

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: October 19, 2011

SUBJECT: CITY SERVICE EFFICIENCY CONSULTANT REVIEWS

INFORMATION ITEM

RECOMMENDATION

It is recommended the Commission receive this status report on the Consultant Service Efficiency Reviews for information, noting that:

- the City will formally launch the 2012 Budget Process in late November, and;
- the Commission needs to be informed before this launch, as to the issues being considered by the Consultants to understand what action staff has taken as a result of the approved September 16, 2011 Commission budget reports as well as action that staff is considering as a result of their involvement in these service efficiency reviews.

FUNDING

There are no direct implications from this report. However, some actions that were approved by the Commission at its September 16, 2011 meeting are consistent with some of the issues being considered by the Consultants. The financial impacts of these actions have been reflected in the September 16, 2011 approved 2012 budgets. Any other actions taken as a result of these reviews that have a financial impact on the 2012 or future budgets will be reflected in those budgets when appropriate.

BACKGROUND

TTC staff have participated in four Consultant Service Efficiency Reviews as follows:

1. Accenture Management Consulting (AMC) is undertaking a Service Efficiency Review of the TTC.
2. Western Management Consultants is conducting a Fleet Services study for the City of Toronto. TTC's non-revenue fleet and its associated facilities were included as part of this study scope.

3. AMC is performing a review of Information Technology operations at the City; TTC is involved as well.
4. KPMG is examining property development and leasing activities, as well as commuter parking lot operations at both the City and TTC.

DISCUSSION

Information that follows will summarize the Consultant work to date along with staff comments on how we intend to address the opportunities presented to us by the Consultants. However, it is important to be reminded of the context for these reviews. Attached, as Appendix 1, is a summary of the efficiencies that have been incorporated into TTC budgets in recent years. With a view to containing the impact of normal cost increases affecting its operation, numerous strategies have been employed by the TTC over the past several years and various efficiencies have been achieved over time.

Some of the most significant efficiencies include:

- reduced diesel fuel costs through lower pricing from locked-in fixed price contracts and, to a lesser extent, the discontinued use of more expensive bio-diesel, and reduced fuel consumption achieved through the introduction of hybrid buses;
- the conversion of the TTC Pension Fund to a jointly sponsored pension plan with solvency funding relief has avoided increased pension contributions by the TTC in the order of \$40 to \$45 million each year for the next decade;
- TTC along with the Canadian Urban Transit Association (CUTA) and Ontario Public Transit Association (OPTA) were instrumental in obtaining an exemption for all public transit organizations from no-fault insurance and it is expected that several millions of dollars in accident claim expenses will be saved each year once the impact of this new Provincial legislation is fully realized; and
- a joint tender with the City and Toronto Police Services for benefit carrier administrative fees and life insurance premiums will achieve projected savings in the order of \$14 million over the next five years.

This is not to suggest that other opportunities to save money are not available; it is simply to point out that the context in which we budget is one where ridership growth has a net increase on our budgets. So efficiencies need to be identified continuously to minimize the negative impact ridership growth has on our budgets.

ITEMS BEING REVIEWED BY ACCENTURE MANAGEMENT CONSULTINGRidership Growth Management/Strategies and Peak Hour and Off-Peak Service Efficiency

Accenture has reviewed the route network and has identified opportunities to reduce the cost of providing service. Staff has used a different methodology to determine where savings can be achieved; our approach looks at the network as a whole and minimizes the customer impact. Commission approval was received on September 16, 2011 to reduce our service costs by \$14M annually by applying our methodology. Alternatively, TTC staff identified a series of service eliminations, but these were not recommended for approval as part of the operating budget approval process when the Commission approved the 2012 TTC Operating Budget on September 16.

Wheel-Trans Operations

Discussions have occurred with Accenture about the optimum percentage of service to be provided by TTC Wheel-Trans buses. We have shared our approach to this issue and advised that the 2012 budget reflects this optimum allocation. Accenture is reviewing our methodology for confirmation. A separate Commission Report which is on this same agenda sets out this staff approach.

Some discussion has also occurred about the contracting out of our Wheel-Trans bus service. We shared the previous experience where all of Wheel-Trans service was contracted out and why the Commission recommended the bus service portion be operated by TTC. We advised that if this was to be considered, further review was required, including the experience of other transit systems, e.g. Hamilton and Ottawa.

Incident Management

The consultants have been examining elements of the incident management system, including accident reporting, claims management and data management. The need for a process review of these systems is expected to be recommended and TTC staff concur with this. The TTC has a capital project to implement a new safety database management system and the recommended process review is part of that project.

Charter Services

The TTC operates a small quantity of chartered services, but not during peak periods and only subject to vehicle availability. Overall, these charters cover their costs. The discussion suggested that the Consultants saw little to no value in pursuing this item further.

Shared Services

A number of shared services, i.e. services provided by both the TTC and the City are under review. Further work is required, but it was acknowledged that services should be considered for sharing in areas where there is a business case to do so.

Management Structure

Some initial review of the TTC's organization charts and its span of control has been undertaken. Further review, including an understanding of our structure and its rationale is required, but we did discuss the staff reductions and organizational changes, budgeted to save \$14M in the 2012 budget, approved at the September 16, 2011 Commission meeting. Given these changes, if any recommendations are made, further review would be required.

Capital Project Management

The process of Capital Budgeting and project management is being reviewed. A recommendation to re-engineer the process is likely and if this is made, we support this further review. Recommendations which may affect current approvals may be considered as well as recommendations regarding the appropriate project management key performance indicators.

Bus Maintenance

A review of bus maintenance costs is part of the scope plus data is being collected on the increasing cost to maintain new buses. Discussion occurred on the appropriate measures to use to compare costs, i.e. not cost per bus, but measures normalized to account for kilometres operated per bus, customers per kilometre, etc.

ITEMS BEING REVIEW BY WESTERN MANAGEMENT CONSULTANTS

Fleet Services

Much of the study has focused on City Fleet Services and potential opportunities for efficiencies. Areas identified for TTC to consider are:

- Consolidation of maintenance facilities at City locations
 - TTC staff are pursuing contracting out opportunities for the maintenance of light cars and trucks as well as equipment maintenance. We will consider maintenance performed by a City facility as well as by an outside third party.

- Outsourcing maintenance
 - Several alternatives were discussed, each with their own pros and cons. For TTC, the contracting out opportunities currently being pursued make the most sense, i.e. contract out if savings can be identified. Further reference is made to this later in the report.
- Convert to #2 diesel fuel from #1 diesel fuel
 - Annual savings in the order of \$4M are possible if the outstanding research demonstrates a low risk to convert. The National Research Council (NRC) has been working with Ottawa (OC Transpo) since 2008 to determine the feasibility of this conversion. Several issues have been identified that has resulted in a recommendation for further study before a decision is made.

ITEMS BEING REVIEWED BY ACCENTURE MANAGEMENT CONSULTING

Besides the aforementioned Incident Management review, this consultant also reviewed the practice of joint procurements with the City for common Information Technology requirements such as telephone, cellular and networking services, and technical assistance contracts.

Also examined were common pricing schedules (for both the City and TTC) for most of the standard software utilized by both organizations.

Further work is required to explore potential opportunities for network sharing, software and hardware standardization, enterprise software use and hosting and the development of a common approach to various enterprise services such as electronic mail.

ITEMS BEING REVIEWED BY KPMG

This consultant is reviewing property development and leasing activities as well as commuter parking lot operations at both the City and TTC.

As a result of this review, it has been acknowledged that transit-oriented developments in areas where City staff do not possess the knowledge or experience will continue to be handled by the TTC as this is its standard practice.

TTC will consider recommendations that the City assume responsibility for the negotiation of major TTC office leasing requirements.

TTC will consider the recommendations from the pending Toronto Parking Authority review which affect TTC commuter parking lots.

Contracting Out Opportunities

In addition to the opportunities being studied by the Consultants, TTC staff have commenced action to pursue various potential contracting out opportunities. These include station services, building services, print and signage shops, bus servicing lines, non-revenue vehicle maintenance and miscellaneous trades (sheet metal, blacksmith, welding, upholstery, woodworking). Our unions have been notified of this initiative and work is underway to assess these opportunities including preparation for the competitive tendering of this work. While it will likely be next year before the impact of this effort can be confirmed, more than 500 positions could be affected by this measure.

Conclusion/Further Review

Opportunities to identify efficiencies are being studied by a number of consultant teams. In parallel, TTC staff are pursuing contracting out opportunities in some of our maintenance areas.

Some opportunities to operate more efficiently have already been approved by the Commission at its meeting of September 16, 2011. These have been incorporated in our 2012 budgets.

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Attachment: Appendix 1 – Summary of Efficiencies

SUMMARY OF EFFICIENCIES

1. Pension Solvency Relief – the successful conversion of the TTC Pension Fund to a jointly sponsored pension plan has allowed it to obtain solvency funding relief from the Province. Consequently, the TTC, as the employer, has avoided increased pension contributions (that would have otherwise been required to make up the for the pension solvency deficit) in the order of \$40 to \$45 million in 2012 and beyond each year for a decade.
2. Diesel Fuel – in most recent years, action was taken to lock-in the price for the Commission’s diesel fuel requirements at rates well below the original projections which resulted in significant savings relative to budget (in 2010, for example, more than \$15 million was saved relative to budget). Over the period 1999 to 2009, this strategy has saved over \$55 million compared to market spot prices. Staff is currently monitoring market prices for 2011 and 2012 with a view to minimizing the diesel fuel bill while protecting against significant variations in price for the upcoming year. To this end, staff continue to work with the City on the development of a fuel hedging strategy. The current diesel fuel budget requirement for 2012 has been reduced by \$15 million from the City budget forecast based on recent future prices.
3. Bio-diesel fuel – the decision to discontinue the use of bio-diesel in our bus fleet has reduced annual fuel costs by approximately \$1.5 million.
4. Green Power – the decision to discontinue the purchase of green power has reduced hydro costs by approximately \$0.7 million per year.
5. Conversion of contracted IT resources to staff positions – has reduced costs and resulted in the retention of critical skills within the TTC and provided for necessary business continuity. Total annual savings are in the order of \$1.7 million.
6. Hybrid Bus Fuel Savings – the use of hybrid buses has resulted in the consumption of approximately 4 million fewer litres of diesel fuel annually resulting in a savings of about \$4 million per year.
7. Elimination of Adult Tickets – the elimination of Adult tickets as a defensive measure against increasing levels of fare media counterfeiting reduced revenue losses by between \$3 million to \$4 million annually.
8. Accident Claims – in an effort to contain the ever-increasing cost of accident claims for transit operators, the TTC, CUTA and OPTA made submissions to the Province seeking an exemption for all public transit organizations from no-fault insurance. Bill 173, the Ontario Budget Bill received Royal Assent on May 12, 2011 and it is anticipated that this change will save several millions of dollars per annum for the TTC once its impact is fully realized. In addition, corrective action to curb the rising cost of adjudicating and defending claims includes the continued use of in-house TTC legal professionals rather than outsourcing.

9. Safety Culture – The Commission has developed and implemented a comprehensive strategy called Work Safe-Home Safe aimed at reversing a long-term upward trend in occupational injury rates by transforming the basic safety culture and instilling safety as a value by employees at all levels in the Commission. Deliverables included leadership development, skills transfer, and employee engagement in a behavioural safety program. During the period from January 2008 to the present, the lost-time injury rate has fallen by about 30%.
10. Warranty Recoveries – increased monies will be recovered from suppliers for warranty work completed by TTC personnel on the bus fleet.
11. Administrative Fees and Life Insurance Premiums – as a result of a joint tender with the City of Toronto and Toronto Police Services, it is estimated that the TTC will achieve projected savings of \$14 million over the next five years due to lower administration fees and insurance premiums.
12. Voice/Data Telecommunication Services – a recently approved joint purchase with the City for these services which reflects the benefits of volume-discounted pricing will yield savings upwards of \$2.9 million over the 51 month term of the contract.
13. Advertising Contract – at its meeting of July 6, the Commission awarded a 12-year contract, effective January 1, 2012, which included increased revenues (relative to the 2011 budget) of \$5 million for 2012.
14. Other – Additional initiatives include: an extensive review of various on-line and hard copy legal publications has reduced these costs (\$24K); with upgraded software and improvements in production workflow, colour copying charges have been reduced through the maximization of the number of images printed per sheet (\$53K); reduced recruitment advertising expenses through increased usage of TTC website (\$35K); making “Coupler” an on-line only publication (approximately \$150K).