

MEETING DATE: November 28, 2001

SUBJECT: 2002 TTC Operating Budget

RECOMMENDATION

It is recommended that the Commission:

1. approve the 2002 TTC Operating Budget (summarized in Appendix A) as described in this report and the following accompanying reports:
 - Toronto Transit Commission 2002 Operating Budget Overview
 - Toronto Transit Commission 2002 Departmental Goals & Objectives
 - Toronto Transit Commission 2002 Organization Charts
 - Toronto Transit Commission 2002 Detailed Operating Budget (Blue Book)

1. note that the TTC 2002 Operating Budget includes a budget shortfall of about \$22 million, based on City of Toronto 2001 budgeted operating subsidy levels as summarized below:

Ridership 418 million

Expenditures \$854.5 million

Revenues \$684.9 million

Subsidy Needed \$169.6 million

Operating Subsidy \$147.6 million (2001 budgeted level from City)

Shortfall \$22 million

2. forward this report to the City of Toronto for Council approval of the City's 2002 Transit Operating Subsidy to the TTC.

BUDGET SUMMARY

A poor economic outlook, coupled with the worldwide security concerns, suggest no growth in ridership can be expected in 2002, compared to 2001. Consequently, other than the opening of the Sheppard Subway in the fall of 2002, no service additions are being budgeted. Should ridership fall below the 2002 budgeted level of 418 million (and it will be closely monitored), appropriate service adjustments will be made, where possible.

Assuming the City of Toronto provides the same level of subsidy in 2002 as it did in 2001 (\$148 million), there currently exists about a \$22 million budget shortfall. This also assumes the full net costs of the World Youth Day 2002 festivities are **not** borne by the TTC's operating budget. To this shortfall must be added any impacts from the next TTC collective bargaining agreements (the current ones expire March 31, 2002). Before the Commission can contemplate possible fare changes, these agreements must be settled, City subsidies must be finalized and the TTC's Riders Reserve (balance is \$22 million plus interest) has to be factored in.

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BUDGET HIGHLIGHTS

The highlights of the 2002 TTC Operating Budget are as follows:

- No growth in the economy is expected in 2002.
- Ridership is expected to be 418 million in 2002, the same as 2001.
- Service commensurate with 418-420 million riders will be provided. In addition, comprehensive service changes associated with the Sheppard Subway have been incorporated into this budget.
- Year-end workforce will grow by 149 positions: 146 for the Sheppard Subway, 6 for Transit Control, 8 for enhanced security (including Sheppard Subway), 6 more Operators due to congestion caused by City construction work, partially offset by a net of 17 reductions elsewhere.
- Expenditures will increase for items such as the opening of the new Sheppard Subway in the fall of 2002, the full year's impact of the 2001 service changes, the January to March 2002 impact of the April 1, 2001 3% wage increase, vehicle energy and utilities cost increases, increases in comprehensive medical and dental costs, higher legislated Canada Pension Plan contributions, and general inflation on material purchases. Each of these is described in detail below.
- Revenues will increase by about \$30 million over the 2001 budgeted level primarily because of the annualized impact of the June 2001 fare increase.

- There currently exists an operating budget shortfall of \$22 million. This report will provide options for funding that shortfall.

Note: The net impact on the TTC of the 2002 World Youth Days celebration next summer (currently estimated to cost up to \$9 million based on current attendance figures) is not provided for in this budget. It is assumed those full impacts will be externally funded as directed by the Commission City Council.

FUNDING

In the year 2001, the City of Toronto budgeted an operating subsidy for the TTC conventional system of \$147,602,000. The following table shows TTC operating subsidy levels since 1992. In addition, it also provides operating subsidy per rider and the Revenue/Cost ratio figures for the TTC since 1992. These two figures are generally accepted in the transit industry as the best overall measures of efficiency (percentage of operating costs covered by revenues) and cost-effectiveness (taxpayer cost/rider).

Table 1

YEAR	Operating Subsidy (\$millions)	Revenue/Cost Ratio (percentage)	Subsidy/Rider (cents/rider)
1992	245	66%	61¢
1993	234	66%	59¢
1994	207	66%	53¢
1995	215	69%	55¢
1996	169	76%	45¢
1997	159	80%	42¢
1998	149	80%	38¢
1999	149	80%	38¢
2000	144	82%	35¢
2001 Budget	148	80%	36¢
2001 Projected	148	81%	35¢

As can be seen from this table, the TTC has substantially improved both the R/C (Revenue/Cost) ratio and the subsidy/rider, while in real terms reducing the overall requirement for operating subsidy by about \$100 million annually. The methods for achieving these operational improvements have been well documented in previous TTC Operating Budget reports. They included: (i) a corporate restructuring and downsizing in 1995 and 1996 eliminating a net of about 800 jobs, (ii) substantial service cuts in 1996, (iii) reducing the hourly-rated absenteeism rate from almost 8.5% in 1993 to the present level of around 5.5% thereby reducing operating costs by about \$15 million annually and (iv) a series of fare increases designed to balance individual year's budgets. In addition, since 1996 when the TTC carried 372 million riders, ridership has grown steadily to the point where it is expected to top the 418 million mark in 2001. This is an increase of 46 million riders or 12% in just 5 years.

The following table compares the TTC with other major multi-modal mass urban transit systems in North America.

Table 2

City	Subsidy (\$Millions)	Revenue/ Cost Ratio	Riders (Millions)	Subsidy/Rider
TTC	148	81%	418	35¢
Montreal	254	56%	348	73¢
Vancouver	254	54%	129	\$1.97
Atlanta (1999)	337	42%	78	\$4.34
Chicago	653	52%	283	\$2.31
Cleveland	260	22%	64*	\$4.09*
Los Angeles (1999)	863	29%	228	\$3.79
New York	1,768	61%	1.691	\$1.05
Philadelphia	597	50%	216	\$2.76
Washington	434	53%	260	\$1.67

Dollars shown are in \$CDN.

Source: CUTA, FTA, individual U.S. transit authorities

TTC figures - 2001 Projected, all other cities – 2000 figures (unless otherwise noted)

*Note: In Canada, riders (passenger trips) are defined as one-way trips from origin to final destination. Passengers whose trips involve transfers from one vehicle to another are counted only once. These are referred to as "linked trips." All of the results shown above, except for Cleveland, are expressed this way. Cleveland only reports ridership as the number of vehicle boardings and consequently, includes transfers between vehicles in its figures. These are known as "unlinked trips." Converting Cleveland's unlinked trips to linked trips would increase the subsidy/rider figure shown in the table.

As can be seen from Table 2, TTC results are markedly superior to all of these other larger systems.

By any of these traditional transit measures, the TTC is far and away the least subsidized and most efficient mass transit in North America. In fact, the TTC R/C ratio of 66% in 1994 (before the improvements described above) was superior to any of these systems today.

RIDERS RESERVE

The balance of this reserve fund (which was built up through in-year TTC excesses of revenues over expenses less subsidies during the years 1998, 1999 and 2000) was \$22.1 million. During the year 2000, the City borrowed \$3.4 million for the fund, which has yet to be restored. To the \$22.1 million will be added 2001 interest earnings.

2002 OPERATING BUDGET OVERVIEW

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PART 1: The Economy

For much of 2001, world-wide economies have been doing poorly. With the events of September 11 and subsequent events, the U.S. has seen some of the worst job losses in the past two decades. In addition, recent Canadian corporate profit results have shown

huge declines from last year. While low personal and corporate taxes, and falling interest rates should eventually provide an economic stimulus to the North American economy, economic prognosticators are suggesting no growth in the economy will incur until late in 2002. This budget reflects those weak forecasts.

Note: However, it does not presuppose further downturns in the economy and, more importantly, it does not make allowances for impacts from any possible future terrorist activities. The impacts of those events (should any happen) can only be assessed based on the magnitude of the events.

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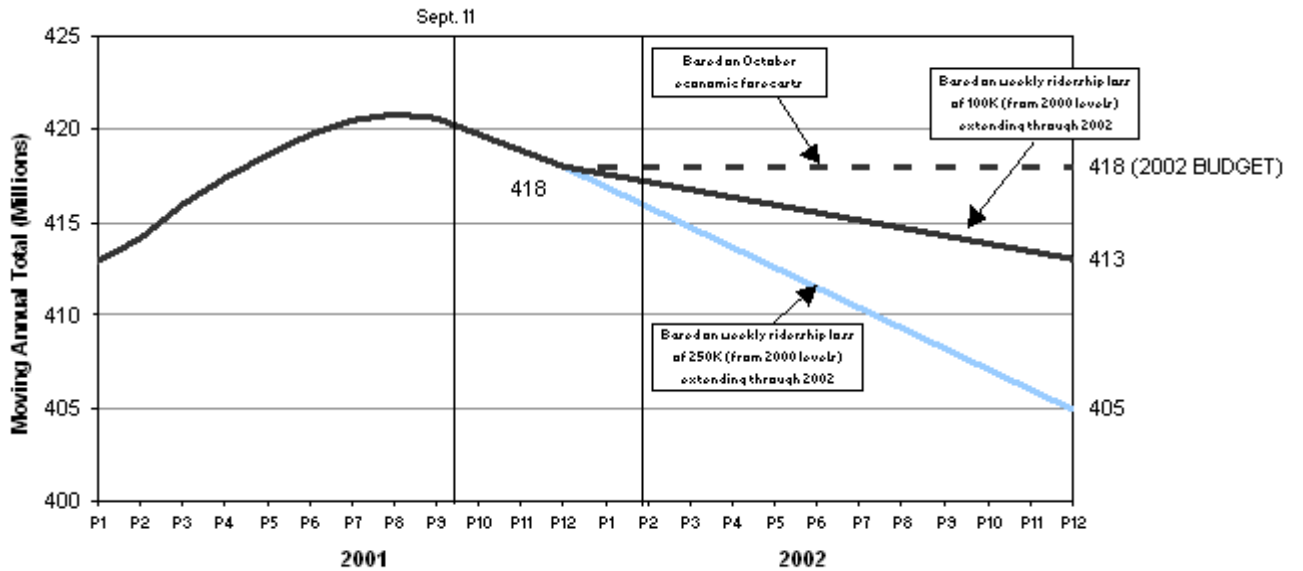
PART 2: Ridership

Ridership is affected by a great many factors such as demographics, retail trade activity, travel patterns, employment levels and location, service levels, transit fares, income levels, gasoline and automobile prices, parking availability and price. Some of these affect ridership in the long-term, such as demographics. Others such as employment levels, retail trade and the September 11 events have more immediate impacts.

As can be seen from Chart 1 below, despite the relatively poor economy, ridership continued to grow for the first 8 months of this year. Based on those trends, 2001 year-end ridership projections made at the end of August had been about 422 million and projections for 2002 more in the order of 430 million.

Chart 1

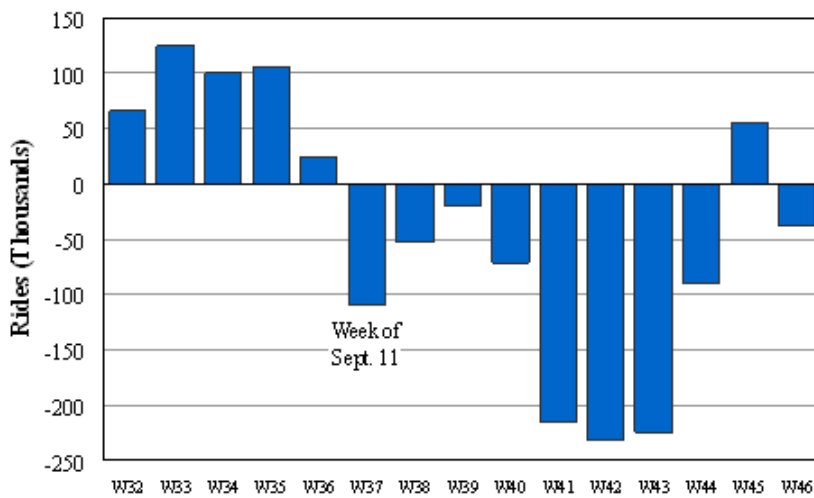
2001/2002 TTC Ridership Forecast



Then September 11 hit.

As can be seen from Chart 2 below, the consistent picture of weekly growth over 2000 changed abruptly on September 11. Steady, and unfortunately, significant drops have been experienced since then. The first 3 weeks in October were particularly bad. Overall, October fell by over 750,000 rides compared to October 2000.

Chart 2



Weekly Ridership

Variance - 2001 vs. 2000

While it's only one week, the first week in November saw ridership bounce back a bit, perhaps signifying some cause for improvement. However, the second week in November dropped again. All this serves to illustrate is how severe the impacts of September 11 and subsequent events have been on ridership, and how unpredictable the future is at this time. As stated above, the underlying weakness in the economic picture doesn't auger well for any sustained growth until this time next year.

Consequently, ridership is budgeted at 418 million for 2002 (reflecting a "no-growth" scenario consistent with the economic forecasts, such as they are) as shown in Chart 1 (above). If ridership were to fall by 250,000/week from 2000 levels as it did for the first 3 weeks of October, it would fall to 405 million for the year 2002. If it fell by 100,000/week, it would end up at 413 million.

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PART 3: Service

Over the past several years, the TTC has followed a strategy of "leading ridership growth" by providing slightly more service than standard in an effort to coax more riders to use transit. That proved very successful as the growth over the past 5 years shows.

With the slowdown in the economy and the security events, that service strategy has to change. While it is clearly not appropriate to add service in a "no growth" economy, it's also not appropriate to be cutting it right now either. Current service levels are commensurate with the 2002 budgeted ridership of 418 million. If ridership falls below this, then the TTC should react to it. The TTC should not drive even more people away from transit by cutting service. Ridership will be closely monitored and if ridership falls beyond the budget projections, service adjustments will be made where appropriate.

As a further complicating factor, most of the recent drop in ridership has occurred in the "cash" category (although most other fare categories are also down) suggesting the drop is focused on discretionary (and consequently off-peak) rides. The problem with a drop in off-peak ridership is that service levels are much lower during those periods than in rush hour. As a result, the removal of a single bus from a route (the smallest cut that can be made) could represent a dramatic cut in service. For example, the 75 Sherbourne mid-day bus route has 3 buses operating on it. The smallest cut to that route would be to remove one of those buses. That would be a 33% cut in service. Under none of the ridership scenarios shown above is a drop of that magnitude anticipated.

The most significant service changes included in this budget are those related to the opening of the Sheppard Subway and the resultant bus route changes needed to accommodate it. These are detailed in the Operating Budget "Blue Book" in the section entitled "Service Budget."

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PART 4: Revenues

Over 95% of TTC revenues come from fares. Farebox revenues are budgeted to be by almost \$27 million higher than the 2001 Budget due to the full year's effect of last summer's fare increase (12 months worth of new revenue in 2002 vs. 7 months in 2001), as well as the 5 million increase in budgeted ridership (413 million in the 2001 Budget).

Other revenues are also expected to grow by almost \$2.7 million, including a \$1.4 million increase in transit advertising revenues.

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PART 5: Operating Expenses

The day-to-day expenses associated with running the TTC are also budgeted to increase by approximately \$40.4 million. The increases fall into the following areas:

1. Sheppard Subway Opening: \$6.9 million. After adding costs associated with opening the line, minus changes to surface routes resulting from the opening, a total of 146 net new operating positions have been created. These are detailed in the companion documents to this report.
2. Annualization of 2001 Service changes: \$3.9 million. At certain times during 2001, service was added in response to ridership growth commensurate with ridership levels in the order of 418-420 million. The full year's impact of that service is an additional \$3.9 million in the budget.
3. Annualization of April 1, 2001 3% Wage Increase and Step Rate Increases: \$4.6 million. The January-March 2002 impact of the final instalment on the TTC's current collective bargaining agreements, which provided wage increases of 2.75%, 3% and 3% on April 1, 1999, 2000 and 2001, adds \$3.4 million to the budget. Step rates add a further \$1.2 million.
4. Vehicle Energy: \$5.5 million. About \$3.3 million of this increase can be attributed to the 12% average price increase in electricity from Toronto Hydro. Diesel fuel and natural gas account for the balance. The Commission's diesel fuel contract expires March 2002. TTC staff are investigating locking in futures prices in order to fix diesel fuel prices at current low rates.
5. Vehicle Maintenance Programs: \$3.0 million. Increases are concentrated in the following areas: subway door system repairs (\$1.6 million) and various streetcar repairs as those vehicles approach 20 years of age (\$1.1 million).
6. Other Employee Costs: \$8.3 million increase. These costs have increased by a total of \$10.3 million as follows: (i) employee benefits associated with increased workforce - \$2.4 million, (ii) an expected 18% increase in drug costs - \$2.2 million, (iii) increased dental costs - \$1.1 million, (iv) CPP contribution rate increase from 4.3% to 4.7% effective January 1, 2002 - \$1.7 million, (v) absence is projected to be 5.6% - \$1.5 million, (vi) higher WSIB costs - \$0.8 million and

- (vii) an increase in the number of claimants receiving LTD benefits - \$0.6 million. Approximately \$2 million of this increase has been reflected above with the Sheppard Subway and 2001 Service Change items.
7. Utilities (Hydro, Water, Natural Gas): \$2.1 million. Rates based on advice from Toronto Hydro, the City and signed Natural Gas contracts.
 8. Commuter Parking Lot Expenses: \$2.3 million. Higher maintenance contract fees and higher property tax expenses.

 9. General Material Price Increases: \$1.8 million. An allowance of 2.5% for CPI has been provided on purchases.
 10. Waste Disposal Fees: \$0.7 million. Effective January 1, 2002, the City of Toronto's Solid Waste Management Division will levy a charge for any solid waste collected or received from the TTC.
 11. Other: \$1.3 million. All other changes net out to an increase of \$1.3 million.

Appendix A (attached) provides a summary of the Commission's 2002 budgeted revenues and expenditures and subsidy requirement.

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PART 6: Workforce

The Commission's workforce is growing from 10,048 (10,088 including the 40 TTC employees working at the Toronto Coach Terminal) to 10,197. The 149 increase is due to:

- Sheppard Subway Opening +146
- New Transit Control Centre + 6
- Special Constables (Security/Sheppard) + 8
- City Construction + 6
- Net reductions elsewhere - 17

+149

Each revenue and expenditure element shown above, as well as the workforce changes, are described in detail in the companion reports to this Commission Report.

November 23, 2001

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Attachments: Appendix A

TTC 2002 Operating Budget Overview

TTC 2002 Departmental Goals & Objectives

TTC 2002 Organization Charts

TTC 2002 Detailed Operating Budget (Blue Book)