

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: DECEMBER 15, 2010

SUBJECT: CHIEF GENERAL MANAGER'S REPORT
PERIODS 8, 9 & 10
AUGUST 1 TO OCTOBER 30, 2010

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission forward a copy of this report to (a) each City of Toronto Councillor and (b) the City Deputy Manager and Chief Financial Officer, for information, noting that the detailed CGM's Report is available upon request from the Office of the General Secretary of the Commission.

DISCUSSION

The purpose of the Chief General Manager's (CGM's) Report is to provide the Commission with information about the activities of the Toronto Transit Commission over the course of the year. This report also includes a summary of unbudgeted expenses approved by the Commission.

RIDERSHIP RESULTS

Ridership in Period 10 (October) was 1,588,000 (+4.2%) above budget and 1,011,000 (+2.7%) above the comparable period in 2009. Year-to-date (to October 30) ridership variances, by period, are summarized on the following table.

PERIOD	RIDERSHIP VARIANCE FROM BUDGET (Millions)
1	1.2
2	0.8
3	1.1
4	1.4
5	1.1
6	1.5
7	1.6
8	1.0
9	1.4
10	1.6
Year-to-date	12.7

As noted in the preceding table, ridership results have been very strong so far this year. It should be noted that the June results reflect the loss of an estimated 658,000 rides due to the G20 Summit.

In previous CGM Reports, the historical relationship of City of Toronto employment levels being one of the most significant variables in determining TTC ridership was highlighted. Over the long term, changes in City of Toronto employment levels track quite closely to TTC ridership changes. However, starting in 2009, City of Toronto employment started to drop, but TTC ridership continued to grow. Just in the past five months have employment levels reflected growth over the same periods in 2009. Employment and ridership results for the past 11 months are shown below:

	<u>EMPLOYMENT CHANGE</u>	<u>RIDERSHIP CHANGE</u>
December	(2.8%)	+ 2.2%
January	(2.4%)	+ 1.1%
February	(1.7%)	0.0%
March	(1.4%)	+ 0.2%
April	(4.7%)	+ 2.1%
May	(3.5%)	+ 1.2%
June	+ 0.7%	+ 1.5%
July	+ 2.6%	+ 2.7%
August	+ 3.3%	+ 1.2%
September	+ 1.4%	+ 1.3%
October	+ 1.2%	+ 2.7%

Assuming the continuation of this favourable trend, the current ridership projection for 2010 is 477 million rides which represents an anticipated increase of 15 million over the budgeted level of 462 million. The positive year-to-date ridership results are largely attributable to the service increases implemented in 2008 as part of the TTC's Ridership Growth Strategy. The resultant amount of service is the highest level the TTC has ever operated.

As noted in previous CGM's Reports, staff have closely monitored the impact of the new Post-Secondary Student monthly pass on TTC's ridership and revenue results since its inception. Pass sales over the first 3 months (September to November 2010) amounted to approximately 105,000 with October and November sales exceeding budget by 6%. A separate report about this new pass is being submitted to this Commission meeting.

FINANCIAL RESULTS

2010 TTC OPERATING BUDGET

Appendix A represents the TTC's Income Statement and provides information on Revenues, Expenses and Subsidies.

The following table provides a summary of year-end projections for ridership, expenses, revenues and subsidy requirements.

(Millions)	2010		
	PROJECTION	BUDGET	CHANGE
RIDERSHIP	477	462	15
EXPENSES	\$1,353.9	\$1,370.9	(\$17.0)
REVENUES	(\$984.2)	(\$941.1)	\$43.1
SUBSIDY REQUIRED	\$369.7	\$429.8	(\$60.1)
SUBSIDY AVAILABLE	\$429.8	\$429.8	-
SURPLUS	\$60.1	-	\$60.1

The current year-end projection indicates that the 2010 subsidy requirement will be about \$60 million less than budget (i.e. a surplus) as a result of an additional \$43 million in revenues and \$17 million less in expenses than budgeted. Details of the major variances follow:

- **Passenger Revenues: \$41 million increase.** An anticipated 15 million more passengers than budgeted, a higher average fare, deferred revenue adjustments, and lower token hoarding losses experienced earlier in the year are the key factors responsible for this favourable variance.
- **Vehicle Fuel: \$14 million decrease.** Lower diesel fuel costs primarily resulting from purchasing at spot market prices for the latter half of this year.
- **Depreciation: \$14 million decrease.** Lower capital expenditures than originally planned for this year as well as a reassessment of IT project expenditures previously capitalized have led to a reduction in depreciation charges.

- **Operations Branch: \$4 million increase.** Additional expenditures largely stemming from the Commission's May 6, 2010 directive that, effective September 2010, the service cuts made in March 2010 be reinstated, the cancellation of scheduled service cuts in September 2010 and the addition of an extra peak period train on the Bloor-Danforth subway line as well as its June 2 decision to introduce a subway station cleaning blitz account for this increased expenditure level.
- **Accident Claims: \$2 million increase.** Based on a 3rd quarter actuarial valuation forecast, 2010 cash payouts are projected to exceed budget.
- **Other Employee Costs: \$3 million increase.** A recent actuarial valuation indicates that a larger than anticipated increase in post-employment liabilities (i.e. WSIB and Long-term Disability) will be required.

It should be noted that the current year-end projection of a \$60 million surplus is to be regarded as a preliminary assessment which will be subject to further review and refinement once the normal year-end accounting adjustments for a number of balance sheet provisions including employee benefit liabilities, accident claims, deferred revenues, inventory obsolescence, etc. are completed early next year.

A further important consideration is that, effective January 2011, Canadian financial reporting standards, as set by the Canadian Institute of Chartered Accountants, will be changing. While most publicly traded enterprises will adopt International Financial Reporting Standards as their source for generally accepted accounting principles, a number of government organizations, including the TTC, will be required to use Public Sector Accounting Standards. The move to these new standards will entail a number of significant changes including the disclosure of budget information in the financial statements, the immediate recognition of the cost of employee benefits plan amendments as they are made, transitional impacts upon adoption of these standards, and, most significantly, a change to the classification of the pension fund from a defined contribution to a defined benefit plan which will affect how the TTC reports its pension obligations in its financial statements. The TTC may be obliged to disclose the pension solvency liability (currently in the order of \$1 billion). Staff are continuing with their preliminary assessment of the impact of these new accounting standards on the 2011 budgets and financial statements and, any possible implications for the preparation of the 2010 financial statements.

The following table lists unbudgeted items which have been approved by the Commission and have been reflected in the projected year-end variances contained in this report.

UNBUDGETED ITEMS APPROVED TO DATE	AMOUNT \$Millions	COMMISSION APPROVAL
Service level changes to address increased Ridership	2.900	May 6, 2010
Station Manager Deployment program	Self-funded	May 6, 2010
Specialized legal, financial and other consultant Services related to TTC – Office Consolidation	0.500	May 6, 2010
Station Cleaning Blitz – July to Dec 31/10	0.800	June 2, 2010
Research on international best practices on Premium-quality bus services	0.100	June 2, 2010

Service Related Results

To the end of October this year, overall subway service headway performance levels for both the Bloor-Danforth and the Yonge-University-Spadina lines are slightly better than target due to good incident management. However, both uncontrollable (customer related illness, security incidents and G20 Summit activities) and controllable (related to equipment and track related delays and operator irregularities) delays exceeded target. While the performance of bus routes has improved over 2009 year-end results in terms of fewer run cancellations, headway adherence fell short of the current target. So far this year, actual headway adherence results on streetcar routes have approximated the targeted level as staff continue with current strategies to minimize cancellations.

Customer Satisfaction Results

By the end of October, complaints increased by approximately 15%, while compliments (predominantly for the work of TTC employees) increased by 60% as compared to the comparable period last year. The extensive media coverage of TTC customer service issues likely prompted more customers to contact TTC to offer their feedback. The increase in complaints was primarily related to service delays, discourtesy, vehicle operation and bypassing of customers.

2010 TTC CAPITAL PROGRAM BUDGET

Appendix B contains a table that shows actual 2010 expenditures based on results available to Period 10 and year-end projections for the TTC's capital projects. City Council approved an overall budget of \$912.4 million for the base capital program on December 8, 2009. Current projected 2010 expenditures for the base program are \$833.4 million, representing an under expenditure of \$79.0 million. A carry forward adjustment of \$102.6 million was approved by the City Council in August 2010 to address those contract delay impacts from 2009 that resulted in the deferral of approved expenditures to 2010. The result is a projected net 2010 under expenditure of \$181.6 million for the base capital program as shown in the table below.

(Millions)	2010		
	ACTUAL	BUDGET	VARIANCE
APPROVED BASE PROGRAM	\$833.4	\$912.4	\$(79.0)
CITY CARRY FORWARD REQUEST		102.6	(102.6)
TOTAL ADJUSTED BASE PROGRAM	833.4	1,015.0	(181.6)

Underexpenditures of \$79.0 million on the base capital program include the following major program variances: Signal Systems mainly relating to design delays on YUS ATC resignalling project (\$23.7) million; Other Building Facilities projects deferrals and estimate changes such as Revenue Operations Facility (\$15.2) million; LRT Replacement & Storage facility delay due to property and community related design issues (\$70.8) million; Purchase of Subway Cars project milestone achievement delays (\$11.9) million; Purchase of LRT Cars slippage of project milestones to 2010 from delayed award \$25.4 million. In addition, the City Carry Forward adjustment has a further favorable variance impact of \$102.6 million.

An under expenditure of \$17.0 million is projected on the Toronto York Spadina Subway Extension project primarily related to deferral of payments for Tunnel Lining, TBMs, early construction, and property acquisition, offset by the increase of Engineering and Geotechnical work and milestone payments under a vehicle contract. An under expenditure of \$280.0 million is projected on the Metrolinx Projects primarily related to prior year slippage offset by deferred project activities to future years. Note that the costs for approved lines are fully covered by Metrolinx and reimbursed through the City.

Work continues on Federal programs for which Contribution Agreements were previously signed including the Canada Strategic Infrastructure Fund (CSIF) and Building Canada Fund programs and Infrastructure Stimulus Funding (ISF) for Toronto, in order to fulfill project

requirements for reporting and claims. The Province has also confirmed it's commitment to fund a 1/3 share of the 204 LRV cars (\$417 million) under stimulus funding, and staff are pursuing the details of that funding agreement with provincial staff. Further Provincial and Federal commitments are required towards long term funding assumptions, and staff regularly bring these to the attention of government representatives. These funding commitments would contribute towards the existing five-year funding shortfall of the base capital program.

The Province through Metrolinx previously approved (spring 2009) expansion initiatives including the Finch West, Eglinton Cross-town and Sheppard East (includes Federal funding under the Building Canada Fund) LRT lines as well as the SRT project. However, in its March 25, 2010 provincial budget, the Provincial government announced that it would work with Metrolinx to phase the construction of transit projects which would result in approximately \$4 billion in appropriation savings and reduced borrowing over the next five years. This plan results in a modified implementation timing of the approved lines and an indefinite deferral of the unapproved lines, for which Environmental Assessment work is currently being undertaken by the TTC and the City.

The Provincial budget also announced the cancellation of the Ontario Bus Replacement program, effective immediately, a program which was implemented in 2007. The Province has paid its outstanding obligations to the City for 2008 and 2009 as well as to provide funds for the 2010 bus contract commitments (\$18.7 million).

2010 WHEEL-TRANS OPERATING BUDGET

Appendix C shows the Wheel-Trans Income Statement and reflects the \$82.7 million subsidy level approved by City Council. 2010 has seen an increased level of demand for trips which is expected to exceed the budget by about 12%. In order to satisfy this higher level of demand at the 2% unaccommodated rate, additional unbudgeted net expenditures in the order of \$1.4 million are required after factoring in the impact of various cost containment measures and the receipt of Ontario Retail Sales Tax recoveries.

December 1, 2010

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Attachments: Appendices A, B and C