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YORK REGION TRANSIT REVENUE/COST RATIO TARGET

The Transit Committee recommends the adoption of the recommendation contained in the following report, April 23, 2008, from the Commissioner of Transportation Services:

1. RECOMMENDATION

It is recommended that this report be received for information.

2. PURPOSE

This report reviews the existing revenue/cost ratio target and the factors affecting the cost recovery target calculation for York Region Transit (YRT)/Viva services.

3. BACKGROUND

During consideration of the proposed 2008 fare increase in October 2007, Transit Committee requested an analysis and further discussion on the practicality of the established revenue/cost (r/c) ratio target of 50%.

Since amalgamation, YRT has attempted to balance service growth and operating expenditures with the requirement to recover a percentage of total costs through fares paid by passengers. The fares are collected through single-ride cash payments into fareboxes and fare machines, as well as pre-purchased tickets and passes from agents and fare machines.

Several components affect the r/c ratio calculation/result

These include:

- Service levels (coverage and frequency of service).
- Revenue growth (primarily based on increased ridership).
- Contractor hourly rates for operating services and vehicle maintenance.
- Insurance rates.
- Fuel prices.
- Technical enhancements (e.g. computer-aided dispatch and automated vehicle location systems).
- Fare pricing.

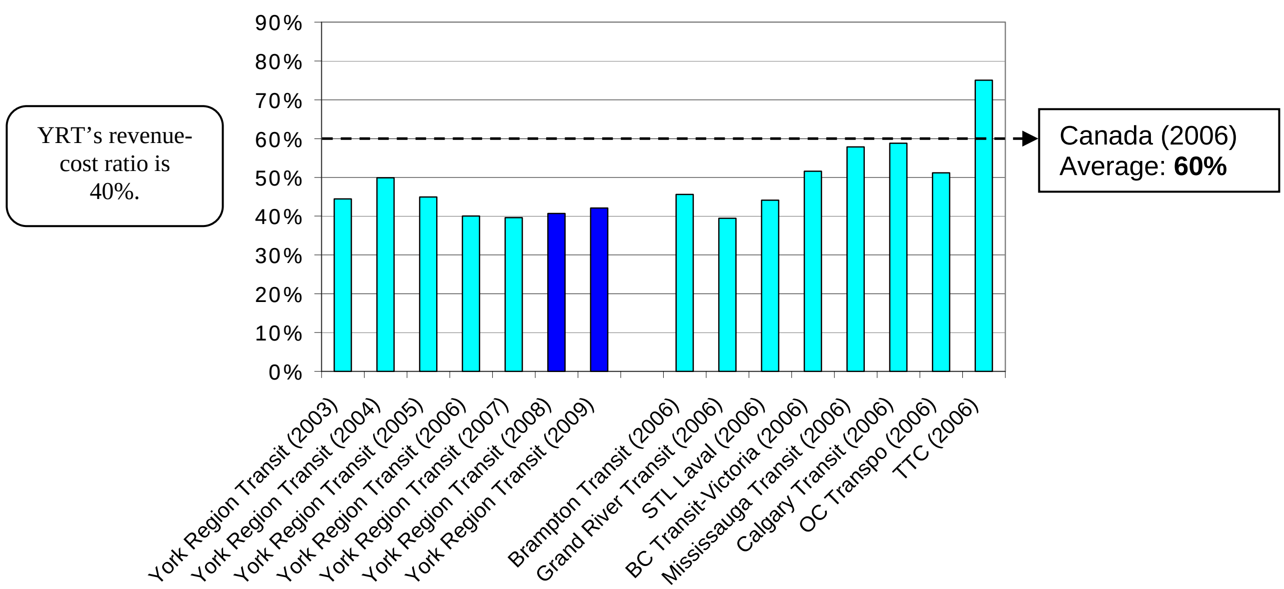
4. ANALYSIS AND OPTIONS

System financial performance is affected by ridership growth rates that need time to respond to recent service-related investments

Financial performance can be measured using a variety of indicators including *revenue to cost ratio* (total operating revenues expressed as a proportion of total direct operating cost; simply referred to as r/c ratio), *net operating cost per capita* (municipal operating cost contribution after revenues divided by service area population) and *net operating cost per passenger*.

The r/c ratio is a direct reflection of the amount of annual expenditures relative to the system revenues and will fluctuate relative to the changes in the rate of expenditure and ridership levels. Although the r/c ratio has decreased since 2005 (primarily due to the operating costs associated with the introduction of Viva services), once ridership increases are realized and service levels stabilize, the r/c ratio will slowly increase. In fact, by 2008, it is expected that the overall system r/c ratio will surpass the 40% level as a result of sustained ridership increases and less significant rates of operating cost increases. The 2009 r/c ratio is likely to improve slightly again, as a result of anticipated revenue increasing at a faster rate than expected costs.

Exhibit 1
Revenue Cost Ratio – Peer Group



Within our transit system peer group, the 2006 r/c ratios range from a low of 39% (Grand River Transit) to a high of 75% (TTC). It should be noted that TTC has one of the highest r/c ratios in Canada, and also exceeds most international cost recovery measures (Exhibit

1). This high level of cost recovery can be attributed to a mature transit system operating within a relatively high density urbanized market, a relatively high average fare and well-developed rapid transit (subway and LRT) corridors.

Relationship between initial capital investment, operating costs and revenue/ridership growth

The actual growth in revenue ridership in 2006 – the first full year of Viva service – was just over 13% for a total of 17.1 million revenue passengers. In 2007, ridership increased another 6.6% to 18.2 million. It is estimated that by the end of 2008 and 2009, ridership will be at 20 million and 21 million riders, respectively.

With the launch of Viva in 2005/2006, there was a large increase in service hours of over 30% on an annualized basis. This significant investment in service growth would not reasonably be expected to attract the desired level of revenue/ridership for several years. An example of this can be found in two of the Viva corridors (green & orange), where the cost recovery in these two corridors is only 23% (annual cost = $7.5 million, annual revenues = $1.7 million). The lag in ridership growth, coupled with the Viva investment, is the single largest contributing factor in the change to the total YRT/Viva system revenue/cost ratio.

Since the 50.2% r/c ratio was achieved in 2004, YRT has also had to absorb significant increases in diesel fuel prices, insurance premiums and operating rates resulting from new multi-year contracts with our operating partners. Annual fare rate increases for 2006, 2007 and 2008 have only partially addressed these pressures even though the rate of increase averaged 7%.

Even with the achieved increase in revenue/ridership, the combination of the significant service expansion and the noted cost pressures has resulted in a reduction in the r/c ratio from 50.2% in 2004 to 40.1% in 2006 and 39.7% in 2007. It should be noted that there was very little new conventional YRT service introduced during 2006 and 2007.

5. FINANCIAL IMPLICATIONS

The significant increase in public transit investment is resulting in record transit ridership. However, it is clear from the current performance indicators that York Region will require still greater investments in its transit system in order to have a measurable impact on future transit market share.

As noted earlier, between 2001 and 2007, annual ridership on the YRT/Viva system has increased significantly, resulting in almost 10.6 million new trips. More importantly, passengers/capita (which measures actual market penetration) has almost doubled, from 11.1 in 2001 to an estimated 20 by the end of 2008. This increase can be attributed to the significant ridership increases which are occurring at a higher rate than the Region’s population growth rates and are also reflected in the increase in transit modal share as reported in the latest Transportation for Tomorrow (TTS) survey. The percentage of York Region residents (all trip purposes) using transit for their morning commute has increased for the first time in 20 years to 9.4%.

These increases in both ridership and service expansion do not come without associated costs. Expenditures, both in terms of capital and operating, have been significant, especially when compared to pre-amalgamation levels.

However, the YRT/Viva system total operating costs per capita are still well below expenditures in cities such as Mississauga, Ottawa or Calgary. Although there have been significant annual cost increases, it is expected that these costs will stabilize over the next couple of years and that the overall system cost recovery rate will improve as ridership increases surpass the rate of investment.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact associated with this report.

7. CONCLUSION

The current level of cost recovery cannot be easily or immediately changed. On the revenue side, York Region currently has the highest cash fare in the GTA and one of the highest average fares. There would appear to be very little, if any, opportunity to increase fares much further in the short term. On the expenditure side, only a significant decrease in existing service hours would significantly reduce the cost side of the equation.

The change required to improve the final 2007 r/c ratio by 1% is as follows:

- An increase of $1.1 M in revenues (with no change in cost base), or
- A decrease of $2.7 M in expenditures (with no change in revenues).

Based on this analysis, it would appear that the focus should be on increasing use of existing service capacity. This would involve careful review of current service levels (both service provision and utilization) and introduction of limited service expansion to maximize ridership gains in targeted areas. The result would be increased revenues primarily through ridership growth, while containing operating costs. This approach would slowly improve the r/c ratio each year and would achieve the 50% target in about seven or eight years. This timeframe could be reduced as dedicated lanes for Viva are introduced and existing service capacity used by new transit riders.

For more information on this report, please contact Don Gordon, General Manager at Ext. 5625.

The Senior Management Group has reviewed this report.