



## STAFF REPORT ACTION REQUIRED

### Preliminary 2017 TTC and Wheel-Trans Operating Budgets

<b>Date:</b>	September 21, 2016
<b>To:</b>	TTC Budget Committee
<b>From:</b>	Chief Executive Officer

#### Summary

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At its meeting of July 12 – 16, 2016, City Council adopted an across the board budget reduction target of -2.6% net below the 2016 Approved Net Operating Budgets for all City Programs, Agencies, Toronto Community Housing Corporation, and Accountability Offices.

This report quantifies the reduction targets for both the TTC and Wheel-Trans Operating Budgets and details the proposed reductions to achieve those targets.

#### Recommendations

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It is recommended that the TTC Budget Committee:

1. Endorse the initiatives proposed in this report to achieve the -2.6% budget reduction target set by City Council, amounting to \$15.8 million; and
2. Direct staff to develop a list of options to address the remaining year-over-year budget pressures identified in this report to be included with the 2017 budgets when they are submitted to the TTC Board for approval later this fall.

#### Decision History

At its meeting of July 12 – 16, 2016, City Council approved a number of 2017 budget process-related items including:

An across the board budget reduction target of -2.6 percent net below the 2016 Approved Net Operating Budgets for all City Programs, Agencies, Toronto Community Housing Corporation, and Accountability Offices; and that strategies including but not limited to the following strategies be used to achieve the -2.6 percent target:

- a. fund any new or enhanced services from within existing budgets, and review for impact on staff time and planned service delivery any new or enhanced services with a "net zero" funding impact;
- b. continue to control expenditures through cost saving measures;
- c. explore all services for efficiency savings including opportunities from business process reengineering, streamlining, transformation and innovation to service delivery including from:
  - i. service delivery rationalization and restructuring;
  - ii. opportunities for alternative service delivery, including contracting out; and
  - iii. opportunities for public service delivery where alternate service delivery has not met stated savings objectives or met Council policy objectives
- d. review service levels and outcomes for relevance, value and impact, focusing on non-public facing services first;
- e. maximize user fee revenue by reviewing full cost-recovery where applicable, review existing fines and permit fees and identify new fines and other user fees where appropriate;
- f. provide a thorough justification for any new Full-Time Equivalents; and,
- g. avoid "offload" expenses to other City Programs and Agencies.

A link to the minutes of this City Council meeting is provided:

<http://app.toronto.ca/tmmis/report/loadReport.jsp?report=CouncilMinutesReport&meetingId=10875>

## **Financial Summary**

This report identifies the reductions required to meet the city-mandated -2.6% budget reduction target.

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

## Issue Background

The dollar values of the across-the-board -2.6% budget reduction target approved by City Council for the 2017 TTC and Wheel-Trans Operating Budgets are summarized in the following table:

	Approved 2016 Subsidy	-2.6% Reduction from Approved 2016 Subsidy
TTC	\$493.6M	\$12.8M
Wheel-Trans	\$116.7M	\$3M
Total	\$610.3M	\$15.8M

## Ridership: TTC conventional system and Wheel-Trans

The two major variances from budget in 2016 for both the TTC and the Wheel-Trans operating budgets relate to ridership. For the TTC conventional system, ridership was budgeted at 553M, but based largely on weak results early in the year, ridership is expected to fall in the 540M-545M range. For 2017, ridership is being budgeted at 545M, which represents a growth rate of 0% to 1%, depending where in that 2016 range ridership ends.

Conversely for Wheel-Trans, demand for service is running 12% over comparable 2015 levels and 6% over budget. For 2017, that growth rate is expected to continue and with the AODA changes to the eligibility criteria, an additional 6% growth is anticipated in 2017. On a year-over-year basis, budgeted Wheel-Trans ridership is expected to increase by 28%.

## Comments

### TTC reductions to meet the -2.6% budget reduction target

To address the -2.6% budget reduction target, the following reductions have been identified:

- Removing telephone land lines for staff provided with TTC cell phones (\$0.3M)
- Workforce-related (\$0.8M)
  - Operating maintenance staff work on both operating work and capital projects over the course of the year and labour costs are allocated amongst those budgets accordingly. For 2017, there is an increase in capital work projected.

- Overtime (\$.8M)
  - The CBA mandated wage increase impact on overtime is being reduced within departmental budgets, effectively absorbing that increase.
- Reduce training and travel (\$.5M)
  - Budgets for training and travel have been examined and reduced.
- Reduced Stand-by costs (\$.6M)
  - Based on on-going monitoring work performed in conjunction with the City Auditor General, stand-by costs were examined and reduced where appropriate.
- Materials and supplies requirements (\$1.0M)
  - An increase in bus warranty recoveries, converting IT contractors to employee positions, reduced furniture and office equipment account for this savings.
- September service not implemented due to reduced ridership (\$1.5M)
  - The 2016 TTC Operating Budget included a provision for carrying up to 553M riders. The existing service level is sufficient to satisfy a ridership base of about 545M rides, all within TTC approved service standards. Since ridership will not exceed the current service capacity, that additional service planned for September was not implemented.
- Lower Healthcare Costs (\$10.3M)
  - Based on a reduced trend of fewer healthcare claims being submitted, the budget for these costs has been reduced.

These reductions total \$15.8M in 2017 and are split \$15.4M for the TTC operating budget and \$0.4M for Wheel-Trans.

## **2017 year-over-year budget pressures**

In addition to these items, there are a series of significant year-over-year budget pressures that need to be addressed with that were initially estimated earlier this year to be in the order of \$215M. Those major pressures were:

- (1) Due to a lower budget for ridership in 2017 than was budgeted for 2016 (545M in 2017 vs. 553M in 2016) and a lower average fare, the budget for passenger revenues is \$32M lower for 2017, than was budgeted for 2016,
- (2) Wheel-Trans costs up by \$31M due to significantly increased ridership, including AODA eligibility changes,
- (3) The start-up costs associated with the opening of the Toronto York Subway extension (\$7 million),

- (4) PRESTO implementation (\$30M),
- (5) collective bargaining agreement related costs (\$25M) and employee benefits costs (\$11M),
- (6) Replacement of hybrid bus battery systems, other bus and rail vehicle maintenance (\$25M),
- (7) Increases in accident claims and general inflation (\$8M),
- (8) Energy costs (\$15M, including \$5M for Cap and Trade Program costs), and
- (9) Various other items totaling \$30M.

Staff continues to review all elements of the budget to identify reductions in these pressures that do not affect service. Three of the largest items identified to date are a \$16M reduction (down from the initial estimate of \$30M) in PRESTO fees due to the later phasing out of legacy fare media, an \$11M reduction (down from the initial estimate of \$15M) in energy costs estimates due to reduced diesel fuel costs and a possible \$15.4M draw from the TTC Stabilization Reserve. At the present time, the remaining pressure is about \$172.6M. Options for addressing this will be developed and provided as part of the formal budget presented to the TTC Board later this fall.

## **Past TTC reductions, efficiencies and improvements**

Between the years, 2011 and 2016, the TTC implemented numerous efficiency measures, including: continued management of diesel fuel contracts; a new combined employee benefits contract with the City saving \$2.5M/yr.; combined telecommunication line purchases with the City saving \$1M/yr.; cutting over 300 administrative staff in 2011 and saving \$21.6M/yr.; rolling out the articulated bus fleet saving \$5.4M/yr.; contracting out bus servicing lines saving \$2M/yr. and shifting vehicle cleaning from carhouses to the subway terminals to improve subway train cleanliness.

The TTC has a long history of efficiency and continues to be the lowest subsidized mass transit system in North America with a budgeted operating subsidy/rider in 2016 of 89-cents, way below other comparable systems such as, Montreal (\$1.16), Chicago (\$2.25) and Boston (\$2.34), and even considerably lower than the massive New York system (\$1.68), despite the huge economies of scale that system has.

## **On-Going Major Transformational Projects**

In addition to all of the improvements since 2011, the TTC's Five Year Corporate Plan will also deliver a suite of business process reengineering projects (including the SAP financial and human resources system, VISION to modernize the management of the bus and streetcar system, One Person Train Operation on the subway system and the Wheel-Trans Transformation project. These projects will generate substantial costs savings and/or cost avoidance in future years.

## **Summary**

The TTC has met the City's directive to a -2.6% budget reduction target. A list of options for dealing with the remaining 2017 year-over-year budget pressures will be included in the final the operating budgets when they are presented to the TTC Board for approval later this fall.

## **Contact**

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