



# Corporate Report

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BUDGET COMMITTEE  
SEP 23 2009

**DATE:** September 11, 2009

**TO:** Chair and Members of Budget Committee  
Meeting Date: September 23, 2009

**FROM:** Martin Powell, P. Eng.  
Commissioner, Transportation and Works

**SUBJECT:** Mississauga Transit – 2009 Farebox Revenue Update, 2010-2012  
Service Plans and Provincial Gas Tax Reserve Fund Forecast

**RECOMMENDATION:** That the report entitled “Mississauga Transit – 2009 Farebox Revenue Update, 2010-2012 Service Plans and Provincial Gas Tax Reserve Fund Forecast” dated September 11, 2009 from the Commissioner of Transportation and Works be received for information.

**BACKGROUND:** Budget Committee was advised in Corporate Finance’s June 9 presentation that, based on the 2009 year end forecast that was reported as of the end of the first quarter, Transit farebox revenues were not meeting expectations and that a \$4.2 million year end shortfall was likely. This shortfall was carried forward into 2010 as a pressure. It was, however, almost completely offset by a \$4 million reduction in the 2010 budget for diesel fuel based on the assumption that 2009's lower fuel prices would continue into next year.

**COMMENTS:** **2009 Farebox Revenue Update**

Over the course of the last several months, since the initial forecast was prepared, the revenue shortfall has continued to increase. Based on ridership and financial results up to the end of July, the revised 2009 year end revenue shortfall is currently estimated at between \$7.5 and \$8.0 million. Of particular concern is the nature of the shortfall,

whether temporary or permanent, and future expectations for ridership growth.

### **Major Components of Revenue Shortfall**

#### **Ridership**

The economic downturn that began in 2008 has pushed unemployment levels in the Region and CMA to levels significantly above the national average. The most recent statistics are as follows:

- CMA unemployment rate has increased from 7% (July 2008) to 10% (July 2009)
- Region of Peel unemployment rate has increased from 7% (April-June 2008 quarterly average) to 10.5% (April-June 2009 quarterly average)
- The national youth unemployment rate over the summer averaged 19.2%, the second highest rate since comparable data was first collected in 1977
- Region of Peel Ontario Works caseloads have increased 27.1% for the April – June quarter of 2009 relative to the same quarter in 2008

These significant job losses and related financial hardship for thousands of residents in the GTA have directly impacted transit ridership, which is down 6 to 7 per cent from 2008 levels, or approximately 1.1 to 1.2 million rides year to date. Ridership declines on routes through industrial and commercial areas of the City are significantly higher.

The 2009 plan also included an increase of \$1.6 million in the farebox revenue budget from expanded service, which equates to approximately 825,000 revenue rides. In light of the economic downturn and falling ridership, planned service improvements in 2009 have been scaled back significantly. Although this will reduce costs and defer the need for tax funding to support transit improvements until 2011, the forecasted ridership growth and revenues have not materialized. In total, based on current trends, ridership is forecasted to be below target by approximately 2 million rides in 2009, which equates to a revenue shortfall of approximately \$3.9 million.

### Average Fares

A detailed review of other factors affecting transit farebox revenues revealed that forecasted revenue increases from fare increases are not materializing. This is evident from the average fares for the last several years, which are as follows:

- 2006 - \$1.81
- 2007 - \$1.80
- 2008 - \$1.81
- 2009 - \$1.81 (forecast)
- 2009 - \$1.94 (budget)

Passengers have, quite clearly, been changing their choice of fare media to minimize the impact of fare increases and to take advantage of federal tax benefits on weekly and monthly passes. A review of information going back to 2000 (see Appendix 1) reveals this to be a trend that started in 2006. The anomaly in 2005 in Appendix 1 is the result of a change in the methodology used for calculating ridership, which in turn, impacted the average fare.

As far as 2009 revenues are concerned, transit customers continue to shift to lower cost options, with a pronounced move away from cash fares to passes. This is most likely the result of two consecutive twenty five cent increases to the cash fare. Appendix 2 provides a recap of the 2009 fare increase.

The number of cash paying customers has decreased by 17% compared to the same period last year. Allowing for the overall ridership decline of 6-7%, this leaves a decrease of 10-11% in the number of riders that have moved to tickets or passes. The impact of this shift on farebox revenues is significant given the premium the cash fare carries. The price differential between the cash fare (\$3) and an adult ticket (\$2.40) is \$0.60, or a difference of 20%. The overall impact of these shifts is estimated to be in the range of \$4 to \$4.5 million.

No significant change to the average fare is expected in 2010 given that a fare increase is not being recommended. However, with the planned rollout of the PRESTO farecard in late 2010, there may be an impact on the average fare in 2011. Staff are currently in the early stages of developing a fare transition strategy for the PRESTO fare card. One component of this strategy will be to encourage cash paying passengers to switch to the farecard and in the process, migrate to another form of fare payment. The shift that has already taken place in

2009 out of the cash fare category will reduce the future financial impact of this transition.

### **Cyclical (Temporary) vs. Structural (Permanent)**

As the economy starts to recover, the unemployment rate will start to decline, albeit at a very gradual rate based on current forecasts. Similarly, employment related ridership will recover gradually, likely over several years.

Future ridership growth in Mississauga will also be lower than in most other 905 area municipalities due to lower population growth and the continuing shift from green field to infill developments. In the City of Brampton, where development activity is predominantly large scale green field in nature, population growth was estimated to be 3.6% in 2008 and is forecasted at 3.3% in 2009. Mississauga's population, by comparison, grew by 0.7% in 2008 and is forecasted to increase by 0.6% in 2009. These growth trends are expected to continue for the next several years.

Transit ridership growth in the future will depend significantly on the degree of success in attracting new, choice riders. In order to attract these riders, continued investment in transit will be required to further improve and/or expand service levels and frequencies, transit priority initiatives and implementation of limited stop express services.

With the remaining provincial gas tax funding being utilized in 2010 to cover the incremental operating costs for seven buses, all future service improvements will require additional tax funding. The return to service and fleet growth levels of approximately five years ago are not expected to be significant enough to motivate choice riders to make a switch to transit. As a result, overall ridership growth is forecasted to be in the 1-2% range for the next several years. It would, therefore, take at least three years to recover from the 2009 ridership decline.

There will be a major opportunity in 2013, with the opening of the full BRT to make a major improvement in service levels. This will, however, require a significant tax funded investment to cover the 50,000 to 60,000 additional service hours that will be required to provide service frequencies that are attractive to choice riders.



Unlike the cyclical ridership component, the average fare history and forecast for the current year provides strong evidence that the gap between the budgeted and actual average fare is a permanent gap that needs to be addressed. Fortunately, the farebox revenue and diesel fuel adjustments for 2010 that have already been incorporated into the plans for 2010 accomplish this.

The major risk in this strategy is the price of diesel fuel and its extreme volatility over the last several years. Current pricing assumptions for 2011 and 2012 include increases of ten cents and five cents per litre respectively. Staff are also currently working on retaining a fuel consultant to assist with the preparation of a fuel purchasing strategy, including the option of hedging a portion of the City's fuel purchases.

#### **2010 – 2012 service plans**

The revised 2010 RGS plan calls for approximately 32,000 hours of additional service. Current assumptions for 2011 and 2012 are based on the addition of approximately 20,000 hours of service (peak hours only). This level of growth in service hours will allow for little more than addressing congestion in the system.

#### **Provincial Gas Tax Reserve Fund**

The Province introduced the Provincial Gas Tax program in late 2004 and has each year thereafter, based on annual updates to ridership and population information, adjusted annual allocations. For the 2008/2009 program year the City was allocated \$15.87 million. For budgeting and forecasting purposes, an annual allocation of \$15.5 million has been assumed.

Since the inception of this program, the majority of the funding has been committed to the operating budget to support service improvements and expansions. During the preparation of the 2009 budget and forecast, it was anticipated that the entire annual Provincial Gas Tax allocation of \$15.5 million would be required within the operating budget in 2010 to offset the cost of service improvements. Last year's 2010 forecast also identified approximately \$0.9 million in tax funding that would be required to cover the balance of the costs for 2010.

The onset of the recession necessitated a review and revision to planned service improvements in 2009, as well as subsequent years. As a result of the significant reductions in planned service improvements, the 2010 tax funding requirement has been eliminated. The entire annual Provincial Gas Tax allocation of \$15.5 million will, however, still be required in 2010.

With the gradual implementation of service improvements over the last five years, the annual revenue allocations from the Province have exceeded the funding requirements for the additional service hours. Appendix 3 provides a five year forecast from 2010 to 2014 for the Provincial Gas Tax Reserve Fund, starting with the accumulated, unspent opening balance in 2010 of approximately \$20 million.

Even after the withdrawals from 2010 to 2012 related to the 2008 farebox revenue shortfall, the forecast shows a balance of approximately \$12 million at year-end in 2012. There are, however, several major Transit related projects on the horizon that will likely require transitional funding. Updated business plans for the roll-out of the PRESTO farecard project in late 2010/early 2011 and the start of full BRT service in the spring of 2013 will be prepared in 2010 along with options for the utilization of this remaining funding.

Another, more immediate option to utilize the available balance would be to increase the draw from the reserve fund to further offset a portion of the 2009 ridership decline that will carryover into 2010. A similar option was implemented in 2009 to offset the 2008 revenue shortfall of approximately \$4 million. Although it is possible to increase this funding level, it is not recommended due to the forecast for a prolonged recovery for ridership levels and the escalation of the risk associated with this strategy.

Lastly, future allocations from the Province will be lower as a result of the ridership decline in 2009. A portion of the balance in the reserve fund should be utilized to offset any annual allocations below the \$15.5 million level.

**STRATEGIC PLAN:**

The strategic goal of **Building a Reliable and Convenient System to make transit a faster and more affordable alternative to the**

**automobile, one that is frequent, clean, safe, reliable and convenient, with a transit stop within walking distance of every home and an intricate web of higher order transit** will require significant, ongoing capital and operating financial investments. The proposed plans for 2010 to 2012 have been reduced to such an extent, in response to the financial challenges facing the City, that there will be little to no progress in advancing this strategic goal over the next three years. Plans will need to be reviewed and revised in the future, particularly for 2013 when the BRT becomes fully operational in order to once again start making further progress on the City's commitment to this strategic goal.

**FINANCIAL IMPACT:** Transit Farebox Revenues are forecasted to increase by a maximum of 2% in 2010, from 2009's \$55.3 million to \$56.4 million. The budget for 2010 is currently \$61 million, which translates into another potential revenue shortfall of approximately \$4.6 million next year. Given that temporary funding of \$4 million from the Provincial Gas Tax Reserve Fund is already being utilized to offset the 2008 farebox revenue shortfall that was carried forward into 2009, there are significant financial risks if the additional 2010 shortfall is allowed to compound on top of the gas tax funded shortfall.

Other options to address this gap, such as further service rationalization and/or service level reductions will only undermine the progress that has been made to improve transit service over the last several years and are therefore not recommended.

**CONCLUSION:** The current recession, in conjunction with ongoing shifts in the type of fare media transit riders are purchasing will translate into a forecasted year-end shortfall in farebox revenues of approximately \$8 million this year. The original \$4.2 million year-end shortfall that was forecasted earlier this year and was carried forward into 2010's budget was, for the most part, offset by a \$4 million reduction in the diesel fuel budget.

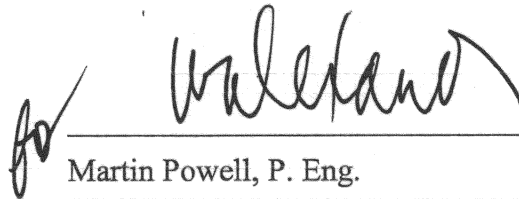
The balance of the 2009 shortfall, which is in essence the structural shortfall related to fare increase projections that are not materializing appears to be a permanent gap based on the fact that the average fare has been stuck in the \$1.80 to \$1.81 range for the last four years.

Options to address this gap are very limited and will ultimately require additional tax funding if existing service levels are to be maintained. Any movement to reduce budgets further by cutting service levels will only further accelerate the ridership decline and will be totally contrary to the strategic goal for transit. The available balance in the Provincial Gas Tax Reserve Fund could be utilized in the short term to reduce the impact to the tax base.

**ATTACHMENTS:**

Appendix 1: 2000 – 2009 Transit Ridership Data

Appendix 2: 2009 Bus Fares

Appendix 3: Provincial Gas Tax Reserve Fund – 2010 to 2014  
Forecast

Martin Powell, P. Eng.

Commissioner, Transportation and Works

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# Appendix 1

<b>Transit Average Fare and Ridership Growth Data 2000-2009</b>						
<b>Year</b>	<b>Avg Fare</b>	<b>Avg Fare % Change From Previous Year</b>	<b>Revenue Rider Trips</b>	<b>Rev Rider Trips % Change From Previous Year</b>	<b>Passenger Revenue</b>	<b>Passenger Revenue % Change From Previous Year</b>
2000	\$1,460		23,883,598		\$34,840,944.00	
2001	\$1,470	0.68%	24,640,876	3.17%	\$36,139,085.00	3.73%
2002	\$1,590	8.16%	24,998,311	1.45%	\$39,762,669.00	10.03%
2003	\$1,690	6.29%	25,017,808	0.08%	\$42,213,627.00	6.16%
2004	\$1,800	6.51%	25,433,107	1.66%	\$45,848,610.00	8.61%
2005*	\$1,740	-3.33%	27,993,394	10.07%	\$48,682,001.00	6.18%
2006	\$1,810	4.02%	29,022,027	3.67%	\$52,493,069.00	7.83%
2007	\$1,800	-0.55%	30,128,691	3.81%	\$54,127,351.00	3.11%
2008	\$1,813	0.74%	31,379,132	4.15%	\$56,898,042.71	5.12%
<b>Total Avg. Fare % Increase From 2000</b>		<b>24.19%</b>	<b>Total Riders % Increase From 2000</b>	<b>31.38%</b>	<b>Total Revenue % Increase From 2000</b>	<b>63.31%</b>
2009 (Budget)	\$1,940	6.99%	32,600,000	3.89%	\$63,325,600.00	11.30%
2009 (Forecast)	\$1,808	-0.29%	30,600,000	-2.48%	\$55,325,600.00	-2.76%

\* 2005 results were impacted by a change in the methodology used for calculating ridership, which also affected the average fare

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Appendix 2  
Mississauga Transit  
2009 Fare Increase (revised)

ITEM	FARES		Increase (\$)	Increase (%)
	2008	2009		
<b>Blind Patrons (with C.N.I.B. Card)</b>	Free	Free	N/A	N/A
<b>Pre-School Children</b>	Free	Free	N/A	N/A
<b>Children (Grades 1 to 8)</b>				
Cash Fare	\$2.75	\$3.00	\$0.25	9.1%
Tickets – 10	\$16.00	\$16.50	\$0.50	3.1%
Tickets – 5	\$8.00	\$8.25	\$0.25	3.1%
<b>Students (Grade 9+)</b>				
Cash Fare	\$2.75	\$3.00	\$0.25	9.1%
Tickets – 10	\$21.50	\$22.50	\$1.00	4.7%
Tickets – 5	\$10.75	\$11.25	\$0.50	4.7%
Weekly Pass	\$22.50	\$24.50	\$2.00	8.9%
Monthly Pass	\$93.00	\$101.00	\$8.00	8.6%
U-Pass annual fee (for eligible UTM students) <sup>1</sup>	\$87.50	\$87.50	\$0	0%
U-Pass replacement fee	\$10.00	\$11.00	\$1.00	10%
<b>Adults</b>				
Cash Fare	\$2.75	\$3.00	\$0.25	9.1%
Tickets – 10	\$23.00	\$24.00	\$1.00	4.3%
Tickets – 5	\$11.50	\$12.00	\$0.50	4.3%
Weekly Pass	\$24.00	\$26.00	\$2.00	8.3%
Monthly Pass	\$99.00	\$107.00	\$8.00	8.1%
<b>Seniors (65 years of age or older)</b>				
Cash Fare	\$2.75	\$3.00	\$0.25	9.1%
Tickets – 10	\$16.00	\$16.50	\$0.50	3.1%
Tickets – 5	\$8.00	\$8.25	\$0.25	3.1%
Monthly Pass	\$39.00	\$41.00	\$2.00	5.1%
Annual Pass <sup>2</sup>	\$390.00	\$414.00	\$24.00	6.2%
Photo ID Card – new and replacement	\$4.00	\$5.00	\$1.00	25%
<b>GO Transit Fare Integration</b>				
GO Sticker (monthly)	\$23.00	\$24.00	\$1.00	4.3%
GO Discounted Cash Fare for travel to and from GO Rail Stations	\$0.60	\$0.60	\$0.0	0%
<b>GTA Weekly Pass <sup>3</sup></b>	\$47.00	\$47.00	\$0.00	0%
<b>Board of Education Student Tickets - 10</b>	\$20.50	\$21.50	\$1.00	4.9%
Dufferin-Peel Catholic District School Board and Peel District School Board				
<b>Purchase Discount</b>	1.5%	1.5%	N/A	0%
For purchases of tickets and passes with a total value of \$600 or more per transaction and made directly from Mississauga Transit.				
<b>Paramount Canada's Wonderland (seasonal)</b>				
- Per person one-way	\$6.50	\$7.50	\$1.00	15.4%
- Per family (of four individuals) one-way	\$20.00	\$22.00	\$2.00	10%
<b>Charter Rate (per hour)</b>	\$145.00 (min charge \$290.00)	\$165.00 (min charge \$330.00)	\$20.00	13.8%
<b>City Centre Shuttle-for travel in City Centre <sup>4</sup></b>	\$1.00	\$1.00	\$0	0%
<b>Canadian Armed Forces Veterans and Companion</b>	Free	Free	N/A	N/A
-on the day of the Warriors' Day Parade -on Remembrance Day, November 11				

1 As per Council approved agreement.

2 Effective December 1, 2008 for sales of 2009 passes.

3 Price set by the TTC and other participating partners.

4 Customers paying the flat fare of \$1.00 for travel in the City Centre are NOT eligible for transfer privileges.

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## Appendix 3

## Provincial Gas Tax Reserve Fund Forecast for 2010-2014

	(\$millions)				
	2010	2011	2012	2013	2014
Balance Forward	19.9	17.5	15.3	16	16.8
Total Annual Funding*	15.5	15.5	15.5	15.5	15.5
Total Annual Draw into Operating Budget	15.4	15.5	15.5	15.5	15.5
Forecasted Balance prior to one time draws	20	17.5	15.3	16	16.8
2008 Farebox Revenue Shortfall Offset**	3.5	3			
Forecasted Interest @ 5%	1	0.8	0.7	0.8	0.8
<b>Forecasted Year-end Balance</b>	<b>17.5</b>	<b>15.3</b>	<b>16</b>	<b>16.8</b>	<b>17.6</b>

Projects that may require transitional funding

PRESTO

BRT

\* Annual Funding assumed to be \$15.5 million, but is subject to change. 2009/10 funding allocation was \$15.87 million

\*\* As approved in the 2009 and 2010 Business Plan and Budget