

# Analyst Briefing Notes

## Budget Committee

(January 28, 2008)

**2008 OPERATING BUDGET**

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January 28, 2008

**2008 OPERATING BUDGET****Executive Summary**

- The 2007 preliminary year-end net expenditure of \$182.610 million is projected to be \$8.940 million or 4.7% under the 2007 Approved Budget of \$191.550 million. This variance is favourable due to \$6 million in cost containment savings from deferring Ridership Growth Strategy service improvements and an additional \$5 million in revenue from the November 2007 fare increase. As well, there are one-time savings of \$4 million associated with non-reimbursement of Ontario Health Premiums to non-unionized employees. Excluding revenue from the fare increase, the Program also experienced a favourable revenue variance of \$2.2 million derived from increased passenger revenue, increased revenue for services provided to York Region and higher interest income. These are partially offset by service delivery costs being \$4.5 million overspent as a result of higher than anticipated wage costs, service to address greater than anticipated City road construction work, operators performing transitional work, increased overtime due to severe winter weather, the cost of new tokens and unbudgeted subway cleanliness and energy conservation costs.
  - 2007 ridership growth, from 444 million budgeted riders to 450 million actual riders (after adjusting for the Metropass trip rate reduction), continues to exert pressure on TTC operating standards and on the 2008 Operating Budget as increased operating and salary costs of \$5 million are required to support increased ridership and demands for service.
- The TTC's strategic direction over the next three years is to implement the established service delivery plan of providing transit services to the public on surface routes, utilizing buses, streetcars, RT vehicles (rapid transit) and subways. The TTC faces the following challenges and issues:
  - Continued growth in demand for transit services will continue to place increasing pressure on the TTC to maintain service standards.
  - Increasing traffic congestion and road construction work will restrict the flow of TTC surface vehicles and require additional resources to maintain service standards.
  - Economic factors which impact on TTC ridership and TTC operating costs such as the health of the City of Toronto's economy, the strength of the Canadian dollar (and the resulting impact on tourism), the price of various forms of energy and the liquidity of financial markets.
  - Negotiating with the Province for long-term sustainable funding in order to return the TTC's provincial funding component to the 50% level of the mid-1990's.
- The 2008 Recommended Operating Budget for TTC is 5.6% (\$10.773 million) over the Program's 2007 Approved Operating Budget.

Table 1: 2008 Recommended Budget

(In \$000s)	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Approved Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget	\$	%	2009	2010
	\$	\$	\$	\$	\$			\$	\$
<b>GROSS EXP.</b>	1,082,893.5	1,081,118.0	1,147,299.0	8,115.1	1,155,414.1	72,520.6	6.7	89,500.0	56,700.0
<b>REVENUE</b>	891,343.8	898,508.5	953,091.1		953,091.1	61,747.3	6.9	(65,131.5)	17,400.0
<b>NET EXP.</b>	191,549.7	182,609.5	194,207.9	8,115.1	202,323.0	10,773.3	5.6	154,631.5	39,300.0
<b>Approved Positions</b>	9,835.0	9,622.0	9,977.0	248.0	10,225.0	390.0	4.0		
<b>TARGET</b>			<b>191,549.7</b>		<b>191,549.7</b>				
<b>\$ Over / (Under) Program Target</b>			<b>2,658.2</b>		<b>10,773.3</b>				
<b>% Over / (Under) Program Target</b>			<b>1.4%</b>		<b>5.6%</b>				

- The 2008 Recommended Operating Budget for TTC is \$202.323 million net. This is comprised of base funding of \$194.208 million and funding for new/enhanced service priorities of \$8.115 million. Approval of the 2008 Recommended Operating budget will result in the Program's staff complement increasing from 9,835 to 10,225 approved positions.
- The 2009 outlook includes \$89.5 million in incremental gross expenditures primarily related to expanding 2008 service levels. The 2009 incremental revenue is reduced by \$65.1 million due to uncertainty regarding the continuation of \$80 million in one-time Provincial transit funding for 2008. The total additional pressure for 2009 is \$154.6 million. The 2010 outlook includes \$56.7 million in incremental gross expenditures and \$17.4 million in incremental revenue for a total pressure of \$39.3 million which reflects increased ridership. The impact of cost of living increases is not included in the 2009 and 2010 outlooks as the new collective agreement is being negotiated and the results are not known at this time.
- The 2008 Recommended Base Budget is \$10.773 million or 5.6% over the 2008 target of a 0% increase. The base budget incorporates the Program's key cost drivers including:
  - three months of COLA from the current collective bargaining agreement (\$5.5 million)
  - maintaining 2007 service levels (\$14 million)
  - increased costs for bus parts and facilities maintenance programs (\$9 million)
  - increased costs for vehicle fuel (\$5 million)
  - These are partially defrayed by efficiencies of \$2.090 million and parking lot revenue increases of \$0.700 million

- There will be an annualized impact on revenue of \$34 million from the fare increase in 2007. However, there is no provision in the 2008 Recommended Operating Budget for a further fare increase in 2008.
- To promote the objectives of the Program, the 2008 Recommended Operating Budget incorporates funding for various new/enhanced service priorities including:
  - Increased Off-Peak service (effective November 2008, hours of operation for all routes will be 6 am to 1 am) - \$2.616 million gross and net
  - System Cleanliness / Appearance Improvements - \$1.250 million gross and net
  - Safety Culture Initiative - \$2.644 million gross and net
  - Bringing IT Contractors In-house – a savings of \$0.180 million gross and net
  - Increased training in anticipation of retirements - \$1.113 million gross and net
  - A Health and Wellness Program - \$0.673 million gross and net
- The 2008 Recommended Operating Budget directly advances a number of strategic priorities outlined in Council's policy agenda including:
  - *The Climate Change, Clean Air and Sustainable Energy Action Plan* which draws from existing TTC plans such as the Transit City Plan and the Ridership Growth Strategy.
  - *The Ridership Growth Strategy* which is a multi-phase, multi-year plan to invest in ridership growth through service improvements and fare incentives.
  - *Greening City Operations* through the purchase of energy efficient light bulbs and using biodiesel for the TTC's bus fleet.
- The 2008 Recommended Operating Budget provides for the following service levels:
  - Service for 464 million riders in 2008, up from 444 million in the 2007 Budget for a 4.5% increase.
  - A 3.0% increase in service kilometres from 207.0 million to 213.2 million in 2008.
  - An increase of 4.1% in service hours from 7.42 million hours to 7.73 million hours in 2008 for a total increase of 310,000 hours which include:
    - Annualized effect of service adjustments budgeted in 2007 (+87,000 hours)
    - Additional resources for RGS off-peak service improvements to provide full day service on all routes to match the subway hours of operations (+35,000 hours in 2008, 303,000 hours for full year)
    - Additional resources for calendar/holiday effects (+25,000 hours in 2008, no effect beyond 2008)

- 390 new positions in the following areas: Service changes to meet existing ridership growth (176), Ridership Growth Strategy – Off-Peak (202), System Cleanliness/Appearance (15), Increased Training (13), Bringing IT Contractors In-house (9), the Health and Wellness Program (9), offset by other net changes (-34).
- The TTC's challenge is to provide services to meet continued growth in ridership. Ridership will grow from 444 million riders budgeted in 2007 to 464 million riders budgeted in 2008. At the same time, the TTC is encouraging additional passenger growth through its Ridership Growth Strategy which will see the introduction of 100 additional buses and the opening of the Mount Dennis Bus Garage in the fall of 2008. The Ridership Growth Strategy will lead to new ridership growth that will be costly but will be balanced with affordability. This growth in demand is adding to the TTC's financial pressures. Gross expenditures will increase by \$72.521 million or 6.7% while revenue will increase by \$61.747 million or 6.9% in 2008.
  - The 2009 pressure is \$154.632, excluding the cost of living allowance.
  - Therefore, the TTC needs a five-year plan, driven by ridership and TTC service delivery plans that would include various options for a multi-year fare strategy.
  - Therefore, the TTC also needs permanent 50% Provincial funding for transit operations.

## Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for TTC of \$1.155 billion gross and \$202.323 million net, comprised of the following services, be approved:

<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
TTC Conventional Service	1,155,414	202,323
Total Program Budget	<u>1,155,414</u>	<u>202,323</u>

2. the Chief General Manager of the Toronto Transit Commission report back to the Budget Committee during the 2008 Operating Budget process with revised 2008 revenue projections based on actual 2007 ridership and revenues, and that the TTC increase its 2008 revenue budget if the 2007 experience indicates higher expected ridership in 2008;
3. the Chief General Manager of the Toronto Transit Commission report back to the Budget Committee prior to the start of the 2009 Budget process on the success of the program to bring IT contractors in house;
4. the Chief General Manager of the Toronto Transit Commission report back to the Budget Committee prior to the start of the 2009 Budget process on the impact of the Health and Wellness program on absenteeism and on associated savings;
5. the Chief General Manager of the Toronto Transit Commission report back to the Budget Committee in Spring 2008, as part of the City's Service Planning process, with a five-year plan, driven by ridership and TTC service delivery plans that would include various options for a multi-year fare strategy; and
6. the Chief General Manager and the Chair of the TTC adjust the Commission's budget schedule beginning in 2008, so that it coincides with the City of Toronto's budget process, and associated requirements, and, in particular, that the Commission prepare and approve its Operating Budget by mid-September annually.

## Section A: 2007 Budget Variance Analysis

**Table 2: 2007 Budget Variance Review**

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
<b>GROSS EXP.</b>	1,028,480.0	1,082,893.5	1,081,118.0	(1,775.5)	(0.2)
<b>REVENUES</b>	795,288.0	891,343.8	898,508.5	7,164.7	0.8
<b>NET EXP.</b>	233,192.0	191,549.7	182,609.5	(8,940.2)	(4.7)
<b>Approved Positions</b>	9,542.0	9,835.0	9,622.0	(213.0)	(2.2)

Source: \*Projected Actuals Based on the September 30, 2007 Variance Report.

### 2007 Experience

TTC's Third Quarter Variance Report indicates projected year-end expenditures of \$182.610 million net. This represents a positive variance of \$8.940 million or 4.7% of the Program's 2007 Approved Operating Budget of \$191.550 million net.

A number of factors have contributed to this underspending:

- The TTC realized \$6 million in cost containment savings from deferring the implementation of Ridership Growth Strategy improvements in the Fall of 2007 and by deferring the opening of the Mount Dennis Bus Garage.
- The TTC also realized an additional \$5 million in revenue from the November 2007 fare increase which had not been budgeted.
- One-time savings of \$4 million were also realized from the non-reimbursement of Ontario Health Premiums to non-unionized employees and \$2.8 million in savings were achieved from lower than anticipated hydro and natural gas rates.
- Additional revenue was generated totalling \$2.2 million which includes \$1 million in increased passenger revenue income, \$0.4 million in increased revenue generated by operating service for York Region and \$0.8 million in other revenue primarily from higher interest income earned from banked funds.
- Partially offsetting these savings and increased revenue were service delivery costs that were overspent by \$4.5 million as a result of:
  - Increased vehicle running maintenance expenses
  - Higher wage costs due to later than anticipated employee retirements and attrition

- Higher wage costs for operators, who had been injured, performing transitional work prior to returning to their regular duties
  - Increased overtime requirements for mainline storage of subway trains during severe winter weather
  - Unbudgeted subway cleanliness improvements and recycling initiatives; and
  - Unbudgeted energy conservation consultant
  - Other cost increases totalling \$0.5 million
  - Half of the new tokens which were originally expected to be delivered in 2006 were actually delivered in 2007, producing an extra \$1 million in unbudgeted expenditures for 2007
- The TTC has not realized the \$5 million in unallocated 2007 budget reductions which were approved by Council.
  - The number of actual positions in the Program projected actual at year end in 2007 were 9,622 which is 213 less than the 9,835 positions approved in the 2007 budget. The difference is due to the deferral of planned service increases in the Fall of 2007 and to the deferral of the opening of the Mount Dennis Bus Garage in Fall 2007.

## 2007 Cost Containment Savings

- As discussed above, TTC expects to achieve cost containment savings of \$6 million in 2007 through the measures itemized in the table below.

Net Cost Containment Savings	2007 (\$000s) Savings	2008 (\$000s) Continued Savings	Comments
<b>Hiring Freeze Savings:</b>			
<b>Service Level Adjustments:</b>			
Defer opening of the Mount Dennis Bus Garage	(2,000.0)		
Defer Fall 2007 service improvements	(4,000.0)		
<b>Sub-total</b>	<b>(6,000.0)</b>	<b>0.0</b>	
<b>Discretionary Savings:</b>			
<b>Sub-total</b>	<b>0.0</b>	<b>0.0</b>	
<b>TOTAL COST CONTAINMENT</b>	<b>(6,000.0)</b>	<b>0.0</b>	

- These cost containment measures have not been recommended to continue in 2008.



**Impact of 2007 Operating Variance on the 2008 Recommended Budget**

The following 2007 Operating variances are expected to impact the 2008 Operating Budget:

- The increase in ridership from 444 million budgeted riders to an estimated 450 million riders in 2007 will result in a \$10.3 million budgeted increase in revenue in 2008. The expenditures required to support this ridership growth will be \$5 million in 2008.
- The annualized impact of the November 2007 fare increase will be \$34 million.
- Cleanliness improvements begun in 2007 will require 15 additional positions, totalling an additional \$1.250 million, which are funded in the 2008 Recommended Operating Budget.

**Section B: 2008 Operating Budget Overview****3-Year Operating Budget Overview**

The Toronto Transit Commission (TTC) is the third largest transit authority in North America, based on ridership, after New York City and Mexico City. TTC carries about 450 million riders per year and operates heavy and light rail, streetcar and bus services totaling over 2,400 vehicles throughout the City of Toronto. The TTC carries 85 percent of all local transit trips in the Greater Toronto Area and about 72 percent of the Toronto population uses the TTC at least once per month. Fully 96 percent of Toronto residents live within 400 metres of at least one TTC service.

The TTC's strategic direction is to provide safe, reliable, courteous and efficient transit services to the public utilizing buses, streetcars and RT vehicles (rapid transit), and subways. The TTC will support its mandate over the next three years through service to existing ridership and preparing for, and servicing, expected future ridership. The TTC will also focus on enhancing the safety and security of its system for both passengers and TTC personnel.

The 2008 Recommended Operating Budget supports the growth being experienced by the TTC as well as the TTC's safety and security initiatives. The TTC experienced growth of 8 million riders in 2007 and growth in 2008 is expected to be another 14 million riders. The TTC will also be increasing peak service through the delivery of 100 new Ridership Growth buses and the opening of the new Mount Dennis Bus Garage.

Estimated pressures are projected to be \$154.632 million net for 2009 and \$39.300 million net for 2010, excluding any provision for COLA. These significant pressures exclude any further service growth. Financial pressures combined with service pressures will require TTC to develop a longer term service delivery plan.

**Ridership Growth from 2007**

After adjusting for the Metropass trip rate reduction, the TTC experienced 1.8% growth in ridership in 2007, from an adjusted 442 million riders in 2006 to an adjusted 450 million riders by the end of 2007. There is \$5 million in funding in the 2008 Recommended Operating Budget to support the incremental costs due to 2007 ridership growth.

**Ridership Growth in 2008**

In 2008, the TTC will provide transit services for 14 million more riders, 464 million riders in the 2008 budget versus 450 million actual riders in 2007. The TTC will hire 176 new staff in 2008 to sustain service levels for this increased ridership level. There is \$9 million in funding in the 2008 Recommended Operating Budget to support the 2008 ridership growth. The incremental cost will be \$7 million in 2009 for a total cost of \$16 million.

**Ridership Growth Strategy – Peak Improvements**

In order to accommodate these new riders and maintain service levels, the TTC will take delivery of 100 new Ridership Growth Strategy buses which will provide 17,000 additional peak service hours

in 2008, 114,000 service hours on an annual basis. This additional service was originally included in the 2007 TTC Operating Budget, however, due to 2007 cost containment measures, the implementation has been deferred until late 2008. The TTC will hire 93 new Operators, Technicians, Servicepersons and Instructors to support the Ridership Growth Strategy. There is \$1.3 million in funding in the 2008 Recommended Operating Budget to support the TTC's Ridership Growth Strategy. The incremental cost will be \$7.7 million in 2009 for a total cost of \$9 million.

**Ridership Growth Strategy – Off-Peak Improvements**

The TTC will be implementing a standardized off-peak service in late 2008. Beginning in November 2008, all routes will run during the same hours as the subway, from 6 am until 1 am during weekdays. The TTC believes that standardized hours for all transit modes will increase passenger convenience and lead to increased ridership. The TTC will hire 202 new operators, technicians, servicepersons and instructors to support the Ridership Growth Strategy off-peak improvements. These additional resources will provide an extra 35,000 hours of service in 2008, 303,000 hours on an annual basis. There is \$2.6 million in funding included in the 2008 Recommended Operating Budget to support increased off-peak service. The incremental cost will be \$19 million in 2009 for a total cost of \$22 million.

**Mount Dennis Bus Garage**

The TTC continued with the construction of the Mount Dennis Bus Garage throughout 2007. This new bus garage will provide maintenance and storage of 100 new Ridership Growth Buses. It will also provide bus garage capacity for additional buses to be purchased in the future. The TTC will hire 71 new personnel to staff the Mount Dennis Bus Garage. There is \$2 million in funding included in the 2008 Recommended Operating Budget to support the opening of the Mount Dennis Bus Garage. The incremental cost will be \$7 million in 2009 for a total cost of \$9 million and 4 additional positions will be required in 2009.

**Summary**

The 2008 Recommended Operating Budget has a \$72.521 million or 6.7% increase in gross expenditures. The balance of this increase relates to annualizations of 2007 costs and costs which have been already been committed. There is \$2.7 million funding for the operating impact of capital projects primarily reflecting the impact of the opening of the Mount Dennis bus garage.

While gross expenditures increase by 6.7%, revenue in the 2008 Recommended Operating Budget is \$953.091 million, a \$61.747 million or 6.9% increase from 2007. The revenue increase includes \$58.3 million for passenger fare increases plus \$3.4 million in increased revenue from other sources. There is no provision for a fare increase in 2008.

**Service Delivery - Challenges and Issues**

The TTC is facing a number of challenges and issues including the following:

- Continued growth in demand for transit services will continue to place increasing pressure on the TTC to maintain service standards.

- Increasing traffic congestion and road construction work will restrict the flow of TTC surface vehicles and require additional resources to maintain service standards.
- Economic factors which impact on TTC ridership and TTC operating costs such as the health of the City of Toronto's economy, the strength of the Canadian dollar (and the resulting impact on tourism), the price of various forms of energy and the liquidity of financial markets.
- Negotiating with the Province for permanent sustainable funding in order to return the TTC's provincial funding component to the 50% level of the mid-1990's.

## **Strategic Priorities**

The 2008 Recommended Operating Budget for TTC directly advances, through a number of new/enhanced initiatives, the following strategic priorities outlined in Council's policy agenda:

- ***The Climate Change, Clean Air and Sustainable Energy Action Plan : Moving from Framework to Action***

Includes a commitment to prepare a Sustainable Transportation Implementation Strategy which will draw from many existing plans including the TTC's Transit City Plan and the TTC's Ridership Growth Strategy. The Sustainable Transportation Implementation Strategy sets out to achieve the City's greenhouse gas emission and smog reduction targets by, among other things, creating a long-term vision of a sustainable transportation system which achieves the targeted emission levels and meets the economic needs of the city and by identifying and prioritizing short-term transportation projects that will accelerate the achievement of the City's sustainable transportation agenda.

- ***Ridership Growth Strategy***

The TTC's Ridership Growth Strategy (RGS) was adopted by the Commission in March 2003 to address the continuing increase in demand for transit service in the City of Toronto. The RGS is a multi-phase, multi-year plan to invest in ridership growth through service improvements and fare incentives. The TTC will purchase 908 new hybrid and clean diesel accessible buses in the next 10 years for over \$1 billion, including 193 replacement buses in 2008. In addition, 100 new Ridership Growth Strategy buses will be delivered in 2008. Additional RGS service was originally included in the 2007 TTC Operating Budget, however, due to 2007 cost containment measures, the implementation has been deferred until late 2008. There is \$1 million in the 2008 budget for peak service improvements to operate the 100 new RGS buses, \$2 million for the Mount Dennis bus garage to store the 100 new buses and \$2.616 million for RGS off-peak service improvements.

- ***Transit City Plan***

The TTC's Transit City Plan was created in 2007 to take fast, quiet, clean, accessible, light rail service to all parts of the City of Toronto. Transit City encompasses seven light rail surface routes which will cover 120 kilometres. In June 2007, the Province of Ontario announced its \$17.5 billion MoveOntario 2020 initiative which provides funding for all of the TTC's Transit City routes plus an extension of the Yonge Subway north to Highway 7. The first Transit City lines are expected to be running in 2010 so there is no impact on the 2008 operating budget.

Nonetheless, no additional operating funding has been provided by the Provincial or Federal governments for the Transit City Plan.

- ***Greening City Operations***

Capital funding of \$1.8 million has been approved for the purchase of energy efficient light bulbs. In the 2008 Recommended Operating Budget there is \$3.8 million in incremental costs for the bio component of the fuel for the TTC's bus fleet.

- ***System Cleanliness***

One of the TTC's priorities is to improve the cleanliness and appearance of subway stations. The 2008 Recommended Operating Budget provides for the hiring of 9 new janitors and 6 new painters to facilitate the TTC cleaning more subway stations each night and painting the stations more frequently.

- ***Safety Culture***

The TTC will enter into a three year contract with a consultant to develop and implement a strategy to reduce lost-time occupational injury rates by 40% to 60% over time. The program is intended to reverse a long-term trend of increasing occupational injury rates by instilling safety as a value throughout the TTC.

- ***Health and Wellness Program***

In 2008, TTC intends to implement a new Health and Wellness Program. The goal of this program is to reduce absenteeism due to sickness and to improve the general physical well-being of TTC staff.

### Section C: 2008 Recommended Base Budget

**Table 3: 2008 Recommended Base Budget**

(In \$000s)	2007 Approved. Budget	2008 Recommended Base	Change 2008 Recommended Base vs. 2007 Approved Budget		FY Incremental Outlook	
	\$	\$	\$	%	2009 \$	2010 \$
<b>GROSS EXP.</b>	1,082,893.5	1,147,299.0	64,405.5	5.9	69,620.0	56,700.0
<b>REVENUE</b>	891,343.8	953,091.1	61,747.3	6.9	(65,131.5)	17,400.0
<b>NET EXP.</b>	191,549.7	194,207.9	2,658.2	1.4	134,751.5	39,300.0
<b>Approved Positions</b>	9,835.0	9,977.0	142.0	1.4		
<b>NET TARGET</b>		<b>191,549.7</b>			<b>0.0</b>	<b>0.0</b>
<b>\$ Over / (Under) Program Target</b>		<b>2,658.2</b>			<b>134,751.5</b>	<b>39,300.0</b>
<b>% Over / (Under) Program Target</b>		<b>1.4%</b>			<b>70.35%</b>	<b>20.52%</b>

### 2008 Recommended Base Budget

- The 2008 Recommended Base Budget of \$194.208 million net represents a \$2.658 million (1.4%) increase over TTC's 2007 Approved Operating Budget. The 2008 Recommended Base Budget will maintain service levels offered in 2007, accommodate budgeted ridership levels in 2008, and implement planned 2007 RGS peak service improvements and the opening of the Mount Dennis bus garage which were deferred from 2007 due to cost containment.
  - The expenditure increase reflects cost of living increases for the first quarter of 2008 only, as the TTC's current three-year collective agreement ends on March 31, 2008.
- The 2008 Recommended Base Budget has a \$61.747 million increase in revenue. Most of this is passenger revenue which has increased by \$58.3 million resulting primarily from the 2007 fare increase (\$34 million) and the 20 million passenger increase in ridership (\$34.4 million)
- The 2008 Recommended Base Budget results in 9,977 approved positions. This is a 142 or 1.4% increase from 2007 approved staffing levels.

### 2008 Key Cost Drivers and Reduction Strategies

- The additional \$64.406 million in expenditures or 5.9% over the 2007 Approved Budget recommended for the Program's base budget is needed to fund the annualized cost of 2007 approved new services, cost of living increases, non-salary economic factors, as well as other base changes such as:

- Annualizations of 2007 costs account for \$17 million including \$6 million for the April 2007 wage increase, \$6 million for a pension contribution increase and \$5 million for service increasing to 450 million rides in 2007.
- 2008 non-discretionary expenditures of \$30.4 million including, \$9 million for increased medical, dental and other benefits, \$7.2 million in increased accident claims costs, \$4.6 million in increased costs of parts used in bus maintenance, \$4.1 million in facilities maintenance programs, \$3.5 million in added costs for an additional working day and a new statutory holiday, and \$2.0 million for inflation.
- 2008 service adjustments for \$9 million to support 464 million riders.
- Partially offsetting these expenditures is \$61.747 million in a net revenue increase comprised of:
  - Annualization of the November 2007 fare increase (\$34.0 million)
  - Revenue increase due to an anticipated ridership increase of 20 million riders (\$34.4 million)
  - Fare media mix reduction due to continued migration of passengers to the Metropass (\$10.7 million)
  - Revenue resulting from one extra work day and the new Family Day holiday in 2008 (\$0.6 million)
  - Increased revenue from outside City services primarily for services provided to York Region (\$1.4 million)
  - Increased advertising revenues (\$0.7 million)
  - Other revenue increases of \$1.3 million including bank interest and parking lot revenue which includes a recommended increase of \$0.700 million in parking lot revenue based on the expectation that the Commission, in January 2008, will approve a new commuter parking lot pricing strategy.

To further constrain the growth of the base budget, various efficiencies are recommended, thereby generating additional savings of \$0.825 million:

- The TTC reached a settlement with the Amalgamated Transit Union (ATU) over a strike in 2006. Part of the settlement was the establishment of a subway spareboard that will provide annual savings of up to \$0.600 million. Savings from the implementation of the subway spareboard are recommended (\$0.325 million).
- Maintaining the gapping rate for 2008 at the 2007 rate of 2.4% will result in savings (\$0.500 million)

**2009 and 2010 Outlook: Net Incremental Impact**

The 2009 Outlook reflects a net increase of \$134.751 million and a net increase of \$39.3 million for 2010. The 2009 and 2010 outlooks include the annualization of increasing service demands, increased energy use and the impact of 2008 capital projects such as the Mount Dennis Bus Garage project. The 2009 Outlook includes the reversal of \$80.231 million in one-time Provincial operating funding which was received in 2008 and may not be received again in 2009 or 2010. The impact of cost of living increases is not included in the 2009 and 2010 outlooks as the new collective agreement is being negotiated and the results are not known at this time.



### Section D: 2008 Recommended Service Priorities

**Table 4: Summary of 2008 New / Enhanced Service Priorities (In \$000s)**

Priority	Description	2008 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2009	2010
		\$	\$		#	\$
(a) Enhanced Service Priorities - Council Approved:						
(b) Enhanced Service Priorities - Program Initiated:						
	RGS Increased Offpeak Service	2,616.2	2,616.2	202.0	19,400.0	
	System Cleanliness / Appearance	1,249.5	1,249.5	15.0		
	Increased Training (due to expected retirements)	1,112.9	1,112.9	13.0		
Sub-Total Enhanced Services		4,978.6	4,978.6	230.0	19,400.0	0.0
(a) New Service Priorities - Council Approved:						
(b) New Service Priorities - Program Initiated:						
	Safety Culture (Services)	2,644.0	2,644.0			
	Bringing IT Contractors Inhouse	(180.0)	(180.0)	9.0	(120.0)	
	Health & Wellness Program	672.5	672.5	9.0	600.0	
Sub-Total New Service Priorities		3,136.5	3,136.5	18.0	480.0	0.0
Total Recommended New / Enhanced Service Priorities		8,115.1	8,115.1	248.0	19,880.0	0.0

**Recommended Enhanced Services – Program Initiated:*****Ridership Growth Increased Offpeak Service (\$2.616 million gross & net)***

The TTC is implementing a new strategy in 2008 by standardizing off-peak service. Beginning in November 2008, all routes will run during the same hours as the subway, from 6 am until 1 am during weekdays. Currently, the hours of operation for surface routes vary between routes. The Ridership Growth Strategy Off-Peak improvements will require funding of \$2.616 million for 202 new positions in 2008. The incremental cost will be \$19.4 million in 2009 for a total cost of \$22 million.

***System Cleanliness / Appearance (\$1.250 million gross & net)***

In 2007, the Commission placed considerable emphasis on improving the cleanliness of the TTC system. In 2005/2006, the procedure for cleaning subway stations was changed so that heavy cleaning was shifted to nighttime when passengers would not be inconvenienced. The janitor position which is responsible for station cleaning is an entry level position. Consequently there is a high turnover which leads to significant gapping, training, emergency leave, illness and transitional work. On average 16% of the janitorial workforce is not available for work on any given night. Funding of \$1.250 million for 9 janitors and 6 painters is recommended.

***Increased Training (\$1.113 million gross & net)***

In order to be prepared for increased retirements which are expected as employees from the “baby boom” cohort reach eligibility for retirement, the TTC will embark on a program of increased non-service training in 2008 in order to have a sufficient number of fully trained vehicle maintenance personnel available to replace the expected number of retirees. This program will involve the hiring of 3 coach/auto apprentices, 2 coach/auto adult apprentices, 6 subway vehicle technician trainees, 1 instructor and 1 documentation control clerk for a total of 13 new positions.

**Recommended New Service Priorities – Program Initiated*****Safety Culture (\$2.644 million gross & net)***

The TTC will enter into a three year contract with a consultant to develop and implement a strategy to reduce lost-time occupational injury rates by 40% to 60% over time. The program is intended to reverse a long-term trend of increasing occupational injury rates by instilling safety as a value throughout the TTC. Over time, the costs of this program will be offset by savings in WSIB costs and replacement labour costs. It is anticipated that the program will be cash flow positive by the fourth year and will generate savings annually in future years.

***Bringing IT Contractors In-house (savings of \$0.180 million gross & net)***

Over the past 5 years, the TTC’s Information Technology Services Department (ITS) has been using contractors to augment skills needed for project-related work. It has become apparent that using contractors is more expensive than hiring staff to work in-house, the same contractors were being re-hired from project to project, and important skills learned on projects were being lost whenever contractors left the TTC. ITS has decided to begin bringing IT contractors in-house in 2008. This will require an increase of 9 positions, however, it is expected to result in savings of \$0.180 million

for 2008. If this process is successful in 2008, it will be continued in the future. The TTC anticipates that savings in 2009 will be \$0.300 million and that eventual savings will total \$1.5 million annually, \$1.2 million in capital savings and \$0.3 million in operating savings.

It is recommended that the Chief General Manager of the Toronto Transit Commission report back to the Budget Committee prior to the start of the 2009 Budget process on the success of the program to bring IT contractors in house.

***Health and Wellness Program (\$0.673 million gross & net)***

In 2008, TTC intends to implement a new Health and Wellness Program. The goal of this program is to reduce absenteeism due to sickness and to improve the general physical well-being of TTC staff. The TTC has been working with Mercer Human Resource Consulting since April 2006 on developing an attendance management program. In 2008, the TTC and Mercer will complete the evaluation of changes made to date and, if appropriate, roll out the program across the entire organization. The cost of the program will be \$0.673 million in 2008 with incremental costs of \$0.600 million in 2009. The TTC estimates that potential savings could be as much as \$2.4 million annually, so that, in future years, the cost of this program should be more than offset by savings.

It is recommended that the Chief General Manager of the Toronto Transit Commission report back to the Budget Committee prior to the start of the 2009 Budget process on the impact of the Health and Wellness program on absenteeism and on associated savings

**Section E: Issues for Discussion****2008 Operating Budget Issues****Achieving the Net Expenditure Target**

Net expenditures in the 2008 Recommended Operating Budget are \$202.323 million which are \$10.773 million greater than the target of \$191.550 million in the 2007 Approved Operating Budget. The TTC program was selected for a detailed review by the Budget Committee. Budget Committee members and City staff have worked with TTC staff to reduce the financial pressures in the 2008 Recommended Operating Budget. This review resulted in \$2.090 million in cost reductions and \$0.700 million in revenue increases being recommended. However, the TTC's net expenditure does not include the impact, in the last three quarters of 2008, of the new collective bargaining agreement currently being negotiated. This collective agreement will add \$6 million in salary and benefit costs for every 1% in cost of living allowance in 2008, or \$8 million annually.

**Revenue Projections**

In recent years, the actual annual ridership has been higher than budget projections. Actual ridership in 2006 was 7 million riders over projection and actual ridership in 2007 is expected to be 6 million riders over projection. In 2007, it is anticipated that the TTC's revenue will be \$2 million over budget, not taking into account the impact of an unbudgeted fare increase. Ridership is expected to increase 20 million in 2008 to 464 million riders and fare revenue is expected to increase \$58 million.

In order to minimize the TTC's 2008 Operating Budget increase, it is recommended that the Chief General Manager of the Toronto Transit Commission report back to the Budget Committee during the 2008 Budget process with revised 2008 revenue projections based on actual 2007 ridership and revenues, and that the TTC increase its 2008 revenue budget if experience indicates higher than expected ridership in 2008.

**Five Year Business Plan**

The TTC needs to develop a plan that addresses base budget pressures as well as manages the growth in the system that will be required as the economy and ridership grow. In order to deal with these pressures, the TTC has been asked, as part of the administrative budget review process, to develop a five year plan, to be revised annually. This five year plan should be driven by ridership and service delivery requirements to account for expected salary, fuel, and general inflation costs, as well as the impact on ridership and revenue of implementing various options for a multi-year fare strategy.

It is recommended that the Chief General Manager of the Toronto Transit Commission report back to the Budget Committee in Spring 2008, as part of the City's Service Planning process, with a five-year plan, driven by ridership and TTC service delivery plans that would include various options for a multi-year fare strategy.

**2007 Fare Increase**

The TTC Commission approved a fare increase effective November 2007 which raised the price of a ticket 15 cents to \$2.25 and the price of a Metropass from \$99.75 to \$109.00. This fare increase was expected to generate \$5 million in additional revenue in 2007. The TTC reduced its ridership estimates in 2007 to compensate for expected losses in ridership. Incremental revenue from the 2007 fare increase will be \$34 million in 2008 and is included in the 2008 Recommended Operating Budget for TTC. The 2008 Recommended Operating Budget does not reflect a further fare increase in 2008.

**Workforce Changes**

The 2008 Recommended Operating Budget provides for an additional 390 positions. The workforce additions are detailed in the following chart:

<b>2008 TTC Operating Workforce Additions</b>	
<b>2007 Approved Positions</b>	<b>9,835</b>
Service changes	176
Ridership Growth Strategy - Off-Peak	202
System Cleanliness / Appearance	15
Increased Training	13
Bringing IT Contractors In-house	9
Health and Wellness Program	9
Engineers - Workload	5
Other net changes	(39)
<b>Total New Positions</b>	<b>390</b>
<b>2008 Recommended Positions</b>	<b>10,225</b>

**Service Changes / Service Requirements**

Additional resources are required to maintain service levels on buses, streetcars and subways within Commission-approved standards for acceptable passenger crowding. Funding of \$14 million is required to provide for the total necessary service adjustments. This amount funds 176 new positions, including 147 new operators, 24 coach technicians (diesel mechanics) and 5 trainers to deal with the impact of 20 million new riders.

**Ridership Growth Strategy Off-Peak Improvements**

There are 202 positions in the 2008 Recommended Operating Budget to provide uniform 6 am to 1 am service throughout the entire TTC conventional system.

**Other Workforce Changes**

Other planned workforce changes will require 12 net new positions. The new positions include: 9 janitors and 6 painters for the System Cleanliness / Appearance initiative, 13 training positions to allow for increased training in anticipation of a rise in retirements, 9 Information Technology analysts, 8 health and wellness resource people and a disability management specialist for the Health and Wellness Program, plus an additional 5 engineering positions to deal with additional workload. These additional positions will be offset by a reduction of 24 vehicle maintenance personnel due to the cancellation of the CLRV refurbishment program and a reduction of 15 vehicle maintenance personnel due to the completion of the ALRV overhaul program.

**Stable Provincial Funding**

Funding received from the Provincial government is currently provided on an ad-hoc basis. The City and the TTC will continue to work toward obtaining long-term stable provincial funding that would return the Provincial funding percentage to 50% as it was until the mid-1990s. The 2008 Recommended Operating Budget for the City of Toronto includes \$92 million in provincial gas tax funding corporately allocated for transit as well as \$80.231 million in one-time funding for 2008. While this funding makes a significant contribution to the funding of TTC operations, the ad-hoc nature of this funding creates uncertainty regarding budgeting for future year operations.

**Ridership – Impact of Metropass Usage**

In 2007, the TTC adjusted its ridership numbers for 2006 and 2007. The adjustment was required as a result of various factors which have recently changed the characteristics of Metropass usage. In 2005 and 2006 the price of the Metropass was frozen. Also, in 2005, the VIP Pass program was made permanent and the Metropass was made transferable. In 2006, the Federal government introduced a transit tax credit which was applicable to Metropass users. These factors have meant that the number of trips that a TTC customer needs to take to “breakeven” between buying tokens or buying a monthly Metropass dropped from 52 in 2005 to 40 in 2007. Because Metropasses can be displayed to operators of surface vehicles and at subway collector booths, it is not possible for the TTC to record exactly how many rides take place over a given period of time. Consequently, the TTC bases its ridership estimates for Metropasses on the actual ridership of a sample of Metropass users who keep monthly diaries of the trips that they take on the TTC. Based on this change in the number of trips that Metropass users make, the TTC reduced its estimate of actual trips in 2006 by 4 million trips to 442 million trips. On the same basis, it also reduced its 2007 budgeted ridership by 10 million trips to 444 million trips. The projected actual 2007 ridership was reduced by 6 million trips from 461 million trips to 455 million trips. This number was further reduced by 5 million trips to account for the impact of the November 2007 fare increase, so that the anticipated actual ridership for 2007 is 450 million rides.

Ridership in 2008 is forecasted to increase to 464 million rides, up by 20 million from the 2007 adjusted budget of 444 million rides and 14 million over the 2007 adjusted year-end ridership of 450 million. On an actual basis, the number of riders in 2007 represented an 8 million rider increase or 1.8% from 442 million riders in 2006 to 450 million riders in 2007. The 2007 results reflect continued economic and employment growth in the City of Toronto throughout the year and continued strong sales growth of the Metropass. For 2008, continued economic and employment growth and the full implementation of the Ridership Growth Strategy service improvements are expected to be key drivers towards increasing ridership to 464 million.

**Ridership Growth Strategy**

The Ridership Growth Strategy (RGS) was developed in 2003 to put into place a transit response to the City of Toronto's new Official Plan. The RGS involves reducing crowding and increasing frequency of service and introducing fare incentives. Its goal is a 10% increase in peak bus service and to restore all discontinued off peak services. It is also based on creating dedicated rights-of-way for transit to avoid traffic congestion and increase the speed and reliability of service. Central to achieving the RGS goals was buying 100 new buses for growth.

***RGS Peak Service Improvements***

It was anticipated that peak RGS service increases would be introduced in 2007. However, as part of the 2007 cost containment exercise, the Commission deferred this initiative. As well, the delivery of 100 new buses was delayed by a strike at the bus manufacturer. The RGS peak improvements will be introduced in November 2008. Since they were budgeted in 2007, they do not create an incremental pressure in the 2008 budget. They will require 93 personnel, including 63 operators, 18 service people, 8 coach technicians and 4 instructors which were also included in the 2007 TTC Operating Budget. Incremental costs in 2009 will be \$9 million.

***Mount Dennis Bus Facility***

To house and maintain the Ridership Growth Strategy buses, a new bus garage is required. The new Mount Dennis Bus Facility will be operational in November 2008. This new facility was built in order to expand capacity for the TTC's growing bus fleet. The opening of the Mount Dennis Bus Facility was also deferred as a 2007 cost containment measure. The Commission has approved opening this facility in the fall of 2008. Since this facility was included in the 2007 budget, opening it in 2008 will not result in incremental operating impacts in the 2008 budget. The Mount Dennis Bus Garage will require 71 positions in 2008 with an additional 4 positions in 2009 and incremental operating costs of \$7 million in 2009.

***Ridership Growth Strategy Off-Peak Service Improvements***

In 2008 off-peak bus service will be standardized. Beginning in November 2008, all routes will run during the same hours as the subway, from 6 am until 1 am during weekdays. The TTC will hire 202 new Operators, Technicians, Servicepersons and Instructors to support the Ridership Growth Strategy Off-Peak improvements. There is \$2.6 million in funding included in the 2008 Recommended Operating Budget to support increased off-peak service. The incremental cost in 2009 will be \$19.4 million for a total cost of \$22 million.

**TTC Budget Schedule**

The TTC submits a budget to the Commission in November of each calendar year. This schedule is several months later than the City budget schedule and makes co-ordination of the TTC's budget with the City budget process extremely difficult.

It is recommended that the Chief General Manager and Chair of the TTC adjust the Commission's budget schedule beginning in 2008 so that it coincides with the City of Toronto's budget process and associated requirements, and, in particular, that the Commission prepare and approve its Operating Budget by mid-September annually.

**Future Year Issues**

Collective bargaining agreements, other employee costs, service requirements, energy needs, inflationary increases and the operating impact of capital projects will continue to exert pressure in 2009 and 2010. In 2009, the annualization of the Mount Dennis Bus Garage startup in the fall of 2008 will exert \$7 million in incremental pressure. There will also be an on-going impact of over \$16 million from increased growth in service, a \$9 million incremental pressure from the November 2008 introduction of increased peak service and an \$19.4 million incremental pressure from the November 2008 introduction of increased off-peak service, both of which are part of the Ridership Growth Strategy.

The impact of cost of living increases is not included in the 2009 and 2010 Outlooks as the new collective agreement is being negotiated and the results are not known at this time. Not included in 2009 and 2010 Outlooks is the continued implementation of Ridership Growth Strategy service increases. The TTC plans to introduce 20 minute service to all surface routes starting in 2009. This will require \$4.1 million in incremental gross expenditures in 2009 and \$3.4 million in annualizations plus another \$4.1 million to complete the introduction of this service in 2010. It is not possible to calculate what the expected revenue impact of this new service would be. Also not included in the 2009 and 2010 Outlooks is \$2 million for 20 new Special Constables each year. The new service and the new Special Constables will be considered with the 2009 Operating Budget process.



# Appendix 1

## Summary of Recommended Base Budget Changes From 2007 Approved Budget

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
<b>2007 Council Approved Operating Budget</b>	<b>9,835.0</b>	<b>1,082,893.5</b>	<b>891,343.8</b>	<b>191,549.7</b>	<b>0.0</b>	<b>0.0</b>
In-year approvals and technical adjustments						
Corporate adjustments						
<b>2007 Approved Operating Budget</b>	<b>9,835.0</b>	<b>1,082,893.5</b>	<b>891,343.8</b>	<b>191,549.7</b>	<b>0.0</b>	<b>0.0</b>
Prior year impacts		5,865.9	(46,231.5)	52,097.4	24,300.0	5,600.0
Zero base items						
Economic factors		20,461.9		20,461.9	23,300.0	27,900.0
<b>Adjusted Base Budget</b>	<b>9,835.0</b>	<b>1,109,221.3</b>	<b>845,112.3</b>	<b>264,109.0</b>	<b>47,600.0</b>	<b>33,500.0</b>
Other base changes	142.0	38,902.7		38,902.7	22,020.0	23,200.0
Base revenue changes			27,047.3	(27,047.3)	(15,100.0)	(17,400.0)
Adjustments to base budget		(825.0)	700.0	(1,525.0)		
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments			80,231.5	(80,231.5)	80,231.5	
Minor service impact						
Major service impact						
<b>Total Recommended Base Adjustments</b>	<b>142.0</b>	<b>38,077.7</b>	<b>107,978.8</b>	<b>(69,901.1)</b>	<b>87,151.5</b>	<b>5,800.0</b>
<b>2008 Recommended Base Budget</b>	<b>9,977.0</b>	<b>1,147,299.0</b>	<b>953,091.1</b>	<b>194,207.9</b>	<b>134,751.5</b>	<b>39,300.0</b>
<b>2008 Program Operating Target</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>191,549.7</b>	<b>0.0</b>	<b>0.0</b>
<b>% Over (Under) Program Target</b>				<b>1.4%</b>	<b>70.3%</b>	<b>20.52%</b>
<b>% Over (Under) 2007 Appvd. Budget</b>				<b>1.4%</b>	<b>70.3%</b>	<b>20.52%</b>

**Appendix 2**  
**Summary of Service Level Adjustments**

**Appendix 3**

**Summary of 2008 Recommended New / Enhanced Service Priorities**

### Appendix 4

#### Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of September 2007 \$ millions	Proposed Withdrawals (-) / Contributions (+)		
			2008	2009	2010
			\$	\$	\$
TTC Stabilization Fund	XR1506	24.2			
<b>Total Reserve / Reserve Fund Draws / Contributions</b>		<b>24.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>