Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
10	03/08/10	Open	Action	03/03/10

Subject: FY 2010 Operating Budget Update and Revised FY 2011 Projections

ISSUE

To provide the Board with a FY 2010 mid-year status report on operating revenues and expenditures with projections to year-end; FY 2011 revenue outlook; and a re-balancing plan for the FY 2010 and FY 2011 Budgets.

RECOMMENDED ACTION

Informational only.

FISCAL IMPACT

None as a result of this staff report.

DISCUSSION

The purpose of this issue paper and attachments are to: (1) provide the Board and public with a mid-year update on Regional Transit (RT)'s current operating budget in light of existing economic and financial conditions, (2) highlight major impacts to RT revenues resulting from the proposed FY 2011 State Budget and other contributing economic factors, and (3) provide a comprehensive 18 Month Re-balancing Plan for the FY 2010 and FY 2011 Budgets.

Background

On February 22, 2010, staff presented the FY 2010 mid-year status update report on operating revenues and expenditures with projections to year-end, along with the FY 2011 revenue outlook. Staff also presented a first look at an 18-Month Re-Balancing Plan for FY 2010 and FY 2011.

This report provides a recap and update of the information provided on February 22, 2010. It also provides additional information requested by Board members.

On June 22, 2009, following extensive public input and further direction from the Board to minimize service cuts, staff presented a balanced FY 2010 Preliminary Operating Budget of $139.3 million and a FY 2010 Capital Budget of $117.1 million, which were subsequently adopted by the Board.

On August 24, 2009, RT staff reported 1) an increase in revenue due to the availability of stimulus funds and 2) additional decreases in sales tax revenues due to the economic decline. These were combined with an increase in carryover to the new budget year (due to a favorable FY 2009 year-end adjustment for Workers Compensation and Property Liability/Property Damage insurance) to enable staff to present a revised and re-balanced operating budget for consideration that eliminated potential service cuts scheduled for January 1, 2010. The FY2010 Budgets were amended to increase the Operating Budget to $140.8 million and decrease the Capital Budget to $97.4 million.

Approved: Michael R. Wiley

General Manager/CEO

Presented: Dee Brookshire

Chief Financial Officer

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Economic Conditions:

Since the FY 2010 Budgets were adopted, the overall outlook for RT has worsened from earlier projections of severely constrained operating and capital revenues through FY 2010, with anticipated leveling off in FY 2011. Projections now indicate a precipitous decline in revenues in both years. High unemployment in the region, combined with the State's forced furloughs of 3 Fridays per month and lower gas prices, have caused significant changes in fare media buying patterns and the use of the RT system itself. Compounding these significant impacts is the continuing decline in sales tax based revenues that will likely not rebound until unemployment is reduced and the housing market improves. The demands on the state budget also continue to undercut the availability of state transit funding support.

Revenue Discussion

The following analysis is provided to illustrate the impact of each declining segment of RT revenue.

Fare Revenues

Staff evaluated the effects of the fare policy changes and fare increases implemented with the FY 2010 Budget over the first six months of the year to determine the impacts of those changes in light of regional economic conditions. Taking a look back on ridership and fare revenue since 2008, RT saw an increase in ridership as gas prices escalated and people looked for ways to save money at the onset of the downturn in the economy. However, as unemployment began to rise and State of California furlough Fridays began and then accelerated, ridership patterns began to change and fare revenue ultimately declined. Estimates of fare revenue were made on the cusp of the rise in ridership. However, it is clear after seven months that the effects of the external factors, combined with a service reduction and fare increase in September 2009, mean that the FY 2010 fare revenue projections will not be met. Accordinly, a downward fare revenue adjustment of $7.9 million is included in the re-balancing plan.

During the February 22, 2010 Board meeting, Director Hume asked that consideration be given to increasing fares to offset potential service reductions. He suggested adding 25¢ to the single ticket price of $2.50, bringing the single fare rate to $2.75.

A comparison of base fares within California indicates that RT's is among the highest at $2.50 and $100.00 for the monthly pass. Only those systems that charge more for longer distance service (such as BART) or for premium services charge higher rates. Nearly all metropolitan areas in California charge the same or less than RT for their base fare.

Staff analyzed an increase of the single fare by 25¢, using standard deflection rates of 3.3% on full price and 2.6% on discounted tickets. The result was a potential increase of $541,970 prior to any service reductions. Since consideration will be given to service reductions approximating 30%, this percentage applied to the unmodified savings projection reduces the projected increased revenue to approximately $379,380.

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Local Transportation Funding

Recent information received from the Sacramento Area Council of Governments (SACOG) indicates a serious decline in projections for FY 2010 sales tax receipts with additional steep declines in FY 2011. The SACOG Board of Directors adopted a revised Findings of Apportionment of Local Transportation Funds (LTF) for FY 2011 and a Revised Sacramento County Findings of Apportionment for FY 2010 on February 18th. The FY 2010 projected receipts were reduced by 10%, bringing the total year-to-year reduction in LTF to 18.8%. The additional impact in dollars is estimated to be a decline by $2.6 Million in FY 2010, with a subsequent decline of 14% in FY 2011 estimated at $3.9 Million, for an additional two-year decline of $6.5 Million from LTF alone.

Measure A Funding

The Sacramento Transportation Authority (STA) Board will also consider action on March 11th to formally revise Measure A allocations for FY 2010 downward by as much as 15% and to lower Measure A projections for FY 2011. If STA matches Sacramento County estimates used by SACOG, those numbers will mean a decline by as much as $3.6 Million in FY 2010, with a subsequent decline by $2.5 Million in FY 2011, for an additional two-year decline in Measure A revenue of $6.1 Million.

State Funding

Although the State Supreme Court upheld the Appellate Court ruling that the State of California's raid of transit funds was illegal, the Governor ignored the ruling and issued his proposed FY 2011 Budget in January 2010 to eliminate the sales tax on gas and diesel fuel and replace it with an excise tax dedicated to non transit or capital only purposes. This action will effectively eliminate any operating revenue from State sources for RT or other California transit agencies. The State Legislature is actively working to address the Governor's proposal but would fund the STA program with sales tax on diesel and would provide approximately $11 million in funding to RT through June of 2011. The Senate is still considering this proposal and any action would still require approval by the Governor. Due to the uncertainty of the STA funding, these budget projections are prepared without expectation of State funding for operations in either FY 201 0 or FY 2011.

Federal Funding

Federal funding from Section 5307 Urbanized Area Formula funds will also decline by $2.5 million in FY 2011 due to the expiration of an agreement among local transits for RT to receive a larger share of regional funds for a number of years.

Federal Stimulus Funding

Federal stimulus funds received in FY 2009 and in FY 2010 are not currently projected for FY 2011. If a second stimulus program is approved that mirrors the first, RT estimates that it could receive up to $3 Million in FY 2010 (assuming an operating funds component) and $10 million in preventative maintenance in FY 2011. Although there has been much discussion of a second round of stimulus funding, as of the date of this writing, no additional stimulus has yet been authorized and so is not included in the re-balancing plan proposed later in this staff report.

Pay for Parking Program

Staff has successfully implemented a park-pay and ride program at three RT park and ride lots. A report to the Board on the pilot program is forthcoming. Direction from the Board will be required regarding the continuation or expansion of the current pilot program.

Other Revenues

The additional six months of CNG rebate revenue added to the FY 2010 Budget in August 2009 to partially offset the removal of the planned service cut in January must now be withdrawn from the budget. Although it appeared promising in August 2009, none of the legislation to which the extension was attached has passed both houses. As a result, approximately $750,000 in rebate revenue will not be realized in FY 2010, and $1.5 Million will not be available in FY 2011 without legislation to extend the rebate.

RT is facing a "perfect storm" of revenue losses that, once revised, will take projected revenue for FY 2010 from current sources below 2006 levels. Projections for FY 2011 will fall below 2004 levels.

Attachment 1 provides an eleven year look at revenues, expenditures and service levels with projections for FY 2010 and FY 2011.

<u>Fiscal Emergency</u>

As a result of the failure of revenues to adequately fund RT programs and facilities caused by these developments, RT is projected to have a fiscal emergency as defined under Public Resources Code section 21080.32, wherein it is projected to have negative working capital within one year absent action.

<u>Re-Balancing Measures Undertaken To-Date</u>

Structural deficits such as RT is now facing are usually not slow in the making and this is no exception. While RT has withstood ever-increasing raids on transit funds and fluctuations in the economy by undertaking numerous revenue enhancement and cost cutting measures, revenues have continued to decline to the point where additional internal measures can no longer meet the additional shortfall.

A quick review of the cumulative list of actions RT has taken to meet budget shortfalls will show RT has implemented increasingly intense re-balancing measures to meet the resulting shortfalls, as the State of California began to raid transit funds in 2008. Staffing levels have been kept low with positions frozen in place and expenditure levels carefully controlled. Through this careful management more than $39 Million in State funding reductions in the last three fiscal years have been met. The most recent action undertaken by management was the issuances of notices that will result in layoffs of more than 60 management and administrative employees effective mid-April 2010. Careful, even frugal management has enabled RT to continue to provide service with minimal reductions until now. It should not be a question of "how has RT been managing its

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money"; the question should be "how has RT managed so well for so long."

Paratransit

Staff is exploring various options to reduce the cost of ADA complementary paratransit services. In addition to cost savings that may be achieved through the proposed service reduction, cost saving opportunities have been identified in a draft report, Review of Cost Allocation Model and Alternative Strategies for Paratransit Service, prepared by Mundle & Associates. The Mundle & Associates report is tentatively scheduled for presentation to the Board in April. Staff's goal is a cost reduction for ADA complementary paratransit services. The current cost per trip for ADA complementary paratransit services is $42.76, with a total cost to RT of $11,146,520 in FY10.

An updated summary of actions RT has taken to meet budget revenue shortfalls is provided as Attachment 2.

<u>18 Month Re-Balancing Plan</u>

As previously reported, due to the late notice of the decline in revenues in FY 2010 and the time required to publicly notice and implement service reductions, RT will be unable to meet the shortfall with re-balancing strategies during the remainder of FY 2010 alone. Therefore, a re-balancing plan for the second half of the current fiscal year combined with the next budget year is proposed to bring revenues and expenditures into balance by June 30, 2011.

Several phases of action within the 18 Month Re-Balancing Plan are anticipated. In addition to eliminating all but critical non-labor operating costs for the remainder of FY 2010 and FY 2011, the first phase will involve service reductions. The second phase will include additional management and administrative restructuring. The third phase will include further service adjustments and fare changes effective January 1, 2011.

Attachment 3 provides an updated 18-Month Rebalancing Worksheet showing the level of service or other operating cuts needed to re-balance the FY 2011 Operating Budget by June 30, 2011. The previously discussed potential Federal revenue sources of a second round of stimulus funding or a retroactive extension of the CNG rebate seem less likely due to their elimination from the current version of the "Jobs" bill. The potential effect of those revenues is shaded on the attachment so that attention can be focused on the expected shortfall before remedial action. Absent a revival of the potential Federal revenues, this is the shortfall that must be met.

<u>Critical Issue</u>

Maintaining adequate cash flows is a critical issue in maintaining RT's viability as a going concern. Staff has been evaluating cash flow levels in light of the dramatically reduced revenue projections. Current calculations indicate that if all assumptions come through as planned, the agency will be able to sustain operations.

The primary assumption is that RT will be able to maintain its Line of Credit with Wells Fargo Bank at $25 Million. Finance staff will meet with Wells Fargo Bank staff on March 5th to continue

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discussions on RT's financial condition and future projections. There is every indication that Wells Fargo Bank will work with RT through the current fiscal emergency as long as a plan exists to solve the problem.

Additional assumptions include labor union cooperation to bring in the concessions needed to meet the expected zero-base levels for both FY 2010 and FY 2011; labor and fringe costs coming in at projected reduced levels; and all non-labor operating costs kept at projected reduced levels. This will require intense effort and cooperation on the part of every employee remaining at RT.

<u>Steps Ahead</u>

March 22, 2010	Following actions by SACOG and STA, RT staff will propose revisions to the FY 2010 Operating Budget to reduce revenue projections and adjust expenditures to the greatest extent possible for the remainder of FY 2010.
March 22, 2010	Board considers determination of a fiscal emergency under Public Resources Code section 21080.32
March 22, 2010	Adopt service reductions
April 12, 2010	Staff will propose FY 2011 Operating and Capital Budgets for 60 day review and call for a public hearing.
May 10, 2010	Public Hearing on FY 2011 Budget
June 14, 2010	Adopt FY 2011 Budget
June 20, 2010	Implement Service Reductions
July 1, 2010	Begin FY 2011 Budget Year

SACRAMENTO REGIONAL TRANSIT DISTRICT

HISTORICAL AND PROJECTED OPERATING REVENUE, EXPENDITURES & SERVICE LEVEL - FY2002 to FY2011

(in thousands)

OPERATING REVENUES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Fare Revenue	$22,305	$21,745	$22,004	$21,101	$25,072	$27,101	$29,866	$32,571	$33,071	$33,471
Contracted Services	$6,320	$5,561	$5,697	$4,970	$4,993	$5,295	$4,732	$4,311	$3,552	$3,774
Measure A	$14,144	$14,806	$33,433	$35,164	$36,568	$44,039	$44,946	$34,872	$25,576	$21,135
LTF	$33,571	$31,235	$33,444	$35,244	$37,861	$39,150	$32,568	$33,057	$25,842	$22,224
STA	$180	$86	$0	$46	$4,251	$9,650	$7,044	$2,796	$0	$0
Federal	$6,483	$13,886	$11,853	$24,400	$19,413	$18,273	$21,426	$30,309	$31,214	$21,520
Other	$6,043	$4,391	$2,944	$1,954	$2,414	$2,603	$5,314	$4,129	$2,949	$2,495
SUBTOTAL	**$89,047**	**$91,710**	**$109,374**	**$122,879**	**$130,572**	**$146,112**	**$145,896**	**$142,046**	**$122,205**	**$104,620**
Carryover /Adjustments	($2,623)	$8,573	$6,075	($485)	$2,666	($11,289)	$1,554	($2,006)	$5,883	$0
TOTAL	**$86,424**	**$100,283**	**$115,449**	**$122,394**	**$133,238**	**$134,823**	**$147,449**	**$140,039**	**$128,088**	**$104,620**

Operating Expenses	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Labor & Fringes	$56,680	$63,451	$73,617	$80,396	$85,842	$86,678	$92,720	$89,845	$92,116	TBD
Services	$6,948	$8,422	$8,688	$8,951	$11,297	$12,202	$13,990	$13,678	$11,287	TBD
Purchased Transportation	$6,450	$6,413	$8,034	$8,901	$9,633	$10,255	$11,081	$11,966	$11,159	TBD
Supplies	$6,705	$6,655	$9,326	$10,275	$10,749	$9,285	$10,817	$9,848	$8,538	TBD
Utilities	$2,640	$3,183	$4,355	$4,391	$5,579	$4,937	$5,550	$5,545	$5,474	TBD
Insurance	$5,772	$10,662	$9,308	$7,177	$7,788	$9,774	$11,159	$7,104	$10,363	TBD
Other Expenses	$1,229	$1,497	$2,121	$2,304	$2,351	$1,693	$2,131	$2,054	$2,148	TBD
Total	**$86,424**	**$100,283**	**$115,449**	**$122,394**	**$133,238**	**$134,823**	**$147,449**	**$140,039**	**$141,085**	**TBD**

Light Rail Service	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Rev Veh Hours	103,693	105,752	149,763	197,255	208,854	209,725	215,947	213,129	216,704	TBD
Rev Veh Miles	2,128,498	2,170,991	2,878,822	3,429,277	3,888,222	4,127,718	4,266,965	4,212,646	4,190,419	TBD
Boardings	8,541,086	8,859,032	11,022,004	12,008,620	14,452,137	14,489,691	15,484,670	17,315,017	16,951,000	TBD

Bus Service	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Rev Veh Hours	600,925	614,707	696,714	749,023	710,921	702,797	677,677	652,027	632,056	TBD
Rev Veh Miles	7,738,128	7,922,888	8,566,453	8,238,964	7,687,674	7,637,823	7,430,729	7,244,031	7,009,501	TBD
Boardings	18,068,907	19,756,481	19,446,782	18,929,374	16,777,640	17,461,487	17,465,817	17,735,397	15,831,000	TBD

Service Changes

FY 2004 (Sep 2003)	South Line phase I opens (from 16th Street to Meadowview - 6.2 miles)
FY 2004 (Jun 2004)	Sunrise extension opens (from Mather Field to Sunrise - 2.83 miles)
FY 2005	Bus service restructured to feed the new Light Rail extensions (52,309 revenue hours added)
FY 2006	Bus service reduced to originally planned 711K revenue hours (reduction of 38,102 revenue hours)
FY 2006 (Oct 2005)	Folsom extension opens (from Sunrise for Folsom - 7.15 miles)
FY 2007 (Dec 2006)	Sacramento Valley station opens (from 8th & K Street to Amtrak station - 0.55 miles)
FY 2008 (Jan 2008)	Bus Service reduction to balance the budget
FY 2009 (Jan 2009)	Bus Service reduction to balance the budget
FY 2010 (Sep 2009)	Bus Service reduction to balance the budget

SACRAMENTO REGIONAL TRANSIT DISTRICT
ACTIONS TO MEET STATE BUDGET REVENUE SHORTFALLS

ACTIONS TO MITIGATE THE FY 2008 BUDGET SHORTFALL OF $8 MILLION:

1. Deferred $2.3 million in operating expenditures.
2. Eliminated 5 non-operating positions and froze an additional 28 positions.
3. Conducted a thorough review of employee medical dependent coverage eligibility which resulted in a cost reduction of $300,000 per year by removing ineligible dependents from plans.
4. Instituted cost reduction and cost containment measures in all discretionary spending areas including supplies, professional services, travel, and non-essential meeting expenses.
5. Non-labor cost increases were limited to 2.0% and labor and fringe benefit growth was limited to 4.0% over the prior year budget.
6. Scaled back or indefinitely delayed 91 capital projects to reprogram flexible funding to operations.
7. Eliminated 5% of unproductive bus service.
8. Management cost-of-living increase for FY 2008 was cancelled.

ACTIONS TO MITIGATE THE FY 2009 BUDGET SHORTFALL OF $22 MILLION:

9. Filed and received CNG fuel rebates from the Federal Government (ongoing).
10. Reduced travel and participation in non-essential meetings and community events.
11. Discontinued the Paratransit Group Pass effective 12-1-08.
12. Further reduced staffing levels and froze all non-critical vacancies.
13. Increased the pension amortization period from 20 to 30 years on both pension plans to reduce fringe benefit expenditures.
14. Re-negotiating existing fare and transfer agreements to minimize cash outlay.
15. Increased overall fare structure by 11.7% effective 1-1-09.
16. Increased Paratransit Fares by 12.5% effective 1-1-09.

ACTIONS TO MITIGATE THE FY 2010 BUDGET SHORTFALL OF $9 MILLION:

17. Implemented class & pay study to bring salaries to a competitive level, then froze any possibility of movement through the improved ranges for over 18 months.
18. Intensified the two years old hiring freeze with consideration of permanently eliminating positions that have remained unfilled for two years or more.
19. Eliminated almost all contract workers and intern opportunities.

SACRAMENTO REGIONAL TRANSIT DISTRICT
ACTIONS TO MEET STATE BUDGET REVENUE SHORTFALLS

20. Reduced community based memberships and sponsorships.
21. Reduced remaining travel and training by two-thirds.
22. Implemented "zero-base" salary and benefit program requiring each labor union to determine a combination of strategies to absorb rising costs so that total costs in FY 2010 are the same as the base year (FY 2009).

    "Zero-Base" Strategies include:

    a. Salary freeze;
    b. Suspension of vacation, sick leave, floating holiday sell backs;
    c. Furloughs of 9+ days over 18 months;
    d. Increased insurance premium payment share by employees from 8% to 10%;
    e. Increased insurance co-pays for office visits; and
    f. Reduce RX replacements per co-pay from 90 day to 30 day supply.
23. Reduce Professional Services costs and limit to prior year total for larger contracts such as Paratransit Inc., and Security Services, which make up 76% of this category.
24. Reduce facilities services contracts for internal services such as janitorial services, for example, from 7 days to 5 days per week.
25. Developed and planned implementation of a district-wide cost allocation plan that will provide a mechanism to legitimately shift indirect costs by as much as $2 million each year from operations to capital projects (currently awaiting FTA approval).
26. Pursue additional grant opportunities for preventive maintenance and other purposes that will shift additional labor costs from operations to capital (ongoing).
27. Eliminated Lifetime Pass for customers 75 and older effective 9-1-09, grandfathering in current pass holders.
28. Increased Paratransit Monthly Pass from $100 to $125.
29. Adopted fare structure adjustments (Increases to single fare, elimination of future Lifetime passes, creation of "Super Senior" discount, elimination of transfers, elimination of central city and shuttle fares) effective 9/1/09.
30. Board adopted service reductions on 9/6/09.
31. Board approved 3 parking lot pilot program to charge $1 per day for parking or $15 for a monthly parking permit. Estimated revenue >$300,000 annually in parking fees.
32. Board approved expanded advertising program to include "King Kong" ads on buses in FY 2010 for additional revenue.
33. Board approved installing drink vending machines at light rail stations. RT will receive 25¢ per drink in revenue.

ATTACHMENT 3

SACRAMENTO REGIONAL TRANSIT DISTRICT

18 Month Rebalancing Plan Worksheet

Carryover Shortfall from FY 2010 (includes Labor Union concessions necessary for FY 2010)	$	12,930,442
Estimated non-labor operating for FY 2011		41,105,174
Estimated FY 2011 labor budget with first phase Admin Layoffs before Service Cuts		83,887,168
Sub-total	$	137,922,784
Less necessary labor union concessions for 2010		(2,330,630) *
Less necessary labor union concessions for 2011		(6,194,461) *
Sub-total	$	129,397,693
Estimated FY 2011 Revenue		(103,838,801)
Short-Fall Sub total	$	25,558,892
Estimated Later Phases of Admin Layoffs in FY 2011 based on 10/12ths of a year		(580,000)
Base Level of service or other operating cuts needed for Re-Balancing by 6/30/2011 without additional revenue	**$**	**24,978,892**
Fiscal Impact of STA Rev @ $400 Million X 2.77%		11,800,000
Base Level of service or other operating cuts needed for Re-Balancing by 6/30/2011 with additional revenue from STA	**$**	**13,178,892**
Fiscal Impact of CNG Rebate Resumption Retroactive to 1/1/10 @ $1.5 Million per yr		2,250,000
Level of service or other operating cuts needed for Re-Balancing by 6/30/2011 with additional revenue from STA and CNG Rebate	**$**	**10,928,892**
Estimated Fiscal Impact of ARRA 2 with $3 Million in FY 2010; $10 Million in 2011		13,000,000
Level of service or other operating cuts needed for Re-Balancing by 6/30/2011 with additional revenue from STA, CNG Rebate, and ARRA 2	**$**	**(2,071,108)**

*Labor negotiations have been underway since April 2009 to come to zero-over-base agreements. AEA and MCEG have negotiated zero-over-base agreements for FY 2010 & FY 2011; ATU, IBEW, and AFSCME are still in negotiations with RT.

STA = State Transit Assistance program under consideration by State Legislature that would provide funding to transit agencies.

CNG = Compressed Natural Gas: Federal rebate for use of CNG expired 12/31/2009 with retroactive extension under consideration.

ARRA 2 = A second round of Federal Stimulus transportation and infrastructure funding.

Note:

There are many potential changes to revenues and expenses projected above including the following:

Slight increase in projected Measure A revenues
Changes in Paratransit costs related to improving efficiencies in providing service
Changes in Security costs related to restructuring security services
Changes in estimated cost savings associated with layoffs