

   (i) Requesting City Council to approve a one-time draw from the TTC Stabilization Reserve in the amount of $14.4M, noting this will bring the reserve balance to zero; and

(ii) A fare increase as described in this report and as shown on Appendix B effective January 1st, 2017 generating $27M in passenger revenues;

3. Request the City to reconsider capitalizing hybrid bus batteries ($8.5M) and addressing depreciation ($29M) via City capital funding;

4. Approve the 2017 TTC Operating Budget as detailed in Part 1 of this report and the 2017 Wheel-Trans Operating Budget as detailed in Part 2 of this report, noting that, at the time of writing this report, there is a combined remaining budget shortfall of $61M on these two budgets, after incorporating the effects of recommendations 1, 2 and 3 of this report, including recommendation 2 (ii), the fare increase;

5. Review the list of options shown on Appendix C as possible ways to address the remaining $61M budget shortfall and give staff further direction; and

6. Forward this report to the City Budget Committee and the City Manager as the official 2017 operating budget submission for the Toronto Transit Commission.

Financial Summary

The City of Toronto has targeted a 2017 TTC and Wheel-Trans Operating Budget subsidy of $594.5 million, which is 2.6% or $15.8 million below the budgeted subsidy for 2016 for these two budgets.

At the September 21, 2016 TTC Budget Committee meeting, staff tabled a report entitled "Preliminary 2017 TTC and Wheel-Trans Operating Budgets" which included recommendations to address the 2.6% or $15.8 million reduction target. The TTC Budget Committee endorsed these reductions and directed staff to develop a list of possible options for eliminating the year-over-year budget pressures of $215 million. Assuming the TTC Board approves a standard 10-cent across-the-board fare increase (as shown on Appendix B), that and a whole host of other reductions, refinements and cuts will have reduced the year-over-year pressures down by $170 million to about $61 million.

This report provides options for consideration for further reducing that pressure or funding gap for 2017.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Accessibility/Equity Matters

All expenditures required to meet the TTC's accessibility and equity requirements are provided for in these budgets.

Decision History

The TTC Budget Committee met on September 6th to review progress on the TTC Capital Budget and on September 21st of this year to review progress on the TTC and Wheel-Trans Operating Budgets and to provide staff with direction on the preparation of those budgets. The links to those meetings are provided below.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Budget/2016/September_6/Agenda/index.jsp

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Budget/2016/September_21/Reports/1._Preliminary_2017_TTC%20_and_Wheel-Trans_Operating_Budgets.pdf

Discussion

PART 1: 2017 TTC OPERATING BUDGET

Ridership

The starting point of the TTC operating budget is the projection of what the ridership level will be in 2017. In determining a ridership level, the TTC utilizes an assortment of information, including economic and population information from the City of Toronto, economic forecasts of employment and economic activity from the Conference Board of Canada and other sources, and TTC experience.

Ridership in 2016 was budgeted at 553M rides. This figure was set in the summer of 2015 and was largely based on economic forecasts for 2016 employment made at that time. As 2015 progressed, the forecasters reduced the employment growth forecasts for the City of Toronto somewhat. The 553M ridership figure was not reduced, but rather was stated as a stretch target.

Fairly early on in 2016, ridership was running below budget and lower than the same period in 2015. This was specifically reported on at the March 21, 2016 TTC Board meeting in the report entitled “2016 Ridership Update.” That report discussed possible measures to be undertaken should the trend at that time be more than just a “bad start to the year”. One of those items was “A freeze on further service additions until it can be determined if the year-to-date ridership results are only temporary or more indicative of a lasting trend.” The link to that report is provided below:

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2016/March_23/Reports/2016_Ridership_Update.pdf

Things improved somewhat over the course of the year, but it was fairly clear that achieving the 553M budget was not going to happen. A range between 540M to 545M was identified as the likely year-end ridership. Staff has continued to closely monitor ridership throughout the year and report out publicly in the monthly CEO’s Report to the

Board. The fall service additions planned for were not implemented because they were not needed to accommodate the actual ridership. This reduced 2016 operating expenses by about $1.5 million and roughly $6 million on an annual basis. At the present time, staff estimate ridership will fall closer to the lower end of that range.

For 2017, a ridership budget of 545M has been set largely based on 2016 results and on the current fare structure. This would represent about a 1% growth in ridership over the likely 2016 year-end figure. Even though this is lower than the 2016 budget, it would still represent a record ridership level for the TTC.

Appendix I provides further information on ridership.

Budget Pressures

At the Start of the Budget Process

As noted in the 2016 TTC budget reports that were submitted to the Board at this time last year, 2017 was going to be a challenging year from a financial perspective due to a series of previously approved initiatives: the current 4-yr Collective Bargaining Agreements, the implementation of PRESTO, the opening of the TYSSE, an increase in maintenance costs partly due to vehicles coming off warranty, energy costs (including an estimated $5 million plus increase due to the Provincial Cap and Trade regime) and escalating accident claims costs. All of these items suggested an opening TTC Operating Budget pressure in the order of $152 million. Further exacerbating this has been the flattening of TTC ridership and the loss in revenue associated with that ($32 million). Lastly, the huge growth in Wheel-Trans ridership due in part to new AODA criteria costing an estimated $31 million more. Combined, this left the TTC with year-over-year budget pressures of about $215 million. Adding the City's 2.6% or $15.8 million reduction target resulted in a combined $231 million pressure for the 2017 TTC Conventional and Wheel-Trans operating budgets.

Appendix E provides an itemization of the opening 2017 budget pressure.

Reductions identified to date

Working with the TTC Budget Committee throughout the summer, the $231 million total pressure has been reduced to $99 million through the following measures:

- Cutting the $15.8 million noted above to fulfill the 2.6% mandated cut. The biggest single item was a cut of about $10 million in employee benefits costs. A list of all the reductions is found in Appendix K.

- The balance of the list adds to about $116M in expenditure reductions and revenue increases. Combined with the $15.8M, they reduce the overall $231M starting budget pressure down to approximately $99M. This includes:

(a) Revenue increases of $41.4M as follows:

- Implementing a 10-cent fare increase as included in recommendation 2 (ii) of this report (subject to TTC Board approval at this meeting) to generate $27 million in net revenue.
- Requesting City Council approve a draw from the TTC Stabilization Reserve Fund in the amount of $14.4 million in 2017, recommendation 2 (i).

(b) Expenditure Reductions of $75M as follows:

- Revising the estimate of the PRESTO fee down by $16 million due to the delayed phasing out of the Metropass.
- Reduced energy costs based on current diesel futures pricing and lower electricity costs of about $12 million.
- Capitalizing the impact of city construction on TTC service totalling about $6 million.
- Delaying the implementation of reliability centered maintenance (RCM) in bus operations, conditional on the bus purchases requested as part of the federal government Public Transit Infrastructure Fund (PTIF) being approved. That infusion would allow for a slower phasing in of RCM and removal of the $6 million originally included in the budget pressures.
- Reduced contracted services across-the-board of about $6 million.
- Other reductions totalling about $24 million including workforce reductions and adjustments ($10M), overtime reductions ($2M), refinements to the Wheel-Trans budget ($4M), employee benefits reductions ($1M), materials, supplies and other savings ($7M).
- An unspecified cut of $5 million in expenses - yet to be determined.

It should be noted expenditure trends over the past 5 years have been reviewed and where specific items were identified, such as employee benefits, reductions based on those trends have been incorporated into the budget items. In addition to that, staff reduced departmental expenses across-the-board in the 2016 TTC Operating budget by $10M and have included a further $5M unspecified reduction to the 2017 budget to reflect these trends.

Other items considered to help address the remaining $99 million shortfall included the following:

• Depreciation (via City capital funding)	$29.0M
• Capitalization of Hybrid Bus Batteries	8.5M
Total	$37.5M

Both of these items were reviewed with City staff and not supported because they reflect a shift from the operating budget to capital, requiring City capital funding. Staff suggest these items be given further consideration by the City as they might help address the operating pressures while immunizing customers from service adjustments or further fare increases, to the extent possible.

Should these two changes noted above be approved by the City, along with the other items noted above, the $99M shortfall would be reduced to about $61M.

Recommended Fare Increase

As can be seen from the list above and the options listed below, no part of the budget has been immune to examination in attempting to address the budget gap. While never a first recourse, budget pressures of the magnitude faced in 2017 require fares to be part of the solution. Appendix B provides the suggested fares for the individual fare categories should the TTC Board approve of recommendation 2 (ii) of this report. This fare change would be termed a "10-cent" fare increase because that is what the single adult ride (a token) would be increased from the current level of $2.90 per token to an even $3. All other fare media would be increased proportionately with the exception of cash (which was raised from $3 to $3.25 in 2016). This fare increase is calculated to generate an increase in revenues netting to $27 million (after factoring in PRESTO fees as well as an estimated ridership loss of about 1.2 million).

Possible Options for eliminating the remaining $61 million gap

Appendix C provides a list of possible options for the TTC Board to review and provide direction to staff for eliminating the remaining $61 million shortfall. The list includes a review of a series of service options, a review of fare increases over and above the 10-cent one being recommended, a review of Metropass discounts and a review of concession fares. Where available, the net impact on the operating budget in terms of increased revenues, lower expenses and the resultant impact on ridership is identified. The list represents a menu of possible options and reflects a maximum impact of over $180M.

The dollar figures shown represent the maximum annual amounts and are shown as "up to" or maximums. The ridership impacts shown are the "maximum" if the full option were selected. In each case, there is a full range within the option shown, from not acting on it at all to acting on it in full. For example, one option is to review increasing off-peak crowding by 10%. Any option from 0% to 10% is possible and the figures shown represent staff's best estimates of the maximum impact.

When considering the options for further savings, the following caveats should be noted:

- These are order-of-magnitude estimates of the annual impacts.

- The larger the items, the riskier the estimated impact. For example, staff have a decent idea about what a 10-cent fare increase may do based on historical experience, but have nothing but the formulaic calculations for a 50-cent fare increase because the TTC hasn't increased fares by 50-cents for a token in the past. Staff could not stand by the impact figures shown for a fare increase of that magnitude.

- The items are not additive. While they are in the ballpark for the individual items within normal ranges, combining items is not something staff have tried to calculate the impact of. You have to go back to the early 1990s to find a period when there were both large service cuts and large fares increases at the same time. In a 3-year period back then, ridership fell by 90 million rides annually (20%), including a 50 million drop in one particularly bad 12-month period. Complicating this was the impact of the economic recession at the time that was especially hard on the downtown financial district. So even drawing on that 25-year old experience may not provide any sense of the reaction that might be predicted.

Service

Service to be operated in 2017 will be sufficient to accommodate an annual ridership level of 545M within approved service standards.

The 2017 service budget represents a 0.4% increase in service compared to the 2016 Service Budget.

The 2017 service budget includes the annualization of service changes made in 2016 including resources to sustain ridership at current levels, service initiatives such as expansion of express bus services, adjustments to streetcar & bus schedules to improve service reliability, and increased bus and streetcar service from the introduction of earlier subway service on Sunday mornings.

The 2017 service budget does not include additional hours for ridership growth. The projected level of 545 million passenger trips can be accommodated by service improvements made in early 2016.

The 2017 service budget includes other initiatives namely the restoration of streetcar service to 202 peak vehicles, the TYSSE subway service extension and bus service changes, and new bus service to the Renforth Gateway Terminal.
The 2017 service budget includes service reductions related to changes in contracted service with York Region Transit as a result of the TYSSE subway opening in December 2017, and savings related to the introduction of new streetcars on the 514 Cherry, and 511 Bathurst routes.

TTC Operating 2017 Revenues and Expenses

Appendix A provides a table showing the breakdown of 2017 revenues and expenses compared with the 2016 budget. Appendix D provides a detailed explanation of the year-over-year changes.

TTC Operating Revenues

Total revenues, including the fare increase described in this report, are budgeted to decrease by $4.5M. About 95% of all TTC revenues are generated through the farebox in the form of passenger revenues, with the remaining 5% coming from other revenue sources, such as transit advertising, commuter parking lot revenues and concessions in the subway. Passenger Revenue are decreasing by $6.9 million due to a reduction of 8 million budgeted rides with an expected $17.1 million decrease in revenue and a reduction in the average fare of $18.5 million due to ongoing changes in the mix of fare media. The revenue decrease is offset by a 10-cent fare increase generating $28.7 million ($27 million net of PRESTO fees) with an expected reduction in ridership of 1.2 million. Other (non-passenger revenues) are expected to increase by about $2.4 million.

Appendix D provides further information on revenues.

TTC Operating Expenses

The day to day expenses associated with running the TTC are budgeted to increase by $66.1M or 3.8% over the 2016 budgeted expenses.

Significant changes include:

1. Collective Bargaining Agreements (CBA): $24.3 million.

2. PRESTO Commissions and New Faregate Maintenance: $14.5 million.

3. Opening of Toronto-York Spadina Subway Extension (TYSSE): $6 million.

4. Cap & Trade: $5.2 million.

5. Hybrid bus battery modules: $8.5 million.

6. Accident Claims: $6.2 million

7. Traction Power and Utilities Price Increase: $5.5 million.

Appendix D provides further explanations on the year-over-year expenditures changes.

If recommendation 3 is adopted, operating expenses would be reduced by a further $37.5M to a net increase of $28.6M.

Diesel

Diesel fuel is the largest single cost element in the TTC's operating budgets, after labour and benefit costs. While the volume of fuel required is predictable based on service levels, the price of this commodity can vary considerably. This has been the case in the past few years. To protect against such price volatility, TTC utilized fixed price supply contracts for many, many years. Since 2012, the TTC has partnered with the City in purchasing financial hedges for fuel contracts to achieve price (and hence, budget) certainty. The City enters into the financial hedges on TTC's behalf.

To date, the TTC has secured hedges for approximately 60% (57 million litres) of its total 2017 diesel fuel requirement (96 million litres) at a weighted-average price of about 81 cents per litre. The balance of the fuel requirements (39 million litres) are unhedged but budgeted at about 83 cents per litre.

The TTC has also undertaken other measures to contain and/or reduce the diesel fuel budget. For instance, after extensive testing on the bus fleet over a two year period, in 2015 the TTC switched from #1 grade diesel to the less expensive #2 grade which resulted in a price reduction of almost 4 cents per litre. This equated to a $4 million reduction to the diesel fuel budget.

The Province of Ontario's Cap-and-Trade Program, announced during the 2016 Ontario Budget earlier this year, is expected to increase the cost of diesel by 4.7 cents per litre effective January 2017. This equates to a $4.5 million increase for both the TTC and Wheel-Trans operating budgets combined.

Workforce

The TTC Operating Budget headcount is budgeted to grow by 347 positions or 2.9% from 11,870 in 2016 to 12,217 as shown in the table below:

3rd Party Recoveries (100% cost recovery)	210
TYSSE	169
PRESTO/Stations Transformation	(83)
Service (Planned 2016 Fall service not implemented)	(29)
Conversion of IT Contractors to TTC positions	14
Track Safety Plan	18
Keele Yard	10
Operating Impacts of Capital Projects	11
Other Net Changes	27

Included in the 2017 workforce budget is a total of 210 positions related to work recoverable from third parties. Of the 210 positions, 169 primarily relate to bus service augmentation planned for the Eglinton Crosstown LRT due to construction activities and road closures. The cost associated with providing this augmented service is recoverable through Metrolinx (per the Master Agreement). Below is a table showing the estimated recoverable costs over the next five years (in 2016 dollars) for the Eglinton Crosstown LRT bus augmentation.

2017	$ 18.7M
2018	$ 23.9M
2019	$ 9.0M
2020	$ 10.3M
2021	$ 10.6M
Total	$ 72.5M

The remaining 41 positions primarily relate to first-line maintenance work on PRESTO equipment subject to negotiations with Metrolinx.

Appendix G provides additional details regarding workforce changes for the TTC, Wheel-Trans, and Capital budgets.

Long Term Comparisons (Productivity)

	Change from 1992 to 2017
Population	+ 26%
Ridership	+ 33%
Service Level (hours)	+ 39%
Service Level (kilometres)	+ 32%
Operating Budget workforce	+ 29%

Carrying an additional 33% riders, while increasing service levels about 39% and employees by only 29%, represents a substantial improvement in labour productivity. All of this has been achieved despite the loss of bus carrying capacity in the order of 10% due to the conversion of the fleet to a low-floor design and ever-increasing road congestion which has necessitated the addition of resources (vehicles, Operators, service hours, etc.).

Operating Subsidy

Appendix H provides a comparison of TTC operating subsidy/rider with other transit systems locally, nationally and North America-wide. It should be noted that the TTC was budgeted to receive subsidy of 90 cents per rider in 2016 while Montreal received $1.16 in 2015 and the massive New York system received $1.52 US in 2014.

In addition, as shown in the table below, after adjusting for inflation, TTC subsidy/rider is 15 cents lower in 2016 than was provided to the TTC in 2010.

Year	Subsidy Budget	Ridership Budget	TTC Subsidy per Rider	TTC Subsidy in $2017
2010	$430M	462M	$0.93	$1.05
2011	$429M	487M	$0.88	$0.96
2012	$411M	503M	$0.82	$0.89
2013	$411M	528M	$0.78	$0.83
2014	$440M	540M	$0.81	$0.84
2015	$483M	545M	$0.89	$0.91
2016	$495M	553M	$0.90	$0.90

Future Years

Staff is still working on pro formas for the upcoming years. The following transformational projects will have a significant impact on the future projections. These projects will deliver savings both in terms of dollars and headcount. The projects include fundamental changes to work practices and technology as well as streamlining and modernization of TTC processes, all of which adds up to a much more efficient operation. Their anticipated dollars and workforce savings are shown on the table below.

	Ongoing Savings/ Cost Avoidance
PRESTO (-140 w/f)	$48M
One Person Operation of Subways (OPO) (-294 w/f)	$36M
Warehouse Rationalization	TBD
Office Consolidation	$8.5M
Reliability Centred Maintenance (Bus)	$20M
SAP (-30 w/f)	$3M
CAD/AVL (VISION)	$24M
Lean Six Sigma Review	TBD
Wheel-Trans Fleet/Family of Services	$30M
204 LRVs (-50 w/f)	$6M
Estimated Total (-514 w/f)	$175.5M

PART 2: 2017 WHEEL-TRANS OPERATING BUDGET

The 2017 Wheel-Trans Operating Budget has been developed to address an increasing demand for service, respond to current demand, and prepare for evolving service delivery methods. The Budget also includes the impact of expanded service capability to include redefined eligibility in accordance with Accessibility for Ontarians with Disabilities Act (AODA) legislation and business/technology changes required to meet future needs and transform the customer experience.

Appendix J shows the year-over-year changes in budgeted revenues and expenses, relative to 2016.

The highlights of the 2017 Wheel-Trans Operating Budget are as follows:

- Wheel-Trans ridership is steadily increasing (28% increase over 2016 Budget, following on from a 14% increase over the 2015 Budget). This is a result of an aging population, improved service delivery and compliance with AODA requirements (expanding eligibility criteria) combined with the addition of more resources to book trips in the Reservations call centre and improvements in on-time performance;

- 2017 marks the first year of the 10-Year WT Transformation Program, with the objective to introduce the Family of Services (FOS) model of service to our customers. It is projected that 1.5% of trips (70,000) will be transferred to this model, which will decrease expenses by reducing the average length of trips provided by the Wheel-Trans service;

- In 2017, Wheel-Trans will accommodate continued growing trip requests based on an unaccommodated rate of 0.5%;

- Carrying 1,033,100 more passengers, increasing from 3.690 million in 2016 to 4.723 million in 2017, with the additional trips carried on contracted taxi services as it is the most cost effective mode;

- As per the current Collective Bargaining Agreement with ATU Local 113, maintain operator workforce at 350, thus maximizing the efficiency of current bus crews and available vehicles by adding more high-productivity zone buses and reducing bus operating costs;

- Working with the new eligibility criteria starting January 1, 2017 based on added classifications of disabilities as required by AODA. This includes the requirement to assess any disability (including cognitive) as an impediment to riding the conventional system versus the current model of a mobility disability being the only factor and commencing the re-registering of current customers;
- The service forecast has incorporated a 28% increase in ridership as a result of the

eligibility changes. The projected increase is based on the experiences of other transit properties applying the expanded criteria;

- Continue the implementation of the 10-Year Strategy for Wheel-Trans service including Program Reviews, and monitoring performance;

- Improvements to Community Bus service to better support the ‘Family of Services’ delivery model as a ‘pilot’ in 2017;

- Staff will start a comprehensive task of identifying a new scheduling software reservation system that will allow customers the ability to book and schedule in accordance with the AODA expanded criteria to create a 3rd category of eligibility (conditional) to commence intermodal trip planning using TTC conventional service;

- Participate in the corporate initiative to upgrade the Call Centre telephone system;

- Improving customer service telephone performance by reducing wait times and call abandonment rates by upgrading training and improve customer service policy to ensure both staff and customers understand the expectations of a shared ride public service. Provide training tools on how to reduce talk time and to efficiently book/modify rides;

- Implementation of a new fuel efficient production vehicle with lower acquisition and operating costs to replace the Friendly bus fleet in 2017;

- Developing a new comprehensive Operations Management System which will build upon the application and registration processes, trip-booking and scheduling enhancements integrated with Interactive Voice Response (IVR), Automatic Vehicle Location (AVL), Mobile Data Terminal (MDT) technologies improving vehicle productivity, on-time performance and operational efficiencies;

- Develop a wireless solution for customers who book trips on-line;

- <u>Revenues</u> are projected to increase by $1.5 million primarily as a result of the projected increase in trips, with a provision for a 10-cent fare increase included in the 2017 budget;

- <u>Expenditures</u> are expected to increase by approximately $27.5 million over the 2016 budgeted level. Key elements of this change include:

    - $24 million increase required to provide an additional 1.033M (28%) trips based on a targeted accommodated rate of 99.5%
    - $2 million for the WT Transformation Program;

- $1.1 million for the full year's effect of the current Collective Bargaining Agreement;
  - $0.8 million for increased Bus Maintenance costs due to an aging fleet;
  - $(0.9) million reduction in diesel fuel costs; and
  - $0.5 million for all other net changes.

- Subsidy request for 2017 is anticipated to increase by $26 million from the 2016 budgeted level of $116.7 million to $142.7 million;

- Year-end workforce will increase by 6 positions from 565 to 571 in support of increased ridership and the commencement of the WT Transformation program (see Appendix G for further details).

Funding

The following table provides a comparison of the 2016 and 2017 Operating Budgets:

	2016 BUDGET	**2017 BUDGET**	**CHANGE**
Financial Data ($Millions)			
Net Expenses	**124**	**151**	**27**
Operating Revenue	**7**	**8**	**1**
Operating Subsidy Required	**117**	**143**	**26**
Operating Subsidy Available	**117**	**117**	**-**
Shortfall	**0**	**26**	**26**

The Wheel-Trans Operating Budget for 2017 requires funding in the amount of $142.7 million to meet the anticipated demand for service ($151.2 million), partially offset by revenues of $8.5 million. At the requested level of funding, Wheel-Trans will:
1) accommodate 99.5% of the anticipated demand, using buses, accessible and sedan taxis for its door-to-door and fixed route service,
2) expand eligibility criteria for service and associated applications, assessment, and appeal processes,
3) change selected routes from Community Bus service to support the pilot of the 'Family of Services' model of service, which will integrate more trips with conventional service (allowing for the reduction of operating costs and cost avoidance),
4) introduce technological innovation and continue with service initiatives to improve both vehicle productivity and quality of service,
5) change customer policies to facilitate the changes in customer habits and associated operational adjustments, and
6) pilot the Family of Service program to begin to test and improve conventional processes

and obtain practical customer inputs to develop the full program.

Wheel-Trans Service Plan

Service Plan Summary

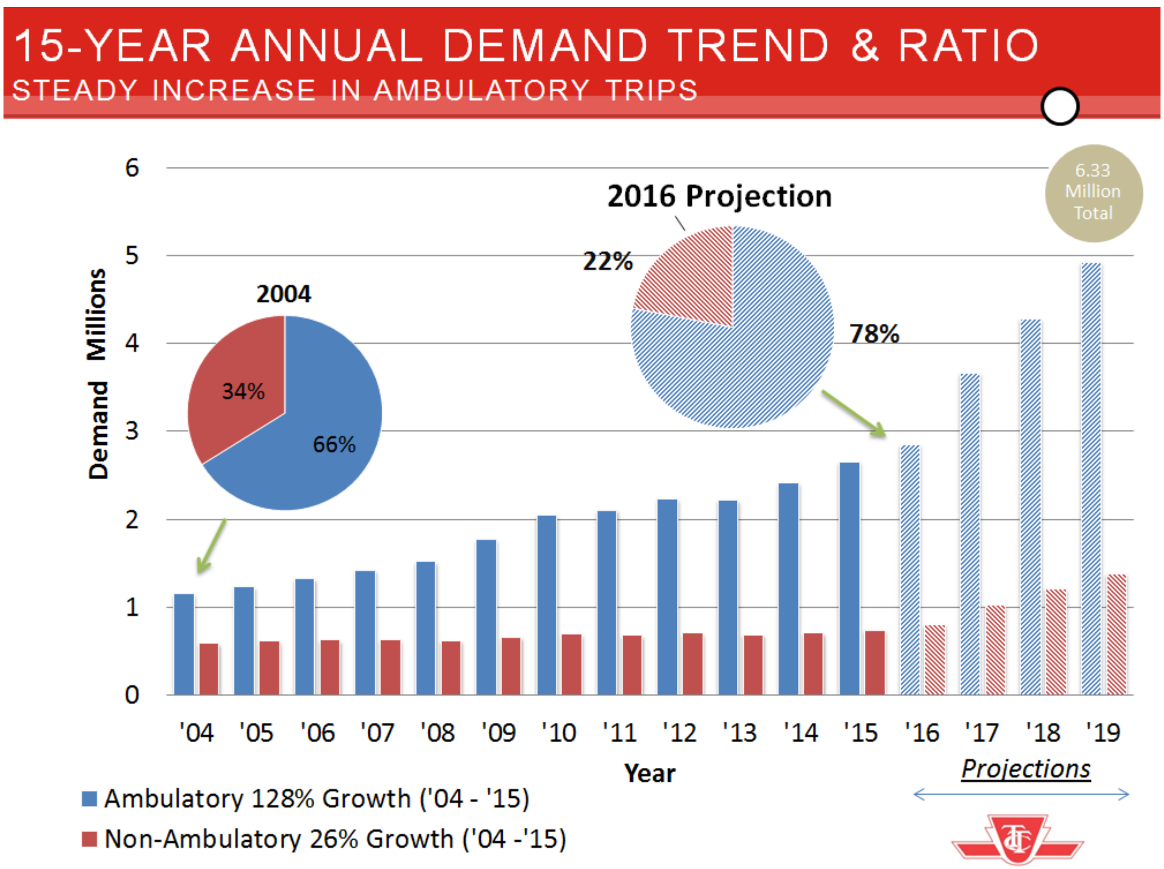
- 2017
    - Scheduling and service design initiatives to assist in accommodating demand growth (new operations management system)
    - AODA mandated eligibility implemented (Fall)
    - Family of Services pilot introduced (Fall)
- Replacement of bus fleet commences with different fleet sizes and fleet mix

The Ontario government has developed mandatory accessibility standards that identifies, removes, and prevents barriers for people with disabilities. On January 1, 2017 the additional requirements of AODA legislation broadens the definition of a disability which includes expansion of the categories of disability (temporary, conditional and unconditional) and mandates barrier free access to transportation which will include any barrier that prevents customers from accessing conventional TTC Service. Current Eligibility for Wheel Trans is based on mobility impairments, however the AODA requirement expands the Eligibility definition to include any disability (including cognitive) that prevents a person from travelling on the conventional system and as such, is anticipated to significantly increase demand for Wheel-Trans service from the last quarter of 2016 and beyond, when the new eligibility assessment process is fully implemented based upon the new expanded eligibility criteria. Other specialized transit agencies across Ontario are addressing similar concerns and the requirement to be compliant with AODA legislation by January 1, 2017 and have noted a 20% increase in demand as a result. The 2017 Budget includes the service impacts for this new expanded eligibility with amounts set aside for the new interview and appeals process.

Contemplating the impact of the change on service and costs and working to ensure sustainability, Wheel-Trans developed a 10-Year Strategy which includes a service delivery model that is based on the scheduling of trips based on the customers’ ability, not disability, which will include trip planning on the conventional system to ensure optimal and strategic best use of all TTC resources. Known as Family of Services (FOS), the premise is to holistically approach customer service and trip reservation and scheduling using all of the TTC’s service options (Bus, Subway, Streetcar and Specialized Transit) matched to the ability of each customer for each trip request as well as acknowledging the TTC’s substantial investments in accessibility across the entire system. As this presents a significant change for existing Wheel-Trans customers, Wheel-Trans will introduce and soft launch a pilot of this concept using selected Community Bus and conventional routes which are operated by Wheel-Trans staff using TTC Wheel-Trans buses. A significant communications campaign and customer-focused travel training program will be developed and initiated prior to the start of the pilot to ensure customers are confident that the portion of the journey will serve their transit needs. Wheel-Trans will report to the Board in late 2017 with the early results and findings of the new eligibility and FOS Pilot. As part of the expanding criteria, Wheel-Trans will be providing its staff and contracted drivers with sensitivity and customer service training to better serve customers with mental health and cognitive disabilities.

Demand Forecast

During 2016, customer demand increased by 504,000 (16% over 2015 budget) and this increase is expected to continue as customer experience improves and more service options become available. Specifically, customer trips are expected to increase from 3.69 million (2016 budget) to 4.723 million (2017 budget), a forecasted increase of 28%. This increase in demand growth reflects an expanding registrant base where an average of 1,200 new customers is being added monthly to the registrant base. The 2017 forecast has accounted for 28% growth in ridership, however, until the new eligibility criteria is finalized, it is difficult to accurately project the anticipated increase.



The table below summarizes the number of passengers carried by mode in 2016/2017:

	2016 BUDGET	**2017 BUDGET**
- Bus	1,007,600	953,600
- Accessible Taxis	1,331,100	2,083,000
- Sedan Taxis	1,298,800	1,638,000
Sub-Total	**3,637,500**	**4,674,600**
- Community Bus	52,000	48,000
Total Trips	**3,689,500**	**4,722,600**

<u>Contracted Taxi Services</u>

The available capacity of both accessible and sedan taxis are a fundamental tool used to provide over 74% of Wheel-Trans service. As the most cost effective service delivery mode within the current Wheel-Trans service design, contracted services are used to provide transport to smaller groups of customers and allow flexibility in the scheduling system for same-day service, and adjust service when disruptions occur. With the increase in ambulatory customers, the contracted services are the best matched solution within the current Wheel-Trans fleet. Currently, there is a total Accessible Taxi fleet of approximately 330 that is dedicated to Wheel-Trans service with 240 operating daily, as well as approximately 2,200 sedan taxis (non-dedicated) providing service as the number of ambulatory trips continues to grow.

With the majority of the service now being carried on contracted services and consequently, a significant portion of the Wheel-Trans operating budget being allocated to paying for the services, a dedicated team to manage the service is essential to ensure compliance with the contracts and to monitor, audit, and manage overall service performance to a greater extent, as well as verify the invoices against our system records. A detailed management plan encompassing workforce, service standards, service quality expectations such as on-time performance, and response taken to address customer issues and complaints will be developed with the assistance of the external consultants as part of the Wheel-Trans Program review. As part of the contracted services business plan in 2017, Wheel-Trans will be exploring the use of additional vehicle classes that may offer higher productivity levels with lower operating costs in order to meet growing service levels.

Accessible and sedan taxi contractors will provide their staff and drivers with ‘refresher’ training in 2017 to meet service quality expectations and customer needs, ensuring better customer service and customer experience as well to be compliant with AODA standards.

Contact

Vincent Rodo, Chief Financial and Administration Officer,
vincent.rodo@ttc.ca, 416-393-3914

Attachments:
- Appendix A: TTC 2017 Operating Budget
- Appendix B: 2017 Fare Schedule: 10-cent Fare Increase
- Appendix C: Options to Address Remaining Shortfall
- Appendix D: 2017 Operating Revenue and Expense Changes
- Appendix E: 2017 Opening Budget Pressure
- Appendix F: TTC Zero-Based Service Budget
- Appendix G: Workforce
- Appendix H: 2017 Subsidy
- Appendix I: 2017 Ridership
- Appendix J: Wheel-Trans 2017 Operating Budget
- Appendix K: Summary of $15.8M Reduction

TORONTO TRANSIT COMMISSION
2017 OPERATING BUDGET

($000s)

REVENUES	**2016 BUDGET**	**2017 BUDGET**	**2017 vs. 2016 BUDGET CHANGE**
Passenger Revenues	1,175,300	1,168,360	(6,940)
Outside City Services & Charters	16,320	15,598	(722)
Advertising	27,975	28,292	317
Rent Revenue	11,095	11,148	53
Commuter Parking	9,274	12,291	3,017
Other Income	2,165	1,933	(232)
TOTAL REVENUES	1,242,129	1,237,622	(4,507)
EXPENSES			
CEO's Office	38,709	41,366	2,657
Strategy and Customer Experience Group	20,868	20,621	(247)
Engineering, Construction and Expansion Group	4,382	4,352	(30)
Corporate Services Group	69,639	71,907	2,268
Operations Group	293,807	320,137	26,330
Service Delivery Group	738,208	760,522	22,314
Employee Benefits	301,600	307,599	5,999
Vehicle Fuel	84,556	82,889	(1,667)
Traction Power	54,371	58,884	4,513
Utilities	25,939	28,833	2,895
Depreciation	33,449	-	(33,449)
Taxes and Licences	3,261	3,379	118
Accident Claims & Insurance	31,384	37,584	6,200
Non-Departmental Expenses/Cost Recoveries	36,585	32,309	(4,276)
Unspecified Budget Reduction	-	(5,000)	(5,000)
TOTAL EXPENSES	1,736,756	1,765,382	28,626
Operating Subsidy Required	494,628	527,760	33,132
Operating Subsidy Available	493,627	478,227	(15,400)
Draw from TTC Stabilization Reserve	1,001	14,400	13,399
TTC CONVENTIONAL SURPLUS / (SHORTFALL)	-	(35,133)	35,133
WHEEL-TRANS SURPLUS / (SHORTFALL)		(26,366)	
TOTAL SURPLUS / (SHORTFALL)		(61,499)	

Note:

1. The effects of recommendations 1, 2 and 3 have been incorporated into this table.
2. All figures by group are subject to refinement.
3. Refer to Appendix J for details of the Wheel-Trans shortfall.

2017 FARE SCHEDULE
(10 Cent Fare Increase)

	Current Fare	New Fare
Adult		
-Cash	$3.25	$3.25
-Token	$2.90	**$3.00**
-PRESTO E-Purse	$2.90	**$3.00**
-Weekly Pass	$42.25	**$43.75**
-Regular Metropass	$141.50	**$146.25**
-VIP Tier 1 (50 - 249)	$127.25	**$131.75**
-VIP Tier 2 (250 - 499)	$125.75	**$130.25**
-VIP Tier 3 (500+)	$124.50	**$128.75**
-MDP	$129.75	**$134.00**
-Post-Secondary Metropass	$112.00	**$116.75**
Senior/Student		
-Cash	$2.00	**$2.10**
-Ticket	$1.95	**$2.05**
-PRESTO E-Purse	$1.95	**$2.05**
-Weekly Pass	$33.00	**$34.75**
-Regular Metropass	$112.00	**$116.75**
-MDP	$102.75	**$107.00**
Child		
-Cash	$0.00	$0.00
-Ticket	$0.00	$0.00
-PRESTO E-Purse	$0.00	$0.00
Other		
-Day Pass/Family Pass/E-Ticket	$12.00	**$12.50**
-GTA Weekly Pass	$61.00	**$63.00**
-Downtown Express Sticker	$41.50	**$43.00**

Note: values in bold represent increase from current pricing

OPTIONS TO ADDRESS REMAINING SHORTFALL

	Annual Impact	
	Up to $	**Ridership**
(A) Service Options		
(i) Review low-ridership, high-subsidy routes	$3M	(0.3 Million)
(ii) Review 10 minute service	$9M	(1.7 Million)
(iii) Review low-ridership periods on bus routes	$3.6M	(1 Million)
(iv) Review off-peak loading standards	$8.3M	(2.3 Million)
(v) Review increasing off-peak crowding by 5% (over item (iv))	$3M	(0.8 Million)
(vi) Review night service	$1.8M	(0.6 Million)
(vii) Review express bus service	$2.8M	(1.1 Million)
(viii) Review increasing peak crowding by 5%	$5.2M	(0.6 Million)
(ix) Review increasing peak crowding by 10%	$5 M	(0.5 Million)
(x) Review increasing off-peak crowding by 10% (over item (iv))	$1.7M	(2.1 Million)
(xi) Review Community Bus (Wheel-Trans)	$1.0M	
Sub-total	$44.4M	(11 Million)

	Annual Impact	
	Up to $	**Ridership**
(B) Fare Related		
Review Fare Increase beyond 10-cents (Appendix C1)		
Figures are the increment over the 10-cents and the larger the increase the more risk involved.		
20-cents	$20M	(3 Million)
25-cents	$30M	(5 Million)
50-cents	$54M	(20 Million)
Review Harmonized cash fares (Appendix C2)		
At $3.25 for a 10-cent fare increase	$3M	(1 Million)
At $3.25 for a 20-cent fare increase	$4M	(1.5 Million)
At $3.25 for a 25-cent fare increase	$6M	(2 Million)
At $3.75 for a 50-cent fare increase	$3M	(2 Million)
Review Pass Discounts to Adult MP Price		
Metropass MDP	$6.6M	(0.5 Million)
Metropass VIP *	$9.5M	(0.9 Million)
Post-Secondary Discount	$13.5M	(2 Million)
* Based on current contracts, prices for January 2017 passes are fixed.		
Review Concession Fares		
Seniors Tickets/passes	$16.4M	TBD
High School Students Tickets/Passes	$19.7M	TBD
Blind & War Amps	$2.1M	TBD
Children's Fares	$8.3M	(8 Million)

2017 FARE INCREASE OPTIONS

Fare Increase Impacts	$0.10	$0.20	$0.25	$0.50
Revenue Gain ($M)	$ 28.7	$ 48.9	$ 58.7	$ 83.1
Rides Elasticity (M)	-1.2	-4.5	-6.1	-20.7
Weighted % Increase	3.0%	6.1%	6.1%	16.5%

Fare Media Pricing	Current	$0.10	$0.20	$0.25	$0.50
Adult Cash	$ 3.25	$ 3.25	$ 3.25	$ 3.25	$ 3.75
Adult Token/PRESTO	$ 2.90	$ 3.00	$ 3.10	$ 3.15	$ 3.40
Adult Regular Metropass	$ 141.50	$ 146.25	$ 151.25	$ 153.75	$ 166.00
Adult MDP Metropass	$ 129.75	$ 134.00	$ 138.50	$ 141.00	$ 152.25
Adult VIP Metropass (Tier 3)	$ 124.50	$ 128.75	$ 133.00	$ 135.25	$ 146.00
Adult Post-Secondary Metropass	$ 112.00	$ 116.75	$ 121.75	$ 124.00	$ 134.00
Adult Weekly Pass	$ 42.25	$ 43.75	$ 45.25	$ 46.00	$ 49.50
Senior/Student Cash	$ 2.00	$ 2.10	$ 2.20	$ 2.25	$ 2.50
Senior/Student Ticket/PRESTO	$ 1.95	$ 2.05	$ 2.15	$ 2.20	$ 2.45
Senior/Student Regular Metropass	$ 112.00	$ 116.75	$ 121.75	$ 124.00	$ 134.00
Senior/Student MDP Metropass	$ 102.75	$ 107.00	$ 111.50	$ 113.75	$ 122.75
Senior/Student Weekly Pass	$ 33.00	$ 34.75	$ 36.25	$ 37.25	$ 41.50
GTA Weekly Pass (TTC share)	$ 32.94	$ 34.08	$ 35.21	$ 35.78	$ 38.62
Day Pass	$ 12.00	$ 12.50	$ 13.00	$ 13.25	$ 14.50

2017 FARE INCREASE OPTIONS with HARMONIZED CASH

Fare Increase Impacts	$0.10	$0.20	$0.25	$0.50
Revenue Gain ($M)	$ 28.7	$ 48.9	$ 58.7	$ 83.1
Gain from Harmonized cash	$ 3.4	$ 4.4	$ 5.6	$ 3.0
	$ 32.1	$ 53.3	$ 64.3	$ 86.1
Rides Elasticity (M)	-1.2	-4.5	-6.1	-20.7
Loses from Harmonized cash	-1.0	-1.5	-2.1	-1.8
	-2.2	-6.0	-8.2	-22.5

Fare Media Pricing	Current	$0.10	$0.20	$0.25	$0.50
Adult Cash	$ 3.25	$ 3.25	$ 3.25	$ 3.25	$ 3.75
Adult Token/PRESTO	$ 2.90	$ 3.00	$ 3.10	$ 3.15	$ 3.40
Adult Regular Metropass	$ 141.50	$ 146.25	$ 151.25	$ 153.75	$ 166.00
Adult MDP Metropass	$ 129.75	$ 134.00	$ 138.50	$ 141.00	$ 152.25
Adult VIP Metropass (Tier 3)	$ 124.50	$ 128.75	$ 133.00	$ 135.25	$ 146.00
Adult Post-Secondary Metropass	$ 112.00	$ 116.75	$ 121.75	$ 124.00	$ 134.00
Adult Weekly Pass	$ 42.25	$ 43.75	$ 45.25	$ 46.00	$ 49.50
Senior/Student Cash	$ 2.00	$ 3.25	$ 3.25	$ 3.25	$ 3.75
Senior/Student Ticket/PRESTO	$ 1.95	$ 2.05	$ 2.15	$ 2.20	$ 2.45
Senior/Student Regular Metropass	$ 112.00	$ 116.75	$ 121.75	$ 124.00	$ 134.00
Senior/Student MDP Metropass	$ 102.75	$ 107.00	$ 111.50	$ 113.75	$ 122.75
Senior/Student Weekly Pass	$ 33.00	$ 34.75	$ 36.25	$ 37.25	$ 41.50
GTA Weekly Pass (TTC share)	$ 32.94	$ 34.08	$ 35.21	$ 35.78	$ 38.62
Day Pass	$ 12.00	$ 12.50	$ 13.00	$ 13.25	$ 14.50

2017 TTC OPERATING REVENUE AND EXPENSE CHANGES

REVENUES

TTC operating revenues are budgeted to decrease by approximately $4.5 million in 2017. The changes fall into the following areas:

1. Passenger Revenue: ($6.9 million). The decrease in passenger revenue is due to a reduction of 8 million budgeted rides with an expected $17.1 million decrease in revenue and a reduction in the average fare of $18.5 million due to ongoing changes in the mix of fare media. The revenue decrease is offset by a 10 cent fare increase generating $28.7 million ($27 million net of Presto fees) with an expected reduction in ridership of 1.2 million.

2. Commuter Parking: $3.0 million. Parking revenues are budgeted to increase in 2017 together with an expected increase in utilization by paying customers.

3. Outside City Transit Service: ($0.7 million). The TTC operates various bus routes beyond the City of Toronto boundaries for York Region and the City of Mississauga on a full-cost recovery basis. In 2017, due to the completion of the Toronto-York Spadina Subway Extension, the TTC will stop operating certain bus routes into York Region and thus revenue will decline by $0.7 million.

EXPENSES

The expenses associated with running the TTC are budgeted to increase by $28.6 million in 2017. Costs that are either unavoidable or the effects of prior decisions being made, are actually increasing by $72 million. These have been offset by other net changes yielding net savings of $43.4 million.

The $72 million in unavoidable costs is comprised of:

1. Collective Bargaining Agreement (CBA): $24.3 million. This increase represents the annualization of the 2016 and the 2017 costs associated with the CBAs that the TTC negotiated with its four unions in May 2014. These agreements expire on March 31, 2018.

2. PRESTO Commissions and New Faregate Maintenance: $14.5 million. PRESTO payments will be enabled on all TTC buses, streetcars and subway stations by the end of 2016. The 5.25% fee on PRESTO transactions is now being paid and will increase as more customers adopt this new payment method. Fees are expected to increase by $14 million in 2017 as customers transition to PRESTO throughout the year and are expected to grow to be in the order of $60 million per year once full adoption occurs. Subway stations are also being equipped with new faregates as approved by the board on July 29, 2015 and May 31, 2016. The cost to maintain the new faregates will be $2.5 million in 2017. Partially offsetting these increases, the cost to support legacy fare collection will be reduced by $2 million as customers transition to PRESTO.

3. Stations Transformation: $1.9 million. As presented at the September 28, 2016 TTC board meeting, the current station collector role will be eliminated. Customer Service at TTC subway stations will be provided by Customer Service Agents. $1.9 million is required to develop and deliver the training program for the new role and also cover the costs of collector backfills when current collectors attend the new CSA training program

4. Opening of Toronto-York Spadina Subway Extension (TYSSE): $6 million. The 8.6 kilometer TYSSE is expected to open for revenue service in December 2017. Costs relate to the operation of the new line and associated start-up costs. Annual operating costs are anticipated to be in the order of $30 million.

5. Cap & Trade: $5.2 million. The Province of Ontario will be introducing a Cap & Trade system on January 1, 2017. This is expected to increase the TTC's diesel costs by 4.7 cents per litre and its natural gas costs by 3.3 cents per cubic meter.

6. Annualization of 2016 Service Improvements: $5.5 million. In 2016, several service enhancements (as outlined below) were launched. This $5.5 million increase represents the incremental cost to operate these enhancements for a full year. The enhancements include:

   - Early Sunday Opening: In January 2016, subway service commenced one hour earlier at approximately 8:00am. Later in 2016, this service was complemented by a matching earlier service start-up on 95 bus and streetcar routes.

   - Streetcar service reliability consists of peak and off-peak service improvements on the busiest streetcar routes, where performance suffered due to traffic congestion and other operating challenges
   - New express routes: In March 2016, 5 new express bus routes were added, including new express services on Don Mills, Finch, Kipling South, Victoria Park and Wilson, providing customers with faster and more comfortable travel.
   - Adjustments required to maintain TTC Board approved loading standards: Due to traffic congestion occasional adjustments to service levels are required to ensure TTC Board approved loading standards are maintained.

7. Accident Claims: $6.2 million. Based on a recent independent actuarial assessment of current and future settlement costs, it is anticipated that these payments will increase in 2017 as previously submitted claims are settled and paid out.

8. Traction Power and Utilities: $5.5 million. These costs are expected to increase largely due to a projected 7% hydro rate increase, in accordance with the City of Toronto budget guidelines.

9. Subway Train Maintenance requirements: $5.0 million. The T1 subway trains which serve Line 2 will require additional maintenance as they have been in service for approximately 20 years. $3.3 million has been budgeted for additional T1 maintenance work primarily for the HVAC and speed control systems, door locks and to reflect the higher cost of wheels. In addition, Toronto Rocket (TR) trains which primarily serve Line 1 are coming to the end of their warranty period. As a result, an additional $1.7 million will be required for TR maintenance parts.

10. Inflationary Price Increases: $3.2 million. A general allowance of approximately 2% (based on the City's forecast) has been provided for inflationary increases on the purchase of goods and services for items that do not have specific pricing, such as the diesel fuel budget.

11. Fit for Duty $1.3 million. At the March 23, 2016 board meeting, the board approved funding for random testing as part of the Fitness for Duty program. $1.3 million is required to fully implement the program.

12. Employee Benefits: ($0.4) million. While total employee benefits costs will grow by $6.0 million, $6.4 million is associated with the following: $3.3 million due to the impact of increased wages from the current CBA and $3.1 due to annualized impact of workforce additions in 2016 and new workforce requirements in 2017. The balance of ($0.4) million is comprised of a $9.5 million increase attributable primarily to contractual and legislated contributions to pensions (TTC and CPP), the Employer Health Tax, the Ontario Health Premium payments and Employment Insurance premiums as well as inflationary and utilization increases. This increase has been offset by a $9.9 million decrease in health benefits. It should be noted that, consistent with past practice, post-retirement benefit non-cash expenses (dental and healthcare) of approximately $39.6 million will be covered through a long-term subsidy receivable from the City.

13. Diesel Fuel ($6.2 million). The TTC has hedged 60% of the 2017 diesel requirements at an average price (excluding the impact of Cap & Trade – see above) of 81 cents per litre and the budgeted price for the balance of the requirements has been reduced to reflect market conditions for an overall price savings of $3.8 million. Reduced bus idling and other efficiencies experienced in 2016 is expected to yield a further $2.4 million in consumption savings.

Other net changes that combine to result in a budget saving of $43.4 million consist of:

1. Depreciation ($33.4 million). Certain assets such as non-revenue vehicle and IT system are not fully funded through the capital program. These assets are instead funded through the operating budget through a depreciation charge over the life of the asset. As some of these assets are now fully depreciated, the depreciation charge will be reduced by $4.4 million in 2017. The remaining $29 million will be removed from the Operating budget, if it is addressed as noted in recommendation 4 of this report via City capital funding.

2. 2017 Service Changes: ($1.3 million). As a result of 2016 ridership trends being below budget, planned fall 2016 service additions were not implemented resulting in savings of $1.5 million, relative to the 2016 budget and resulted in further cost avoidance of $4.5 million for 2017. 2017 service changes will include the impact of late low-floor streetcar

deliveries, restoration of streetcar service to 202 peak vehicles reliability initiatives, service to Renforth Gateway, an additional construction augmentation service. These 2017 service changes will result in a cost increase of $6 million. These costs will be offset by Toronto Water and City of Toronto Transportation paying for the costs of required bus augmentation and bus replacement service that is required as a result of city construction projects. This will save $5.8 million.

3. One Person Train Operation (OPTO) ($0.9 million). OPTO was implemented on October 9, 2016 on Line 4. With OPTO technology, subway operators drive the train and operate its doors from the lead cab. A Subway Guard will no longer be onboard resulting in $0.9 million in savings. When OPTO is rolled out to Line 1, savings in the order of $18 million annually are anticipated.

4. Unspecified budget reduction ($5 million). An unspecified budget reduction of $5 million has been applied to the TTC Operating budget. Staff are in the process of specifically identifying this reduction.

5. Track Safety Plan: $1.4 million. To improve the safety of TTC workers during work at subway track level, 18 dedicated watchpersons will be added whose sole responsibility will be to provide dedicated attention to the approach and management of train traffic.

6. Reopening Keele Yard: $0.7 million. Keele Yard has not been used to store revenue service trains for many years. Following the completion of rehabilitation work of Keele Yard, it can once again be used to store and dispatch trains on Line 2. This will reduce deadheading time and allow the overnight maintenance window to be increased by up to 20 minutes.

7. All other changes ($4.9 million). All other changes net to a decrease of $4.9 million. This includes all other workforce requirements not specifically referred to in this appendix.

2017 OPENING BUDGET PRESSURE

	$Millions
Lower Passenger Revenues and Average Fare Mix (Rides decrease from 553M to 545M)	32
Wheel-Trans Ridership Growth (incl AODA eligibility changes) – +1M (28%) rides	31
PRESTO/Station Transformation	30
Collective Bargaining Agreement	25
Bus & Rail Vehicles Maintenance Requirements (incl hybrid bus batteries)	25
Energy (including Cap-and-Trade impact)	15
Employee Benefits	11
TYSSE opening	7
General inflationary increases on goods and services	4
Accident Claims & Insurance	4
Various other changes	31
Sub-Total	215
-2.6% budget reduction target	16
Total	231

TTC ZERO-BASED SERVICE BUDGET

TTC operating budget expenses are directly a function of ridership. Using a zero-based budgeting approach, once the ridership forecast is set, a Service Budget is prepared based on TTC Board approved service standards (vehicle loading standards, acceptable crowding levels, headways, hours of operation, etc.). Using these standards, the service hours and kilometres and the number of vehicles required for service are calculated. Together delivery of the service and the corresponding maintenance of vehicles and infrastructure determined about 93% of total budgeted expenses. Page 4 of this Appendix provides a chart which shows the high-level steps and major cost groupings associated with the establishment of the annual TTC zero-based budget. Following is an overview of each of the major elements of the budget identified in the chart.

Transportation Costs: - $987 million (56%)

The service profile (i.e. routes by mode, scheduled hours by day) is used to determine the number of Operators and Collectors, fuel and energy, and critical support functions such as fare payment, security and procurement. Collectively these costs account for $987 million or about 56% of the 2017 TTC Operating Budget as shown in Box A of the Chart.

Box A1 on page 4 of this appendix, Operator/Collector costs, represents $743 million or about 42% of 2017 expenses. The service profile determines the shifts required for operators and collectors. Special care is exercised in the development of the individual crews to meet the service plan (while adhering to both Collective Bargaining Agreement and legislative ESA requirements) and to strike the ideal balance between the number of Operators and level of overtime incorporated into the budget. The goal is to develop a budget that results in the lowest overall cost for labour and benefits.

Overtime costs, however, are not completely unavoidable. While one of the objectives of the Service Budget is to schedule as many shifts (i.e. crews) as possible at 8 hours per day in order to satisfy the 8-hour guarantee under the current collective bargaining agreement (CBA), it is not always possible. Lengths and running times for routes vary and do not always result in shifts consisting of 8 hours of work. The work which can't be crewed in this way is performed on an overtime basis. In addition, due to higher service requirements during peak travel periods, a significant portion of scheduled service is split between the morning and afternoon. The resulting split-shifts involve a break between these two periods and, if the total elapsed time from the start to the end of an Operator's work for the day exceeds a CBA-dictated "spread", then premium pay applies to the excess time. Further, where Operators sometimes finish their crew later (relative to the service schedule) due to congestion, traffic and other service delays then overtime rates apply. Consequently, the Service Budget includes a provision for scheduled overtime to reflect most of these situations.

In addition, a spareboard (standby Operators paid at straight-time rates) is established to cover work which would have been otherwise performed by Operators who are on vacation, short-term illness, and training. This effectively minimizes the labour and benefit costs by doing as much work as possible at straight-time thereby avoiding, to the extent possible, overtime labour costs. A break-even model is applied to the overall spareboard design in order to calculate a break even between adding incremental spareboard Operators versus utilizing overtime.

Finally, staffing for the operation of subway stations is also dictated by the Service Budget as it sets out the hours of operation of these facilities. Similar to the process of establishing the Operator workforce complement, a spareboard is also determined for the Collector workforce. Again, the goal is to develop a budget that results in the lowest overall cost for labour and benefits.

Box A2, Fuel and Traction Power, represents $141 million or about 8% of 2017 expenses. Vehicle energy requirements are directly a function of the service profile. The TTC requires approximately 96 million litres of diesel fuel for the operation of its bus fleet. Working with the City of Toronto, hedges are placed to secure fuel at attractive prices with a view to minimizing the overall cost to the TTC. Similarly, the TTC secures its traction power or hydro energy requirements for the operation of the subway and streetcar fleets through the City of Toronto under contract with Toronto Hydro.

Box A3, Transit Security, represents $18 million or about 1% of 2017 expenses. The Transit Enforcement Unit is responsible for law enforcement and order maintenance for both the public transit system and the workplace environment.

Box A4, Accident Claims, represents $33 million or about 2% of 2017 expenses. Accident claims arise during the course of service operations and every effort is made to adjudicate these claims in a timely, fair and equitable way in accordance with prescribed legislation. The cost reflected in the budget is the expected current cash expenses only (non-cash expenses are addressed through a long-term City receivable to the TTC) and is reflective of the best overall assessment of the claims value with appropriate consideration of related costs as assessed by the Commission’s external actuary.

Box A5, Fare Media & Processing, represents $52 million or about 3% of 2017 expenses. Included here are the costs to procure, store, distribute and collect fare media as well as associated transaction (e.g. point-of-sale) or processing (e.g. PRESTO) fees.

<u>Vehicle & Maintenance Costs: $654 million (37%)</u>

The service profile is also used to determine the service kilometres (by mode). In 2017 it is expected that the TTC will operate about 247 million kilometres of bus, streetcar, subway and SRT service. This level of service, in turn, dictates the expected level of maintenance required for the various vehicle fleets and associated infrastructure and facilities. Collectively these costs account for $654 million or about 37% of the 2017 TTC Operating Budget as shown in Box B of the Chart.

Box B1, Vehicle Maintenance, represents $398 million or about 22% of 2017 expenses. Vehicle maintenance is a function of mileage, engineering standards and legislative requirements for servicing and inspections. The TTC currently has a fleet of approximately 1900 buses, 800 subway cars, 28 SRT cars and 260 streetcars/LRVs in addition to a substantial fleet of non-revenue vehicles required to support operations (e.g. Route Supervisors) or to maintain the system (e.g. service trucks, rail maintenance work cars). These vehicles need to be maintained in safe and operable condition at all time. Every effort is made to maximize the use of the available fleets and to maintain them at the lowest possible costs.

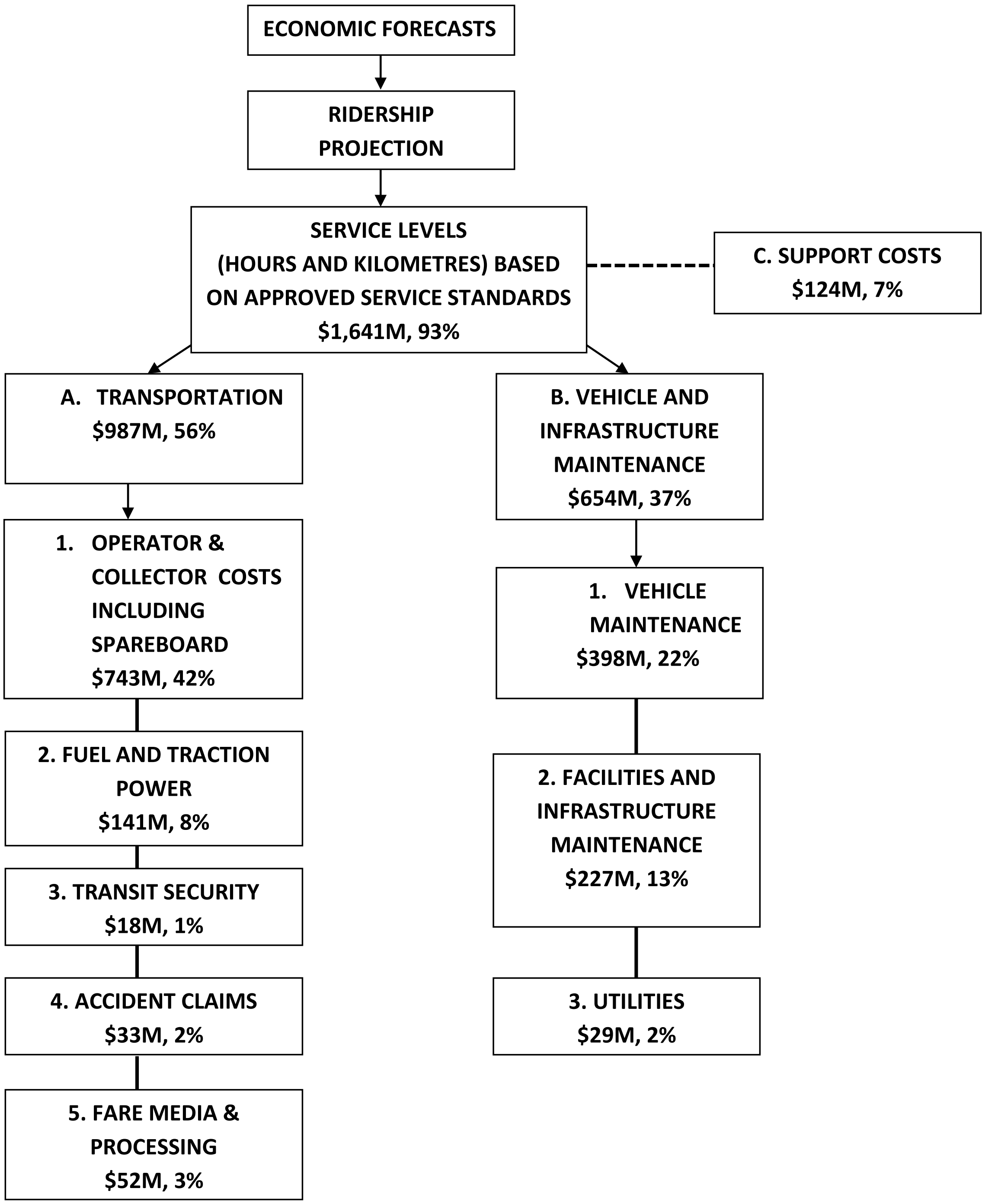
Box B2, Facilities and Infrastructure Maintenance, represents $227 million or about 13% of 2017 expenses. These costs are based on duty of care obligations as well as prescribed engineering standards all with a view to ensuring that our facilities and infrastructure are properly maintained to maximize the value that our customers and employees receive from them and to minimize costs in the long run. Also included here are costs for the lease of facilities required to support our operations (e.g. interim bus garage, warehousing).

Box B3, Utilities, represents $29 million or about 2% of 2017 expenses. These costs include AC power, heating, and water for TTC facilities.

<u>Support Costs: $124 million (7%)</u>

Box C of the Chart, Support Costs, includes all other costs necessary to support the operation of the TTC. This includes administrative areas (e.g. Legal, Finance, Safety & Environment, ITS), insurance, property taxes, commuter parking lot operations, computer licences, telecommunications, office leases, etc.

TTC ZERO BASED SERVICE BUDGET



WORKFORCE

In a labour-intensive operation, additional service comes with labour resources to operate and maintain that service. The following table demonstrates that the TTC has been effective in controlling growth in its workforce relative to population, ridership and service growth over the past two decades.

	Change from 1992 to 2017
Population	+ 26%
Ridership	+ 33%
Service Level (hours)	+ 39%
Service Level (kilometers)	+ 32%
Operating Budget workforce	+ 29%

Carrying an additional 33% riders, while increasing service levels about 39% and employees by only 29%, represents a substantial improvement in labour productivity. All of this has been achieved despite the loss of bus carrying capacity in the order of 10% due to the conversion of the fleet to a low-floor design and ever-increasing road congestion which has necessitated the addition of resources (vehicles, Operators, service hours, etc.).

The following table compares the 2017 and 2016 workforce requirements as at December 31.

BUDGET	**2016**	**2017**	**CHANGE**
TTC Operating	11,870	12,217	347

The change in year-end workforce at the Commission is described in this section. Most of the Operating budget increase is required for the opening of TYSSE in late 2017 and for cost recoverable positions from external parties related to PRESTO, Metrolinx and Bombardier.

Actual workforce strength will not normally exceed the monthly workforce budget except in the case of the Operator complement. In order to ensure that the service budget can be achieved, an annual hiring plan and training program is developed for Operators which takes into account projected requirements as a result of service changes, retirements, resignations or other turnover. An extended period of time is required in order to identify, pre-screen, hire, train and, qualify new Operators to ensure availability to meet the projected workforce requirement. As a result, the annual budget provides for these pre-hires, however, the year-end budgeted workforce remains unchanged. As failure to pre-hire would increase the risk that service would not be met, resulting in significant negative implications for customers and the Commission, staff are proceeding with the hiring plan consistent with the increased service requirements incorporated within the 2017 operating budget. In addition, it is important to note that there are currently a sizeable number of TTC employees who are in a position to retire. If a greater than average number were to do so in any given year, this could present significant logistical challenges to the TTC from an operational perspective.

TTC Operating

The TTC operating workforce level is projected to increase by 347 positions (2.9%) from 11,870 to a total of 12,217 at December 31, 2017. The reasons for the increase are as follows:

Recoverable from External Parties – 210 positions
- 169 positions required to augment bus service for the Metrolinx existing Eglinton LRT, the new Eglinton LRT, and Finch West LRT projects,
- 36 positions required to support and maintain PRESTO fare system,
- 5 positions required for repairs of streetcar components related to the late delivery of LRVs and replacement of T1 torque arms.

TYSSE – 169 positions
- 92 positions required for maintenance, mechanical support and safety inspections of 6 new TYSSE stations opening in late 2017,
- 62 Operator positions required for TYSSE subway service,
- 50 positions required for Customer Service and Transit Enforcement support,
- (40) operator and maintenance positions due to reduced TTC bus service and contracted YRT bus service,
- 5 positions required for Operator training and increased Engineering support.

PRESTO/Stations Transformation – (83) positions
- (413) Collectors and (1) Supervisor Funds Control position due to the implementation of PRESTO smartcard, which will automate TTC's fare system and will no longer require Station Collectors to manage funds and fare media,
- (57) positions no longer required to support legacy fare collection as a result of the implementation of PRESTO,
- 387 Customer Service Representatives and 1 Business Analyst to support the implementation of PRESTO and evolve the stations to meet and exceed customer expectations.

Service Requirements – (29) positions
- (29) fewer positions due to the non-implementation of the Fall 2016 planned service additions.

Cost Saving and Efficiency Opportunities – 14 positions
- 14 IT Contractor positions converted to regular positions as a cost savings initiative to meet the 2.6% City subsidy reduction target.

Track Safety Plan – 18 positions
18 positions to improve the safety of TTC workers during work at subway track level whose sole responsibility will be to provide dedicated attention to the approach and management of train traffic.

Keele Yard Operation – 10 positions

- 10 positions required for the reopening of Keele Yard subway operations to perform additional track inspection and increase preventative maintenance to advance electrical system reliability in order to store and dispatch trains on Line 2.

Operating Impacts of Capital Projects – 11 positions

- 6 positions to support new IT systems, including SharePoint, Enterprise Data, Information Governance and Communication and Information Systems,
- 3 positions required to support transition to Automatic Train Control,
- 1 position for building services at 391 Alliance Avenue property and 1 for new wayside and on-board equipment.

Other Changes – 27 positions

- 13 positions for signal, track and traction power reliability that will improve Subway performance, compliance and safety critical systems,
- (12) positions related to One-Person train operation on Line 4,
- 7 positions required to support benefit investigation,
- 6 positions required for TR trains out of warranty,
- 5 positions to support Transit Enforcement to ensure the system remains safe and reliable for customers,
- 5 positions required to support 24/7 stores operation in order to improve controls to safeguard inventory addressed in the Auditor General's Report,
- 2 positions for T1 Subway Train repairs,
- 1 position required for Leslie Barns.

Wheel-Trans

The Wheel-Trans Operating Budget year-end workforce will increase by 6 positions from 565 to 571 as follows:

- 3 positions related to the 10-Year Strategy that addresses new legislative AODA requirements and recommendations provided by the City of Toronto Auditor General,
- 2 positions to accommodate ridership growth,
- 1 position required for the 24/7 stores operation.

Capital

The Capital Budget year-end workforce will increase by 107 positions from 2,105 to 2,212 as follows:

Recoverable from External Parties – 10 positions

- 10 positions for Engineering support, construction site Management and inspection for Metrolinx existing Eglinton LRT, the new Eglinton LRT, and Finch West LRT projects.

Other net changes – 97 positions

- 33 positions to support TTC's new fleet management system, VISION (CAD/AVL), which will improve service delivery to customers through enhanced route management and improve safety communications for Operators,
- 22 to support workcar fleet growth,
- (22) for Bus Overhaul due to change in vehicle type, quantities and scope of work,
- 18 for the SRT Life Extension Program,
- 16 for T1-20 Year Overhaul work,
- 15 for Automatic Train Control Resignalling project,
- (14) for T1 Subway 15-Year Overhaul work,
- 10 Route Supervisors and 2 Co-ordinator positions to assist with closures and diversions required for various capital projects,
- 10 positions to support implementation of SAP Enterprise Resource Planning system,
- (9) Coach Technicians due to completion of External Stop Announcements mandated by AODA legislation,
- 8 positions for the Work Area Warning Capital Program, which is to be implemented during revenue hours,
- 8 positions required to support signals operations that will improve quality control, inspections and construction activities,
- (6) positions converted to operating due to completion of various IT capital projects including SharePoint, Enterprise Data, Information Governance and Communication and Information Systems,
- 2 positions required for training related to the new LRVs,
- 4 for various other capital work.

2017 OPERATING SUBSIDY

The table below illustrates the level of TTC operating subsidy compared to other transit systems in the United States and Canada. By a wide margin, the TTC remains the least subsidized transit system on a per rider basis in North America:

TRANSIT SYSTEM*	OPERATING SUBSIDY ($M)	REVENUE/COST RATIO	REVENUE TRIPS (M)	SUBSIDY/ RIDER
TTC	**495**	**72%**	**553**	**$0.90**
Major U.S.				
Boston	554	40%	261	$2.12
Chicago	742	44%	364	$2.04
Los Angeles	1,012	25%	337	$3.00
New York	3,637	53%	2,385	$1.52
Philadelphia	572	36%	214	$2.67
Washington, D.C.	797	48%	312	$2.55
Major Canadian				
Calgary	186	51%	110	$1.69
Edmonton	173	42%	89	$1.96
Montreal	480	56%	413	$1.16
Ottawa	184	50%	96	$1.90
Vancouver	439	53%	235	$1.86
Local Canadian				
Brampton	65	45%	21	$3.08
Durham Region	39	39%	10	$3.74
Hamilton	42	47%	22	$1.90
Mississauga	86	48%	37	$2.30
York Region	101	40%	22	$4.56

*TTC data: 2016 Budget; Major U.S.: 2014 in $US ; Major & Local Canadian: 2015

The transit systems most comparable to the TTC (0.90¢ subsidy/rider) are: Montreal ($1.16/rider), Chicago ($2.04/rider), Boston ($2.12/rider), and Washington, D.C. ($2.55/rider). Even the massive New York City Transit received $1.52 US/rider in 2014.

The following table illustrates that the TTC's comparatively low subsidy per rider actually decreased from 2010 to 2013 before recovering somewhat from 2014 to 2016.
Overall, from 2010 to 2016, the subsidy per rider decreased 3% from 93¢ to 90¢. The drop is actually 14% once inflation is factored in.

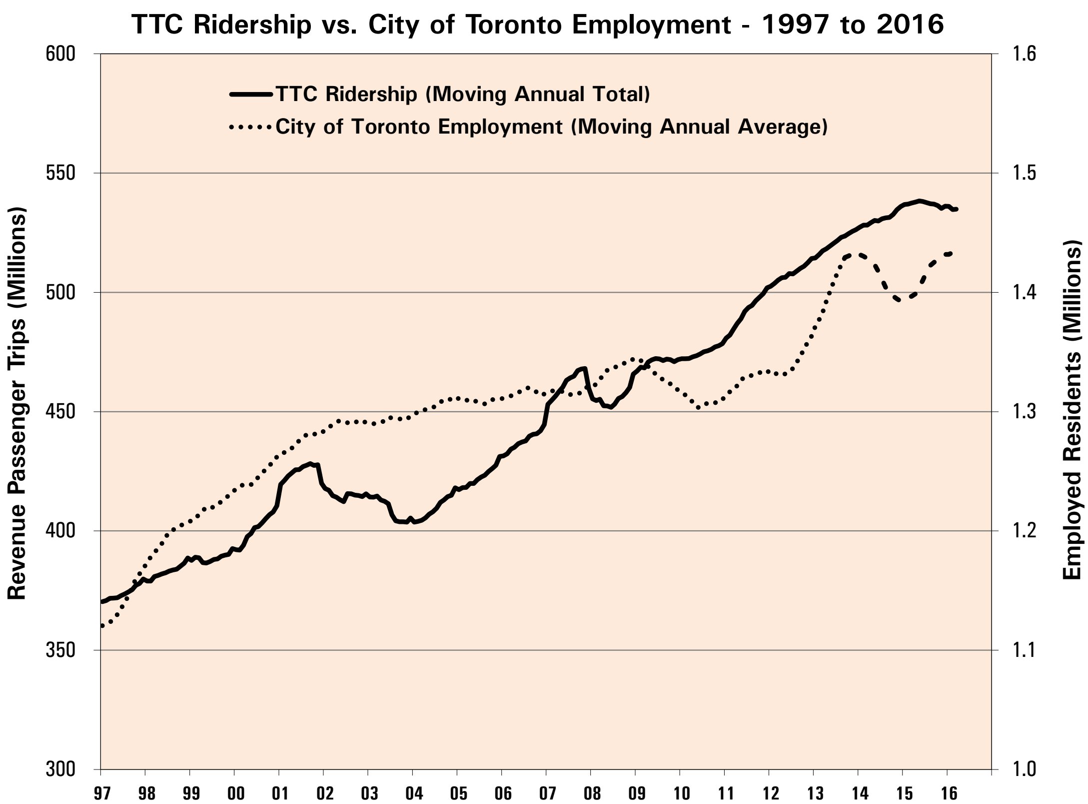
Year	Subsidy Budget	Ridership Budget	TTC Subsidy per Rider	TTC Subsidy in $2016
2010	$430M	462M	$0.93	$1.05
2011	$429M	487M	$0.88	$0.96
2012	$411M	503M	$0.82	$0.89
2013	$411M	528M	$0.78	$0.83
2014	$440M	540M	$0.81	$0.84
2015	$483M	545M	$0.89	$0.91
2016 Budget*	$495M	553M	$0.90	$0.90

*Note: Ridership in 2016 is forecasted to be in the range of 540M to 545M. If year-end ridership ends up at 540M, subsidy/rider in 2016 would end up at about 92 cents per rider.

2017 RIDERSHIP

As mentioned above, the starting point for the TTC operating budget process is the forecast of ridership 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, and vehicle parking availability and rates. 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, and significant world events can have both short and long-term ridership consequences.

Historically, City of Toronto employment levels have had the most significant impact on ridership, as illustrated in the following chart:



The chart illustrates the close relationship between City of Toronto employment and TTC ridership for the past two decades. In fact, from 2003 to 2015, City of Toronto employment mostly fluctuated between 1.3 and 1.5 million whereas there was sustained growth in TTC ridership, which increased 33% from 405 million to 538 million.

In recognition of the employment-ridership relationship, the TTC uses economic forecasts from the Conference Board of Canada (CBoC), which include predicted employment and Gross Domestic Product (GDP) growth, to establish its ridership forecasts. The CBoC forecasts are subject to ongoing refinement. This is illustrated in the following table, which compares the CBoC's two most recent 2017 economic forecasts for the Toronto Census Metropolitan Area (CMA):

MEASURE	WINTER 2016	SPRING 2016
Employment	1.3%	1.7%
GDP	2.5%	2.6%
CPI	2.3%	2.0%

The Spring 2016 forecast indicates a solid employment and GDP growth for the Toronto area economy in 2017 and at a slightly higher pace than originally predicted in the Winter 2016 forecast.

In addition to economic growth, Metropass sales trends are a good indicator of ridership trends. Over the past decade, Metropass sales have grown to the point where 52% of all TTC customer journeys are now taken using a monthly Metropass. There are a several reasons why Metropasses are a popular choice with customers: convenience, the Federal Income Tax Credit, the transferability feature, price discounts through the MDP (mail order subscription) or VIP (employer provided) programs, and the Post-Secondary Student pass. Of note, however, is that sales of the Adult Metropass, which account for about 75% of total Metropass sales and 40% of customer journeys, have declined modestly in 2014 and much more sharply in 2015. There may be various reasons for this decline. Even though the Metropass prices were frozen for 2016, the combination of flatlined growth in employment and disproportionate growth in part-time and temporary employment may have had a negative impact on the core TTC customer base that regularly purchase Metropasses. The Adult Regular Metropass is equivalent to the cost of 49 tokens or PRESTO E-purse payments; therefore, it may not be a viable purchase for people who use the TTC to commute to their part-time jobs. Moreover, the Post-Secondary Metropass sales trends are a concern because this growth is far outpacing the growth in full-time enrollment in accredited post-secondary institutions in Toronto. Conversely, sales of the TTC Post-Secondary Photo ID, which is required in order to provide proof of pass eligibility, have declined (moving annual reduction by almost 20%). These trends, together with the fact that the Post-Secondary Metropass is $29.50 cheaper ($112 vs. $141.50) than the Adult Regular Metropass, strongly suggest that there may be an increase in fraudulent use of the Post-Secondary Metropass, which must be addressed. While Adult Regular Metropass sales have a moving annual reduction by 4.8%, Post-Secondary Metropass sales have a moving annual increase by 10%. Thus, the increase in part-time and temporary employment and a possible increase in fraudulent use of the Post-Secondary Metropasses are expected to have a negative impact on the Adult Metropass sales. Overall Metropass sales, however, have rebounded since April 2016; the recent improvement in sales growth will have to both strengthen and be sustained in order to avoid any further erosion in TTC ridership growth.

Based on historical ridership growth rates, available economic forecasts, Adult Metropass sales trends, and growth from service enhancements, 2017 ridership is projected to be approximately 545 million (before any fare increase). In consideration of the trends and uncertainties noted above, this projection should be considered to be a stretch target. As can be seen from the following table, 2016 year-end ridership is expected to be between
540 and 545 million, which is mainly attributable to weak full-time employment growth and a disproportionate growth of part-time employment, service enhancements, growth in Post-Secondary Metropass sales, and the negative growth in Adult Metropass sales noted above.

MILLIONS	**2016 BUDGET**	**2016 PROJECTION**	**2017 BUDGET**	**2017 BUDGET vs 2016 BUDGET**
RIDERSHIP	553	540 – 545	545*****	(8)

*****before any fare increase

APPENDIX J

2017 WHEEL-TRANS OPERATING BUDGET
($000s)

	2016 BUDGET	2017 BUDGET	2017 vs 2016 BUDGET CHANGE
EXPENSES			
SERVICE COSTS			
CONTRACTED TAXIS SERVICE	47,808.0	71,865.8	24,057.8
BUS SERVICE			
Operators	25,972.1	26,260.0	287.9
Divisional Staff	583.9	588.1	4.2
Mobile Supervision	1,165.8	1,216.0	50.2
Dispatch	3,552.7	3,695.3	142.6
Equipment Maintenance	13,657.9	14,450.8	792.9
Vehicle Fuel	3,689.4	2,794.9	(894.5)
TOTAL BUS SERVICE	48,621.8	49,005.1	383.3
TOTAL SERVICE COSTS	96,429.8	120,870.9	24,441.1
ADMINISTRATION			
Senior Manager's Office	705.7	1,149.0	443.3
Reservations	2,823.2	2,832.0	8.8
Taxi Administration	318.2	270.0	(48.2)
Customer Service	3,253.4	5,422.6	2,169.2
TOTAL ADMINISTRATION	7,100.5	9,673.6	2,573.1
NON-DEPARTMENTAL COSTS	4,767.2	5,260.7	493.5
LAKESHORE GARAGE COSTS	1,367.4	1,273.7	(93.7)
OTHER EMPLOYEE COSTS	15,830.0	16,010.0	180.0
TOTAL EXPENDITURES (PER WHEEL-TRANS)	125,494.9	153,088.9	27,594.0
LESS: POST-RETIREMENT NON-CASH BENEFITS	1,729.0	1,789.5	60.5
LESS: ACCIDENT CLAIMS NON-CASH EXPENSE	100.0	130.0	30.0
TOTAL EXPENDITURES (PER CITY)	123,665.9	151,169.4	27,503.5
TOTAL REVENUES	6,953.5	8,491.5	1,538.0
OPERATING SUBSIDY REQUIRED	**116,712.4**	**142,677.9**	**25,965.5**
NET OPERATING SUBSIDY AVAILABLE	**116,712.4**	**116,312.4**	**(400.0)**
WHEEL-TRANS SURPLUS/(SHORTFALL)	**-**	**(26,365.5)**	**(26,365.5)**

Note: The effects of recommendations 1 and 2 have been incorporated into this table.

Appendix K

SUMMARY OF $15.8M REDUCTIONS IDENTIFIED RE: 2.6% CITY OF TORONTO BUDGET REDUCTION TARGET

- Removal of telephone land lines ($0.3M)
- Workforce related reductions ($0.8M)
- Reduced overtime allowance ($0.8M)
- Reduced training and travel ($0.5M)
- Reduced stand-by labour costs ($0.6M)
- Reduced materials and supplies requirements ($1M)
- Non-implementation of planned Sep 2016 service additions ($1.5M)
- Reduced healthcare costs ($10.3M)
- Total: $15.8M