

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
11	04/11/11	Open	Information	04/06/11

Subject: FY 2012 Operating Budget Information Update

ISSUE

To receive an informational update on FY 2012 Preliminary Operating Budget.

RECOMMENDED ACTION

None, Information item only.

FISCAL IMPACT

None as a result of receiving this report.

DISCUSSION

On February 28, 2011, the Board discussed budget priorities in the event revenues exceeded expenditures in FY 2012. The priorities discussed included: (1) reserves, (2) service restoration, (3) investment in personnel, (4) improvement to internal services such as weed abatement, graffiti removal, etc., and (5) capital funding. Most Board members expressed that the FTA's South Line requirement for RT to develop operating and capital reserves is a priority.

On March 28, 2011, the Board was given a brief update on the status of the FY 2012 operating budget, which included revenue updates for sales tax based revenues, and RT's staff goal of balancing the budget at the same level of service as the current year, while preserving a \$4.3 million contingency for operating or capital reserves. In addition, staff presented a budget schedule for the FY 2012 Operating and Capital Budget.

New information has been received for revenue projections for RT's Measure A and Local Transportation Funding, which is explained in the Revenue Discussion below. In addition, there is new information on State Transit Assistance (STA) funding, with the passage of Assembly Bill 105, which will help preserve the \$330 million in STA Statewide funding. On the expenditure side, RT staff has been working on fine-tuning the labor and non-labor expenditure budget to control and reduce the costs where possible assuming the same level of service for FY 2012 as the current year.

Revenue Discussion:

The following table is RT's current preliminary operating revenues for FY 2012, with descriptions for key revenues and assumptions:

Table 1

Approved:	Presented:
Final 4/6/11	
General Manager/CEO	Chief Financial Officer
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REGIONAL TRANSIT ISSUE PAPER

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**Sacramento Regional Transit District
FY 2011 - FY 2012 Operating Revenue Worksheet**

Funding Source	(1)	(2)	(3)	(4)
	2011 Adopted Budget	2011 Amended Budget	2011 Year-End Projections	2012 Preliminary Budget
Fare Revenues				
Cash Fares	9,636,410	9,572,150	9,572,150	9,734,248
Prepaid Sales	20,711,000	20,162,098	20,162,098	21,000,000
Special Fares (Los Rios, CSUS, etc.)	1,828,230	1,828,230	1,828,230	1,828,230
Transfer Agreements	(1,350,000)	(1,150,000)	(1,150,000)	(1,150,000)
Folsom Contract change	-	(586,838)	(586,838)	(586,838)
Commissions	(25,000)	(25,000)	(25,000)	(25,000)
SubTotal - Fare Revenues	30,800,640	29,800,640	29,800,640	30,800,640
Other RT Revenues				
Advertising	1,150,000	1,000,000	1,000,000	1,000,000
Investments	300,000	300,000	300,000	300,000
Real Estate				
Commercial	375,000	375,000	375,000	375,000
Park N Ride Parking	700,000	350,000	350,000	400,000
Miscellaneous Income	1,770,292	2,170,292	2,170,292	1,470,292
SubTotal - Other RT Revenues	4,295,292	4,195,292	4,195,292	3,545,292
Local / Measure A				
Measure A - RT General	26,367,143	28,536,107	29,061,990	29,061,990
SubTotal - Local/Measure A	26,367,143	28,536,107	29,061,990	29,061,990
Transportation Development Act (TDA)				
Local Transportation Fund	22,169,692	25,736,981	29,159,031	29,159,031
State Transit Assistance (section 99313)	11,080,000	2,862,300	2,862,300	4,623,620
State Transit Assistance (section 99314)		2,442,591	2,442,591	3,945,642
Less COP Pmt and Transfers to Capital	(2,197,282)	(2,220,630)	(2,220,630)	(2,386,000)
SubTotal - TDA	31,052,410	28,821,242	32,243,292	35,342,293
Contracted Services				
Folsom - Light Rail	1,471,400	1,328,918	1,328,918	1,342,207
Citrus Heights	1,680,698	2,439,232	2,710,883	2,698,768
Rancho Cordova	-	250,000	250,000	250,000
Elk Grove	596,633	448,334	448,334	215,000
SubTotal - Contracted Service Areas	3,748,731	4,466,484	4,738,135	4,505,975
Federal				
Jobs Access/Reverse Commute	483,148	200,000	200,000	200,000
Section 5307 Urbanized Area Formula	16,280,540	16,280,540	17,280,540	17,280,540
Section 5309 Fixed Guideway	4,755,809	4,755,809	4,755,809	4,755,809
SubTotal - Federal	21,519,497	21,236,349	22,236,349	22,236,349
Total Revenues	\$ 117,783,713	\$ 117,056,114	\$ 122,275,699	\$ 125,492,539

¹ FY 2011 year-end includes 5% increase over FY 2010 actuals and FY 2012 has 0% increase over FY 2011 year-end.

² Includes COP's Debt Payments and \$306,000 for Citrus Heights capital project.

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The revised FY 2011 budget amendment in February 2011, included a reduction in fare revenue to \$29.8 million, which was based on current year ridership trends as of the end of December 2010. The draft budget estimate for fare revenues for FY 2012 includes an increase of 3.3% or \$1.0 million over FY 2011 projected fare revenues. This projected increase is based on anticipated increases in ridership due to gasoline prices rising over \$4.00 per gallon, and also the State of California discontinuation of furlough Fridays. In addition, we would expect that the service reductions have been in place for nearly a year and riders have had more time to adjust and use the reduced levels of bus and light rail service. If fares were to increase by one percent more than the projected 3.3% in FY 2012, this would generate an additional \$300,000 in fare revenue.

Measure A Funding

The Sacramento Transportation Authority has sent us revenue projections for FY 2012 Measure A allocations, and the projections assume that sales tax revenues will be flat compared to projected revenues in FY 2011. The projected Measure A revenue for FY 2012 is \$29.1 million; each one percent increase in Measure A sales tax growth over the flat projection would generate approximately \$290,000 in additional revenue.

Local Transportation Funding

Information received from the Sacramento Area Council of Governments (SACOG) indicates that sales tax projections for FY 2012 are basically flat compared to FY 2011 sales tax projections. The SACOG Board of Directors adopted the Findings of Apportionment of Local Transportation Funds (LTF) for FY 2012. The projected LTF revenue for FY 2012 is \$29.2 million; each one percent increase in LTF sales tax growth over the flat projection would generate approximately \$291,000 in additional revenue.

State Funding

The State Transit Assistance funding (STA) is currently projected for FY 2012 at the level included in the Governors proposed state budget which includes \$330 million statewide; RT's portion of this is \$8.6 million. There has been much discussion regarding the determination by the Legislature on the disposition of STA revenues with regard to Propositions 22 and 26. In March 2011, the Legislature preserved the \$330 million in STA Statewide funding for FY 2012. Both the Senate and Assembly approved Assembly Bill 105 which was signed by the Governor on March 24th; this transportation trailer bill reenacts the gas tax swap proposal to address the conflicts with Proposition 26. Staff is monitoring the State budget process closely; there is some potential concern that if the tax rate extensions are not approved by the voters for the FY 2012 State Budget, the State will be making deeper cuts to many programs that could include Transit and STA funding.

Federal Funding

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Federal funding from Section 5307 Urbanized Area Formula funds are projected at \$17.3 million for FY 2011 and also FY 2012. The Federal Government has done a partial year appropriation for FY 2011 5307 funding. Our current estimated is based on the SACOG's – Transit Coordinating Committee recommended funding for the Sacramento Urbanized Area for FY 2011, which includes \$22.7 million for the Region and RT's portion of \$17.3 million. RT staff is monitoring this area closely to determine what our actual FY 2011 funding will be once the full 2011 year apportionment is completed. Our FY 2012 budget is currently projected at the same level as current year 2011 Budget. This may change once we have the full year apportionment for FY 2011.

Sales Tax projection - Survey

RT staff contacted the County of Sacramento and many of the Cities in the Region, including Folsom, Rancho Cordova, Elk Grove, Citrus Heights and Sacramento to determine what these entities are projecting for sales tax growth for FY 2012. In general, nearly all of these agencies are projecting a range of 1.8% to 2.8% increase over FY 2011 projected revenues. Elk Grove is projecting a 5% growth in sales tax for FY 2012 over current year projections. Based on projections from SACOG for TDA-LTF funding and the Sacramento Transportation Authority for Measure A funding, our current projected sales tax based revenues are flat compared to FY 2011 projections as discussed above in this issue paper. Staff will be closely monitoring sales tax receipts over the next few months and will determine if there is any justification to increase or adjust our projections over the SACOG and Sacramento Transportation Authority projections to some modest growth as other agencies in the region are projecting for FY 2012.

Expenditure Discussion:

The following table includes expenditures for FY 2010 Actual, FY 2011 Year-end projections and FY 2012 preliminary budget which is based on the same level of service as current Fiscal Year:

Table 2

Categories	FY 2010 Actuals	FY 2011 Amended 02-14-11	FY 2011 Year-End Projections	FY 2012 Preliminary Budget	FY 2012 \$ Changes	FY 2012 % Changes
<u>Operating Expenses</u>						
Salaries & Benefits	\$ 90,548,073	\$ 78,039,538	\$ 79,294,029	\$ 80,142,003	847,974	1.1%
Professional Services	22,510,928	19,115,528	19,088,097	19,568,726	480,629	2.5%
Materials & Supplies	9,127,636	7,490,404	7,468,889	7,642,750	173,861	2.3%
Utilities	5,530,888	5,637,535	5,790,854	5,895,000	104,146	1.8%
Casualty & Liability	2,286,204	6,420,624	7,754,027	8,072,731	318,704	4.1%
Other	1,728,477	1,908,354	1,578,167	1,937,623	359,456	22.8%
Year-end audit adjustments ¹	-	-	1,537,205	-	(1,537,205)	-100.0%
Total Operating Expenses	\$ 131,732,207	\$ 118,611,983	\$ 122,511,268	\$ 123,258,833	\$ 747,565	0.6%

¹ City of Sacramento liability of \$1,294,405 for Richards Blvd. intersection project and potential reduction in indirect cost allocation rate of \$242,800.

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Expenditures:

There will be a projected increase in FY 2011 year-end estimates over the current budget for Salaries and Benefits of approximately \$900,000. During the original budget, RT reduced overtime by an aggressive amount, which was estimated based on service reductions and reduced staffing levels. Current estimates reflect straight line projections for the current year.

There will be a projected increase in FY 2011 year-end estimates for Workers Compensation (WC) and Public Liability & Property Damage (PLPD) of \$1.6 million. RT has received the actuarial reports for the WC reserves and PLPD reserves for the FY 2011. Based on this information, which was received after the budget amendment on February 14, 2011, RT will be required to adjust the WC and PLPD reserve amount upwards by \$1.6 million. The original FY 2011 budget included an anticipated reduction in these costs due to the service reduction and also reduction in work force, however, the cost savings did not materialize at the estimated level.

The projected year-end audit adjustments for FY 2011 includes the recognition of a liability to the City of Sacramento of \$1,294,405 for the Richards Boulevard intersection project and potential reduction in the indirect costs allocation of \$242,800.

Of the total projected year-end increase in expenditures of approximately \$4.0 million, \$3.1 million of this amount is due to year-end audit adjustments and new information since our last budget revision in February 2011.

FY 2012 Preliminary Budget Changes over FY 2011 Year-end projections

Salaries & Benefits category includes payroll and benefits for all positions authorized by the Board of Directors. It accounts for wages, overtime, pension, dental, medical, FICA, vision and all other RT-paid employee benefits.

- The FY 2012 Preliminary Budget proposes \$80.1 million for salaries and benefits, an increase of \$0.8 million (1.1%) from the FY 2011 year-end projections (\$79.3 million).
- Labor decreased by \$0.7 million (1.5%) from the FY 2011 year-end projections (\$48.1 million). This saving is associated from ATU and IBEW labor union concessions.
- Fringe Benefits increased by \$2.2 million (6.1%) from the FY 2011 year-end projections (\$36.1 million). This increase is associated from a \$2.1 million (19.8%) increase in pension costs, a \$0.4 million decrease in medical, and a \$0.3 million increase in Other Post Employment Benefits (OPEB) for ATU and IBEW transition to CalPERS.
- The Fiscal Year 2012 Proposed Budget includes 926 Board authorized positions, a decrease of 3 positions from the Fiscal Year 2011 Revised Budget (929 positions). This is a result of elimination of 6 laid off positions from Fiscal Year 2011 and addition of 3 new positions added in FY 2012 to the authorized position list which will be part of the Budget approval process. Out of 926 authorized positions, 912 positions are fully or partially funded in the FY 2012 Proposed Budget.

Professional Services category includes: purchased transportation (Paratransit) to comply with the

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Americans with Disabilities Act (ADA), transit security, equipment maintenance, facilities maintenance, legal services, and services provided by outside consultants.

- The FY 2012 Preliminary Budget proposes \$19.6 million for Professional Services, an increase of \$0.5 million (2.5%) from the FY 2011 year-end projections of \$19.1 million.
- This reflects an increase in purchased transportation (Paratransit) of \$0.17 million, an increase of \$0.16 million for bridge repair, an increase of \$0.1 million for light rail profile corrections and maintenance (grinding) and other miscellaneous items.

Materials and Supplies category includes fuel, bus and light rail parts, small maintenance tools and equipment, cleaning supplies, printing materials, and general office supplies.

- The FY 2012 Preliminary Budget proposes \$7.64 million for materials and supplies, an increase of \$0.17 million (2.3%) from the FY 2011 year-end projections of \$7.47 million.
- This reflects increases in fuel categories.

Utilities category includes electricity, water, gas, refuse, and telephone for bus, light rail, and administrative facilities.

- The FY 2012 Preliminary Budget proposes \$5.9 million for utilities, an increase of \$0.1 million (1.8%) from the FY 2011 year-end projections (\$5.8 million).
- This reflects an increase in light rail traction costs due to Kwh rate change and an increase in natural gas cost.

Insurance and Liability category includes: premiums, claims, and attorney fees related to personal liability insurance, property damage insurance, worker’s compensation claims, and commercial insurance for amounts in excess of self-insured amounts.

- The FY 2012 Preliminary Budget proposes \$8.1 million for casualty and liability insurance, an increase of \$0.3 million (4.1%) from the FY 2011 year-end projections (\$7.8 million).
- This reflects a reduction in insurance claim reimbursement expectations for FY 2012 compared to a high FY 2011 projection for insurance claim reimbursements. Staff analyzed a five year trend for this category and estimated the FY 2012 budget based on the five year average. These reimbursements are credited to departmental operating costs.

Other category includes, but is not limited to, travel and training, seminars, dues and subscriptions, awards and ceremonies, building leases, equipment leases, taxes, freight, advertising, legal notices, and bad debt.

- The FY 2012 Preliminary Budget proposes \$1.94 million for other expenditures, an increase of \$0.36 million (22.8%) from the FY 2011 year-end projections (\$1.58 million).
- This reflects an establishment of General Manager’s Contingency in the amount of \$0.25 million. Year-end projections assume that funds allocated to GM’s Contingency in FY 2011 will be fully expended, and a new reserve should be reestablished to cover FY 2012 uncertainties.

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Service Enhancement cost projections

The projected costs for service above current year levels would be as follows:

Green Line to the River District - The estimated costs for a full 12 months is \$470,000. The major costs drivers are full time operators and traction power costs. The current estimated date of implementing service would be January 1, 2012, thus the financial impact for FY 2012 would be half the year or approximately \$235,000.

Restoring Night Light Rail Service - The estimated costs for a full 12 months is \$1,020,000. The major costs drivers are adding back full time operators, traction power costs and an increase in police services of \$300,000. The earliest implementation date would be January 1, 2012, thus the financial impact for FY 2012 would be half the year or approximately \$510,000.

Restoring Weekend Light Rail Service - The estimated costs for a full 12 months is \$630,000. The major costs drivers are adding back full time operators and traction power costs. The earliest implementation date would be January 1, 2012, thus the financial impact for FY 2012 would be half the year or approximately \$315,000.

Summary of Revenues and Expenditures:

The following is a summary the preliminary revenues and expenditures for FY 2011 budget, FY 2011 Year end Projections, and the FY 2012 Preliminary Operating Budget:

**Table 3
Revenue and Expenditure Summary**

Category	2011	2011	2012	2012
	Amended Budget	Year-End Projections	Preliminary Budget	Budget Goal
Prior Year Carryover:	\$ 1,555,869	\$ 1,555,869	\$ 1,320,300	\$ 1,320,300
Total Revenues:	117,056,114	122,275,699	125,492,539	125,492,539
Expenditures:				
Labor/Fringe	78,039,538	79,294,029	80,142,003	80,142,003
Non-Labor	40,572,445	43,217,239	43,116,830	43,116,830
Total Expenditures:	118,611,983	122,511,268	123,258,833	123,258,833
Green Line opening cost	-	-	235,000	235,000
Cost savings/revenue enhancements needed	-	-	-	980,994
Balance Available for Carryover/Reserves	\$ -	\$ 1,320,300	\$ 3,319,006	\$ 4,300,000

Note

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The FY 2012 Budget goal is to accumulate \$4.3 million in contingency reserves by the end of FY 2012. In order to achieve this goal, RT needs to identify additional cost savings or revenue enhancements in the amount of \$980,994 based on our current FY 2012 preliminary budget. An assumption of a modest growth of two percent in sales tax based revenues could generate an additional \$1.1 million in revenue. In addition, our current vacancy factor for Salaries is two percent, RT's current year vacancy rate is running slightly over two percent. Staff will continue to monitor the vacancies the remainder of this fiscal year and determine if the vacancy factor can be raised above two percent. An increase of one percent in the vacancy factor could generate cost savings of approximately \$500,000.

Implementation of these changes during the budget process would generate sufficient savings to allow RT to achieve the \$4.3 million reserve goal, enhance reserves above \$4.3 million and restore night light rail service effective January 1, 2012.

BUDGET SCHEDULE:

- 4/25/11 Authorizing Staff to Release the FY 2012 Operating and Capital Budgets and Notice of a Public Hearing for May 23, 2010
- 5/23/11 Accepting Public Comment on Proposed FY 2012 Budgets and Continue Public Hearing to June 27, 2011
- 6/27/11 Accept Public Comment on the Proposed FY 2012 Operating and Capital Budgets; and Adopt the FY 2012 Operating and Capital Budgets