



Financial Update for the Period Ended June 2, 2018

Date: July 10, 2018
To: TTC Board
From: Chief Financial Officer

Summary

The purpose of this report is to provide the Board with the operating and capital variance for the five-month period ended June 2, 2018, as well as year-end projections.

Financial updates are provided for the 2018 Operating Budget for both TTC Conventional and Wheel-Trans services, as well as the 2018 Capital Budget for our base capital program, as well as transit expansion initiatives.

The tables below provide a summary of expenditures incurred as of June 2, 2018 and year-end spending projections as follows:

2018 Operating Budget

Description (\$Millions)	Year-To-Date (5 Months)			Year-End Projection		
	Actual	Budget	Variance	Projection	Budget	Variance
TTC Conventional						
Gross Expenditures	742.7	762.3	(19.6)	1,804.3	1,822.8	(18.5)
Revenue	518.4	521.7	(3.3)	1,225.5	1,244.0	(18.5)
TTC Operating Subsidy	224.3	240.6	(16.3)	578.8	578.8	0.0

Wheel-Trans						
Gross Expenditures	57.8	63.2	(5.4)	143.6	152.0	(8.4)
Revenue	3.1	3.6	(0.4)	7.7	8.6	(0.9)
WT Operating Subsidy	54.7	59.6	(4.9)	135.9	143.4	(7.5)

2018 Capital Budget

Description (\$Millions)	2018 Budget	Year-To-Date Actuals		Year-End Projection	
		\$	%	\$	%
TTC Base Capital	1,646	305	18.5%	1,290	78.3%
TTC Transit Expansion	582	142	24.4%	476	81.9%

Recommendations

It is recommended that the Board:

1. Ratify a sole source contract amendment in the amount of \$3.971 million with Alstom for Line 1 Centralized Signalling System upgrades supporting the delivery of the ATC Resignalling project.

Financial Summary

2018 Operating Budget

Based on current trends it is anticipated that by year-end the TTC conventional service will experience \$18.5 million or 1% in gross expenditure underspending. This underspending is not expected to result in any variance in City subsidy compared to budget primarily resulting from expectations that the TTC will be in a position to refrain from utilizing the budgeted \$14.0 million one-time draw from the TTC's stabilization reserve.

It is anticipated that TTC Wheel-Trans will also be underspent by \$8.4 million gross and \$7.5 million net. Any net underspending experienced by year-end for Wheel-Trans will be retained by the City in keeping with the surplus management policy.

2018 Capital Budget

Total TTC base capital expenditures by year end are projected at \$1.290 billion or 78.3% of the 2018 approved Capital Budget. In addition to base capital requirements, it is expected that the TTC will also incur \$476 million in expenditures by year end for transit expansion initiatives reflecting 81.9% of approved 2018 funding for TTC expansion projects.

Any unspent 2018 capital funding, which is currently projected to be \$462 million between both base capital and expansion initiatives, will be carried forward into 2019 to complete capital work, in accordance with the City's carry forward policy.

Equity/Accessibility Matters

All expenditures required to meet the TTC's accessibility and equity requirements are provided for in these budgets.

Decision History

At its meeting on November 28, 2017, the TTC Board approved the 2018 TTC and Wheel Trans operating budgets, with subsidy requirements of \$580.8 million for TTC Conventional service, \$143.4 million for Wheel-Trans service and a 2018 year-end workforce complement of 14,984 positions.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2017/Nov 28/Reports/2 2018 TTC and Wheel Trans Operating Budgets Decision.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2017/Nov%2028/Reports/2%202018%20TTC%20and%20Wheel%20Trans%20Operating%20Budgets%20Decision.pdf)

At its meeting on November 28, 2017, the TTC Board approved the 2018-2027 TTC Capital Budget and Plan of \$6.538 billion in funding with \$1.406 billion in 2018 cash flow.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2017/Nov 28/Reports/Decisions/3 2018-2027 TTC Capital Budget Decision.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2017/Nov%2028/Reports/Decisions/3%202018-2027%20TTC%20Capital%20Budget%20Decision.pdf)

At its meeting on February 12, 2018, City Council approved the TTC's 2018 Operating Budget and 2018 – 2027 Capital Plan, with amendments to the TTC Board approved budgets that included a \$5 million adjustment from the Operating Budget to the Capital Budget for one-time costs associated from the two-hour time based transfer; as well as a \$3.0 million subsidy increase and an added 27 positions to increase network capacity and reduce overcrowding.

<http://app.toronto.ca/tmmis/viewPublishedReport.do?function=getCouncilMinutesReport&meetingId=13089>

Comments

Key Indicators – Operating Budget

The TTC's net operating results are primarily driven by six key indicators. These indicators impact year to date spending and revenues, as well as provide the basis to estimate year-end spending projections.

The TTC's key indicators include TTC and Wheel-Trans passenger counts and average fare, which impact the \$1.170 billion revenue budget. Additional key drivers include the price of fuel and electric power that affect a combined fuel and utilities budget of \$171 million. The final and most significant driver on expenses relates to service hours, which impacts labour expenses (\$1.008 billion), non-labour expenses (\$224 million) such as parts and maintenance, as well as fuel and utility consumption.

The table below details the TTC's key operating indicators:

Item	Year-To-Date Actuals			Year-End Projection			Status
	Actual	Budget	Variance	Projection	Budget	Variance	
TTC Passengers	220.7M	227.5M	(6.8M)	531.0M	539.4M	(8.4M)	✘
TTC Average Fare	2.233	2.184	0.049	2.193	2.170	0.023	✔
TTC Service Hours	4.464M	4.429M	0.035M	9.544	9.218M	0.326M	✔
Price of Fuel (\$/litre)	0.894	0.865	0.029	0.883	0.865	0.018	✘
Price of Electric Power (\$/kWh)	0.142	0.164	(0.022)	0.150	0.164	(0.014)	✔
WT Passengers	1.73M	1.98M	(0.25M)	4.30M	4.81M	(0.51M)	⊖

Financial Update – Operating

As detailed in the following two tables for the five month period ended June 2, 2018, the TTC conventional and Wheel-Trans services reported a combined year-end projected net underspend of \$7.5 million or 1.0%.

TTC Conventional

Item (\$Millions)	Year-To-Date Actuals			Year-End Projection			Status
	Actual	Budget	Variance	Projection	Budget	Variance	
Expenses							
Departmental Labour	420.4	417.9	2.5	1,018.7	1,008.3	10.4	✘
Departmental Non-Labour	83.4	89.2	(5.8)	221.4	223.7	(2.3)	✔
Employee Benefits	138.0	142.5	(4.5)	295.6	305.6	(10.0)	✔
Diesel	32.2	32.1	0.1	76.6	76.0	0.6	✘
Traction Power & Utilities	34.4	40.7	(6.3)	84.7	95.3	(10.6)	✔
Other Corporate Costs	34.3	39.9	(5.6)	107.3	113.9	(6.6)	✔
Total Expenses	742.7	762.3	(19.6)	1,804.3	1,822.8	(18.5)	✔
Revenues							
Passenger Revenue	492.8	496.8	(4.0)	1,164.8	1,170.3	(5.5)	✘
Other Ancillary Revenue	25.6	24.9	0.7	60.7	59.7	1.0	✔
Stabilization Reserve Draw	0.0	0.0	0.0	0.0	14.0	(14.0)	✔
Total Revenue	518.4	521.7	(3.3)	1,225.5	1,244.0	(18.5)	✘

The year-end subsidy for the TTC conventional service is expected to be on budget based on current experience and key indicators. The key budget variances that account for this projection are as follows:

Traction Power and Utilities: \$10.6 million decrease

Expenses are expected to be below budget by year-end based on a decline in both forecasted rates and consumption.

Employee Benefits: \$10.0 million decrease

The year-to-date trend in healthcare and dental expenses indicates that employee benefit expenses will fall below budget by year-end.

Other Corporate Costs: \$6.6 million decrease

This favourable variance predominately results from a lower than budgeted PRESTO adoption rate and associated transaction costs as well as lease savings for TTC facilities.

Departmental Labour: \$10.4 million increase

As noted below under Initiatives or Events Impacting Financial Results, due to the 48 hour work limit, additional bus operators are being recruited in order to avoid impacts on service and ensure sufficient resources for subway closures.

This projection incorporates the impact of additional operator hires planned to address several items including: schedule adjustments required as result of the 48 hour limit, hires to operate bus service on streetcar routes, coverage requirements for paid emergency leave, and the capacity improvements as approved by the Board on May 8, 2018.

Stabilization Reserve Draw: \$14.0 million decrease

Based on above noted favourable variances from traction power and employee benefits, it is currently anticipated that the \$14.0 million stabilization reserve draw will not be required this year.

Passenger Revenues: \$5.5 million decrease

Year-end ridership is expected to be approximately 1.6% below budget but passenger revenues are expected to be only 0.5% below budget.

The more favourable revenue projection is mainly due to the current trend of customers switching from pass-based fare media to single-ride fare media, particularly PRESTO e-purse, which has resulted in a \$0.023 increase in the average fare.

Wheel-Trans

Item (\$Millions)	Year-To-Date Actuals			Year-End Projection			Status
	Actual	Budget	Variance	Projection	Budget	Variance	
Expenses							
Bus Service	21.4	21.1	0.3	53.4	51.1	2.3	✘
Contracted Taxi	24.7	29.3	(4.5)	60.6	71.3	(10.7)	✔
Employee Benefits	6.8	6.9	(0.1)	14.7	14.7	0.0	-
Administration/Management	4.9	5.9	(1.1)	14.9	14.9	0.0	-
Total Expenses	57.8	63.2	(5.4)	143.6	152.0	(8.4)	✔
Passenger Revenues	3.1	3.6	(0.4)	7.7	8.6	(0.9)	✘
Net (Operating Subsidy)	54.7	59.6	(4.9)	135.9	143.4	(7.5)	✔

The operating subsidy for Wheel-Trans is expected to be \$7.5 million or 5.2% below budget by year-end. The key budget variances that account for this projection are as follows:

Contracted Taxi Services: \$10.7 million decrease

The decrease in costs is attributable to a lower projected year-end ridership estimate and a lower cost per passenger trip estimate based on year-to-date experience.

Passenger Revenues: \$0.9 million decrease

The decrease is mainly due 511,000 less customer journeys than budgeted, offset by a slightly higher average fare.

Labour Expenses: \$2.3 million increase

Increase is due to adjustments to the amount of planned service on Wheel-Trans buses.

Financial Update – Capital

The TTC had incurred \$447 million in capital spending as of June 2, 2018 reflecting a spend rate of \$305 million or 18.5% for the TTC base capital program and \$142 million or 24.4% for transit expansion projects. By year-end, the TTC is projecting \$1.766 billion in overall capital spending, split between TTC base capital (\$1.290 billion or 78.3%) and transit expansion (\$476 million or 81.9%).

TTC Capital

Description (\$Millions)	2018 Budget	Year-To-Date Actuals		Year-End Projection	
		\$	%	\$	%
TTC Base Capital					
Infrastructure Projects	947	175	18.5%	717	75.7%
Vehicle Related Projects	700	130	18.6%	573	81.9%
Total - Base Capital	1,646	305	18.5%	1,290	78.3%

TTC Transit Expansion					
Toronto York Spadina Subway Extension	393	118	29.9%	334	84.8%
Scarborough Subway Extension	129	24	18.8%	102	78.9%
Relief Line - Design	56	0	0.0%	40	72.1%
Waterfront Transit - Design	4	0.1	2.0%	1	20.1%
Total - Transit Expansion	582	142	24.4%	476	81.9%

Significant projected year-end base program variances are outlined below:

Purchase of Streetcars: \$54.6 million under

The projected underspending results from slippage of vehicle delivery experienced in 2017 and prior years as unspent 2017 cash flow has been carried forward into 2018.

The supplier is expediting vehicle delivery and all 2018 funding (excluding 2017 carried forward funding) is expected to be spent by year end.

Other Buildings and Structures: \$94.6 million under

Variance is primarily due to unspent 2017 cash flow of \$37.7 million that has been carried forward into 2018 as well as delays in resource acquisition for Stations Transformation, reassessing implementation of Platform Edge Doors by retaining a consultant through RFP, scope change related to consolidation of transit control operations, deferred work to future years to accommodate Davisville carhouse construction, and delay in award of contract for Wilson Garage Ventilation Upgrades.

Communications: \$20.8 million under

Variance is primarily due to project schedule changes, installation delays due to labour constraints and procurement contract delays.

Attached to this report is Appendix 1, which summarizes spending as of June 2, 2018 and year-end projected spending for each 2018 capital project.

Initiatives or Events Impacting Financial Results

Overtime

The TTC received notice on April 20 from ATU Local 113 that stated the union would no longer agree to allow overtime beyond 48 hours for its members. Employees had been able to work up to a maximum of 64 hours a week as approved by the Ministry of Labour. In order to avoid impacts on service and ensure sufficient resources for subway closures, additional bus operators are being recruited.

The cost of these additional operators is expected to be predominately offset by a reduction in overtime expenditures. In addition, operator schedules are being amended to maximize crewing efficiency with these new operating parameters.

Computer Equipment and Software – SAP Program

The SAP Program continues to make progress albeit at a slower pace than was originally contemplated in 2015. Some Finance and Human Resource functions are already “live” and delivering value. Additional functions are expected to be live later in 2018.

To support work on future functionality, \$5 million in capital funding will be reallocated within the general Information Technology budget (Computer Equipment and Software) to the SAP Program. An additional \$3 million in funding available within the Information Technology budget has also been identified for contingency funding to be used if required to support the delivery of 2018 module work.

Automatic Train Control Project Upgrade of Transit Control Line Control Servers

Prior to 2015 the subway network had one integrated transit control line Centralized Signalling System (CSS) for Line 1 (YUS), Line 2 (BD) and Line 4 (Sheppard). The CSS was provided by and is proprietary to ALSTOM Transport Canada Inc. (“Alstom”).

The Line 1 CSS is being upgraded as part of the Automatic Train Control (ATC) project. To avoid multiple software changes, disruption and added costs and schedule to the ATC Phase 1 and TYSSE projects, Line 1 and Line 2 CSS servers were separated. The work was successfully completed in June 2017 in time for ATC Phase 1 and TYSSE opening.

Given that funds had been budgeted, it was mistakenly believed that a Board report was not required. TTC is now requesting ratification of the Alstom \$3.971M sole source contract amendment for the work completed.

Critical Project Reporting

Consistent with past commitments to the Board, TTC staff are working with the Capital Projects and Procurement Working Group on revisions to the critical projects dashboard and critical project status reporting.

Any changes to the dashboard or the project status reports resulting from directions provided by the Capital Projects and Procurement Working Group will be reported to the Board in Q1 2019.

Contact

Stephen Conforti, Head of Finance & Treasurer
416-393-3654
Stephen.Conforti@ttc.ca

Signature

Dan Wright
Chief Financial Officer

Attachments

Appendix 1 – 2018 Capital Spending Summary by Project

Appendix 1 – 2018 Capital Spending Summary by Project

EXPENDITURES BY PROGRAM	2018 Budget	Year-to-Date			Year End		
		Actuals	Variance	%	Projection	Variance	%
TRACK	89.4	23.8	65.7	27%	55.4	34.0	62%
1.1 Subway Track	39.5	7.6	31.9	19%	19.2	20.3	49%
1.2 Surface Track	49.9	16.2	33.8	32%	36.2	13.7	72%
ELECTRICAL SYSTEMS	158.0	42.7	115.3	27%	122.6	35.5	78%
2.1 Traction Power	22.8	7.6	15.2	33%	21.7	1.1	95%
2.2 Power Distribution/Electric Systems	7.3	2.7	4.6	37%	7.0	0.3	96%
2.3 Communications	39.0	6.0	33.1	15%	18.2	20.8	47%
2.4 Signal Systems	20.5	4.4	16.2	21%	14.4	6.2	70%
ATC Resignalling	68.3	22.1	46.2	32%	61.3	7.0	90%
BUILDINGS & STRUCTURES	510.7	83.0	427.7	16%	395.5	115.2	77%
3.1 Finishes	20.7	6.1	14.6	29%	19.7	1.0	95%
3.2 Equipment	31.4	0.2	31.2	1%	24.9	6.5	79%
3.3 Yards & Roads					0.0		
Streetcar Network Upgrades & BRT	2.8	0.4	2.5	13%	2.7	0.1	95%
On-Grade Paving Rehabilitation Program	10.3	2.9	7.4	28%	9.8	0.5	95%
Bicycle parking at stations	0.9	0.1	0.9	7%	0.6	0.3	65%
Transit Shelters & Loops	0.4	0.0	0.4	0%	0.3	0.1	71%
3.4 Bridges & Tunnels	32.2	10.7	21.5	33%	30.6	1.6	95%
3.9 Buildings and Structures Projects					0.0		
Fire Ventilation Upgrade	16.5	(2.9)	19.3	-17%	14.8	1.7	90%
Easier Access Phase III	46.7	11.6	35.2	25%	42.0	4.7	90%
Leslie Barns	14.7	2.1	12.6	15%	14.0	0.7	95%
Toronto Rocket/T1 Rail Yard Accommodation	36.3	10.9	25.3	30%	34.4	1.9	95%
McNicoll New Bus Garage	29.9	3.4	26.5	11%	28.4	1.5	95%
Other Buildings and Structures	267.9	37.5	230.4	14%	173.3	94.6	65%
VEHICLES	699.2	129.8	569.5	19%	572.9	126.3	82%
REVENUE VEHICLES		0.0					
4.11 Purchase of Buses	275.8	33.9	241.9	12%	247.2	28.6	90%
4.11 Purchase of Buses - Wheel Trans Buses	11.8	2.1	9.7	18%	10.6	1.2	90%
4.12 Purchase of Subway Cars	24.6	4.1	20.5	17%	16.2	8.4	66%
4.13 Bus Overhaul	48.0	20.0	28.0	42%	43.2	4.8	90%
4.15 Streetcar Overhaul	9.8	2.0	7.8	21%	9.4	0.4	96%
4.16 Subway Car Overhaul	59.7	12.1	47.6	20%	38.9	20.8	65%
4.18 Purchase of Streetcars	239.6	53.4	186.2	22%	185.0	54.6	77%
NON-REVENUE VEHICLES		0.0			0.0		
4.21 Purchase Automotive Non-Revenue Vehicles	6.9	1.9	5.0	27%	5.5	1.4	80%
4.22 Rail Non-Revenue Vehicle Overhaul	6.5	0.5	6.0	8%	3.7	2.9	56%
4.23 Purchase Rail Non-Revenue Vehicles	16.5	(0.3)	16.8	-2%	13.2	3.3	80%
TOTAL OTHER	189.1	25.3	163.7	13%	143.6	45.5	76%
TOOLING, MACHINERY & EQUIPMENT							
5.1 Shop Equipment	8.1	0.0	8.1	0%	7.7	0.4	95%
5.2 Revenue & Fare Handling Equipment	21.2	2.7	18.5	13%	20.1	1.1	95%
5.3 Other Maintenance Equipment	5.4	0.4	5.0	8%	4.0	1.4	74%
5.4 Fare System	12.8	3.5	9.3	27%	10.9	1.9	85%
ENVIRONMENTAL PROGRAMS					0.0		
6.1 Environmental Programs	7.8	2.6	5.2	33%	7.1	0.7	91%
COMPUTER EQUIPMENT & SOFTWARE					0.0		
7.1 Computer Equipment & Software	107.7	14.4	93.3	13%	75.5	32.2	70%
OTHER					0.0		
9.1 Furniture & Office Equipment	0.3	0.0	0.3	6%	0.3	0.0	97%
9.2 Service Planning	25.8	1.7	24.1	7%	18.0	7.8	70%
Total Base Programs	1,646.4	304.6	1,341.9	18%	1,289.9	356.5	78%
Toronto York Spadina Subway Extension	393.5	117.7	275.8	30%	333.5	60.0	85%
Scarborough Subway Extension	129.2	24.3	104.9	19%	102.0	27.2	79%
Relief Line South - Design	55.5	0.0	55.5	0%	40.0	15.5	72%
Waterfront Transit - Design	3.6	0.1	3.5	2%	0.7	2.9	20%
Total Transit Expansion Projects	581.8	142.1	439.7	24%	476.2	105.6	82%