

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
11	02/14/11	Open	Action	02/07/11

Subject: Approve Amendments to FY 2011 Operating Budget and the FY 2011 Capital Budget and the FY 2011 Capital Budget

ISSUE

Whether or not to amend the Fiscal Year (FY) 2011 Operating Budget and the FY 2011 Capital Budget.

RECOMMENDED ACTION

Adopt Resolution No. 11-02-____, Approving Amendments to the FY 2011 Operating Budget and the FY 2011 Capital Budget.

FISCAL IMPACT

Although many adjustments are included in the proposed amendments, the combined *net effect* of all changes to the FY 2011 Operating and Capital budgets will be to decrease operating revenues by \$762,599; decrease the net operating expenditures by \$762,599; and reclassify \$58,348 in TDA/STA revenue as capital funds while increasing the Capital budget by the same amount.

DISCUSSION

The purpose of this Issue Paper and attachments are: (1) to provide the Board with a mid-year update on the District's operating budget in light of current economic conditions; and (2) to recommend specific amendments to RT's FY 2011 Operating Budget and FY 2011 Capital Budget.

Background

On June 28, 2010, the Board adopted a balanced FY 2011 Operating budget of \$117.8 million in revenues and \$105.7 million in expenditures. This budget was developed to bridge the expected shortfall of \$12.1 million created by the structural deficit anticipated at the end of FY 2010. The adopted budget incorporated all known revenues and estimates of expenditures at that time. The budget also included assumptions in the Salary & Benefits expenditure category that incorporated expected labor concessions from two union groups, ATU and IBEW. Concessions negotiated prior to July 1, 2010, with RT's three other labor groups (AEA, MCEG, AFSCME) are also an integral part of the FY 2011 Operating budget. Labor concessions for all groups are based on the same "net zero over base" methodology developed and first implemented in FY 2009.

ECONOMIC IMPACTS ON REVENUES

While there is still uncertainty surrounding key revenue elements, the outlook for RT has improved in some areas since the FY 2011 Budget was adopted. The proposed change in revenue reflects the net result of numerous increases and decreases in various projected revenues based on six

Approved:

Presented:

FINAL 2/8/11

General Manager/CEO

Chief Financial Officer

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months of experience in this fiscal year and one reclassification of revenue as capital revenue. The most significant impacts on RT’s revenue streams are noted below.

Local Transportation Funds (LTF) and Measure A

The outlook for RT’s sales tax based revenues, which include LTF and Measure A funds, has improved since the budget was adopted. RT’s current operating budget assumed Measure A revenues to be flat with zero percent change from FY 2010 based on projections from the Sacramento Transportation Authority (STA). LTF revenues were budgeted, based on Sacramento Area Council of Governments (SACOG) projections, to reflect an additional 14.2 percent reduction in FY 2011 below FY 2010 projected revenues.

Along with most jurisdictions in the region, RT closely monitors county-wide sales tax receipts as they are posted each month by the State Board of Equalization (BOE). Based on the most recent information, it appears that the local economy has begun to stabilize with actual sales tax receipts posted during the first six months of the fiscal year – July to December 2010, showing a 5.8% increase over FY 2010 receipts for the same time frame. This is positive news. The BOE report runs two months behind in posting data so the most recent report on January 5, 2011, was for the month of November, 2010. Sales tax is paid based on estimates for two months with a “true up” occurring every third month based on actual receipts. The next posting in February will be for the month of December with the following month of March as the next “true up” month for the region.

Measure A

STA advised its Board in November, 2010, that sales tax receipts were up 3.1% over prior year. With STA actual revenue currently running 5% above prior year, a revised projection from STA is expected in April, following the March report on regional sales tax receipts. The proposed budget amendment increases the Measure A budget projection by \$2.2 million to recognize the 3.1% with an additional upward adjustment anticipated later in the year.

LTF

RT budgets and revises LTF revenue based on SACOG’s Findings of Apportionment, which is a commitment of revenue adopted by the SACOG Board for Sacramento County and all other counties under SACOG’s jurisdiction. The SACOG Board revised the FY 2011 Findings of Apportionment on January 20, 2011, recognizing a higher revenue projection for the year in Sacramento County than was previously anticipated. While conservative, this action increased RT’s LTF revenue by \$3.6 million. Rather than expecting an additional 14.4% reduction in revenue over prior year, the current projections appear to be flat or slightly higher than prior year. Since the actual receipts, based on the BOE reports is greater than flat, SACOG staff has advised RT that an additional amendment to increase the Findings of Apportionment may be forthcoming in April.

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Compressed Natural Gas (CNG) Rebate

Thanks to a federal program that provides a rebate of nearly 50% of the cost of alternative fuels, RT is able to receive a significant reimbursement annually for its use of CNG. The recent Federal authorization for the continuation of the CNG rebate through the end of calendar year 2012 was welcome news. Estimated receipts from this source are budgeted and recorded as Other Income. The amount received fluctuates based on the actual level of CNG usage. Due to the delay in reauthorizing the rebate program, rebates were not filed for the second half of FY 2010. One of the proposed budget amendments recognizes approximately \$700 thousand in rebate income for the second half of FY 2010 in the current fiscal year and \$1.5 million was originally budgeted for FY 2011 from this source, but based on reduced usage due to the service reduction, RT now expects \$1.2 million for FY 2011.

TDA-STA Funds

A significant revenue adjustment included in this report recognizes a FY 2010 audit adjustment that recorded approximately half, or \$5.2 million in STA revenues that had been budgeted as FY 2011 revenues in FY 2010. The funds were received in FY 2011 but were for a period spanning both fiscal years. The overall effect of this adjustment on the 18-month rebalancing plan is zero, but the net effect on FY 2011 is a draw down of expected STA revenue that is off-setting the increases noted for other revenues.

Federal Operating Revenues

There are many fiscal challenges at the Federal level and the level of funding for Section 5307 Urbanized Area Formula and Section 5309 Fixed Guideway Funds has only partially been allocated for FY 2011. As a result, current projections are conservative and no upward adjustments are proposed in the area of federal funding. RT experienced a reduction in Job Access Reverse Commute (JARC) funding in FY 2010 and as a result is adjusting the FY 2011 projection from this source downward.

AMENDMENTS TO EXPENDITURES

Salaries & Benefits:

As noted elsewhere in this report, the majority of the budget amendment in this classification is to defer the expected labor concessions to the next fiscal year for the two largest labor groups, ATU and IBEW. The “net zero over base” concession contributions necessary from these groups were calculated and carried forward through the FY 2010 and now the FY 2011 Operating budgets. To date, the labor issues remain unresolved and are currently in arbitration. As previously noted, similar concessions have been negotiated with RT’s three other labor groups and are calculated into the budget. The effect of this segment of the amendment is to true up budget to actual in this area for FY 2011. Costs will have to be paid with funds earmarked for some other District purpose while concessions are arbitrated.

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The next largest segment of the amendment to this classification is to reconcile the number of employees funded in the budget in the aftermath of the significant service reductions, layoffs, and retirees accepting the retirement incentive of 2010. The numbers of layoffs anticipated in the early service reduction staff reports of 2010 were overstated and critical authorized positions were unfunded that needed to be and have been filled.

This amendment also recognizes the cost of the position authorizations and classification changes noted in the issue paper on position classifications presented by Human Resources on February 14, 2011.

Professional Services

In the area of Professional Services, the largest amendment will be to account for the Paratransit Inc., contract increase of \$676 thousand. Amendments to the Paratransit Inc. contract with a revised exhibit incorporating this increase will be brought to the Board at a future Board meeting.

Secondarily, \$267 thousand is added to cover the cost of the tire contract for buses that was excessively cut from the adopted budget. The amount is reduced from past years due to the effect of service reductions.

Utilities

An adjustment is proposed to increase the Utilities budget. Expenditure levels for traction power were significantly under budgeted. Reduced usage based on the level of service cuts did not occur at the level budgeted. This underestimation combined with a higher than budgeted rate increase by the utility provider results in the need to increase this expenditure classification by \$1.04 million for FY 2011.

FY 2011 Mid-Year Operating Recap

In an effort to bring the 18-month Rebalancing Plan into fruition and working with many unknowns related to the 2010 service cuts, non-labor expenditure categories were cut to what has turned out to be unrealistic and unachievable levels. Staff has been closely monitoring all cost categories and had determined that in the absence of increased revenues and the deferral of expected labor concessions, RT could be facing additional dramatic cost cutting measures. The improved revenue projections, however, will be sufficient to get RT just over the shortfall.

In short, RT entered the FY 2011 Budget year with a goal of curing a \$12.1 million prior year structural deficit by the end of the current budget year. Staff is projecting that RT will reach the goal of the 18-month plan to bring the revenue and expenditures into balance at June 30, 2011.

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Table 1
Sacramento Regional Transit District
FY 2010 Budget to Actual Comparison and FY 2011 Adopted and Revised Budgets

	(1)	(2)	(3)	(4)
Categories	FY 2010 Budget	FY 2010 Actuals	FY 2011 Adopted 6-28-10	FY 2011 Revised 02-14-11
Carryover	\$ 3,770,763	\$ 5,814,789	\$ (12,079,099)	\$ 1,555,869
<u>Operating Revenue</u>				
Fare Revenue	\$ 41,000,448	\$ 30,863,701	\$ 30,800,640	\$ 29,800,640
Contracted Services	3,772,544	4,598,650	3,748,731	4,466,484
State & Local	56,393,978	58,134,639	57,454,553	57,357,349
Federal	31,715,575	30,913,817	21,519,497	21,236,349
Other	4,145,792	2,962,480	4,295,292	4,195,292
Total Operating Revenue	\$ 137,028,337	\$ 127,473,286	\$ 117,818,713	\$ 117,056,114
<u>Operating Expenses</u>				
Salaries & Benefits	\$ 89,865,860	\$ 90,548,073	\$ 67,399,056	\$ 78,039,538
Professional Services	23,393,867	22,510,928	17,973,710	19,115,528
Materials & Supplies	9,161,625	9,127,636	7,490,404	7,490,404
Utilities	5,574,200	5,530,888	4,597,535	5,637,535
Casualty & Liability	10,363,118	2,286,204	6,420,624	6,420,624
Other	2,440,430	1,728,477	1,858,285	1,908,354
Total Operating Expenses	\$ 140,799,100	\$ 131,732,207	\$ 105,739,614	\$ 118,611,983
Balance	\$ -	\$ 1,555,869	\$ -	\$ -

Note that the FY 2010 Operating budget of \$140.8 million quickly shrank to \$131.7 million, or 6.4%. A further drop by \$19.7 million to \$105.7 million or 20% was planned for a total two year decline in the operating budget of 26.4% by the end of FY 2011. The revised FY 2011 Operating budget brings the reduction in expenditures, budget to budget, to 16%. Still very difficult, but achievable.

The Carryover Effect:

Carryover is the positive or negative effect on RT's undistributed net assets at year-end which is ultimately determined through the annual audit, and can be translated into an amount of available liquid assets available for operating or capital purposes by the District.

As Table 1 illustrates, the FY2010 Adopted Budget in column (1) included an estimated carryover from the prior year in the amount of \$3,770,763. The audited actual carryover from FY2009, as shown in column (2) was \$5,814,790. This carryover amount was used in all budget development

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for FY 2011. Based on all known factors at the time the budget was adopted, RT was anticipating a shortfall from FY 2010 to carry into FY 2011 and budgeted for FY 2011 to cure the anticipated structural deficit. The amount of the expected shortfall is shown at the top of column 3. During the year-end audit, two factors significantly altered the amount of the shortfall. One was the unanticipated one-time insurance reserve adjustment of \$8,076,914; the other was the reclassification of one half of the two-year STA revenue of \$5,151,088. As you can see in column 4, these adjustments combined with several other year-end adjustments resulted in the elimination of the shortfall with a \$1,555,869 positive carryover into FY 2011.

Proposed Operating Budget Amendments

Staff proposes the following adjustments to the Fiscal Year 2011 Operating Budget, which are reflected in Table 2 below:

**Table 2
Sacramento Regional Transit District
Schedule of Proposed Budget Changes**

Categories	FY 2011 Adopted 6-28-10	FY 2011 Revised 02-14-11	FY 2011 \$ Changes	FY 2011 % Changes
FY 2010 Carryover ¹	\$ (12,079,099)	\$ 1,555,869	\$ 13,634,968	-112.9%
<u>Operating Revenue</u>				
Fare Revenue ²	\$ 30,800,640	\$ 29,800,640	\$ (1,000,000)	-3.2%
Contracted Services ³	3,748,731	4,466,484	717,753	19.1%
State & Local ⁴	57,454,553	57,357,349	(97,204)	-0.2%
Federal ⁵	21,519,497	21,236,349	(283,148)	-1.3%
Other ⁶	4,295,292	4,195,292	(100,000)	-2.3%
Total Operating Revenue	\$ 117,818,713	\$ 117,056,114	\$ (762,599)	-0.6%
<u>Operating Expenses</u>				
Salaries & Benefits ⁷	\$ 67,399,056	\$ 78,039,538	10,640,482	15.8%
Professional Services ⁸	17,973,710	19,115,528	1,141,818	6.4%
Materials & Supplies	7,490,404	7,490,404	-	0.0%
Utilities ⁹	4,597,535	5,637,535	1,040,000	22.6%
Casualty & Liability	6,420,624	6,420,624	-	0.0%
Other ¹⁰	1,858,285	1,908,354	50,069	2.7%
Total Operating Expenses	\$ 105,739,614	\$ 118,611,983	\$ 12,872,369	12.2%
Balance	\$ -	\$ -	\$ -	

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Notes to Proposed Amendments:

- ¹ Net decrease/elimination of projected FY 2010 Carryover expense of \$12.1 million. The revised budget projects a net increase of \$1.6 million, for FY 2010 audited actual fund balance carryover into FY 2011 budget year.
- ² Net decrease of \$1,000,000 in Fare revenue due to less than projected ridership in FY 2011.
- ³ Net increase of \$717,753 in contracted services due to increase in STA funding for Citrus Heights portion and increase in LTF allocation for Citrus Heights, also increase in Rancho Cordovan contract not included in original budget.
- ⁴ Net decrease of \$97,204 in State & Local due to a reduction of \$5.2 million for FY 2010 audit adjustment for STA revenue recognition. Also, increase in LTF of \$3.6 million with revised finding of apportionment from SACOG, and increase in Measure A revenues of \$2.2 million based on latest projections from the Sacramento Transportation Authority.
- ⁵ Net decrease of \$283,148 for Federal Funding, to reflect reduction in JARC Grant funding estimate for FY 2011.
- ⁶ Net decrease of \$100,000 in Other Income due to net increase of \$400,000 to include receipts for second half of FY 2010 and adjusted amount for FY 2011. in CNG tax rebate payments in FY 2011, offset by decreases in parking revenue estimates for FY 2011 of \$350,000 and advertising revenue estimates of \$150,000.
- ⁷ Net increase in Salary & Benefits of \$10,640,482 due to increase in medical costs for ATU and IBEW and the deferral of labor concessions for ATU and IBEW to FY 2012 and future years as negotiations are still not completed and it is anticipated that labor concessions will be experienced in future years for these two union groups, also increases the Authorized positions from 921 to 929 and increased the funded positions from 906 to 922 for FY 2011.
- ⁸ Net increase in professional services of \$1,141,818 due primarily to increase in Paratransit Inc. contract for FY 2011 of \$676,000 and increase in tire contract costs for buses of \$267,000, along with other minor increases.
- ⁹ Net increase in utilities of \$1,040,000 due to increase in traction power costs. The original budget projected a decrease with the service reduction, however the usage did not decrease as projected with the service reduction in the rail mode.
- ¹⁰ Net increase in other expenses of \$50,069 due to increase in contract for Employee Assistance Program counseling and for Marketing dues and subscriptions and decrease in interest expense.

Additional Potential FY 2011 Budget Impacts

Actuarial results for FY 2011 Worker's Compensation and General Liability reserves:

The FY 2011 Budget assumes an additional \$1.7 million decline in the audited results for this fiscal year. The amount was based on prior years' post-audit adjustments before the post-audit result was known for FY 2010. Staff believes the favorable adjustment experienced for FY 2010, while welcome, was an anomaly that exceeds the statistical norm for this expenditure category. As part of the FY 2011 Budget process, a reasonable amount was included for the first time in advance of the post-audit adjustment. If RT experiences a high number of losses that will call for a higher reserve, the budgeted level may not hold, requiring a year-end adjustment to increase the reserve.

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SILO LILO Contingent Liability and Potential Cost of Restructuring:

As the Board is aware, RT undertook three leveraged lease transactions in 2005, 2006, and 2007. Due to the downgrade of AIG, principal undertaking agency on all of RT’s transactions, and the failure of Ambac, the secondary insurer on all of RT’s transactions, RT has had a contractual requirement to replace both as parties to the transactions since September of 2008. Largely due to the fact that AIG continues to perform under the transactions and the lack of suitable replacement agencies in the marketplace, RT has been able to repeatedly negotiate continued forbearance from the equity investor on the transactions. Staff has been advised that under certain conditions involving restructuring the agreements, RT can move out of the shadow of the requirements to replace along with the need to obtain continual forbearance on the transactions and remove the uncertainty surrounding the future of these agreements. The actions now under discussion, once executed, will have a favorable effect on RT’s credit rating and will also relieve RT from the requirement to continually seek matching forbearance from Wells Fargo on the Line of Credit (LOC) due to the same AIG/Ambac downgrades. The cost of restructuring the leveraged lease transactions is expected to be between \$150,000 -\$200,000, but the exact amount is currently unknown. A budget amendment for the required amount will be brought to the Board for future action.

Capital Budget Amendments

The proposed amendments will move \$58,348 in STA revenue to the Capital budget to provide funding for four projects that would have either been deferred or canceled due to lack of funds. One of the projects is the Comprehensive Operational Analysis. RT will receive approximately \$570 thousand in grant funding for this study with \$25,000 required as local match. Other projects that will receive funding through this transfer include Watt Station Improvements; IS Maintenance and Expansion; and the Park and Ride Pilot Project. A revised capital budget for FY 2011 is attached as Exhibit A.

Board Action:

Staff recommends adoption of the proposed amendments to the FY 2011 Operating Budget and the FY 2011 Capital Budget.

RESOLUTION NO. 11-02-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

February 14, 2011

APPROVING AMENDMENTS TO THE FY 2011 OPERATING BUDGET AND THE FY 2011 CAPITAL BUDGET

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the FY 2011 Operating Budget is hereby amended by making the following changes to it:

- Net decrease of \$762,599 to Revenues – decrease of \$1,000,000 to Fare Revenue; increase of \$717,753 to Contracted Services; decrease of \$97,204 to State and Local; decrease of \$283,148 to Federal revenue; decrease of \$100,000 to Other revenues.
- Net decrease of \$762,599 to Expenses – increase of \$10,640,482 in Salaries & Benefits; increase of \$1,141,818 in Professional Services; increase of \$1,040,000 in Utilities; and increase of \$50,069 in Other expenses.

THAT, the FY 2011 Capital Budget is hereby amended by increasing the total capital funding by \$58,348 as described more specifically in Exhibit A.

DON NOTTOLI, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary

EXHIBIT A

**Sacramento Regional Transit District
Schedule of Proposed Capital Budget Changes**

Project No.	Project Name	FY 2011 Adopted 06/28/2010	FY 2011 Revised 02/14/2011	FY 2011 Changes	Description
410	Blue Line to Cosumnes River College	\$ 5,713,141	\$ 5,713,141	\$ -	No change
R085	UTDC Retrofit	3,551,331	3,551,331	-	No change
P005	Paratransit Vehicle Replacement	2,811,331	2,811,331	-	No change
B041	Neighborhood Ride Replacement Hybrid Vehicles	177,000	177,000	-	No change
4017	Bus Stop Improvement Program	285,313	285,313	-	No change
B017	Citrus Heights Bus Stop Improvements	793,750	793,750	-	No change
645	Major LRT Station Improvements	120,878	120,878	-	No change
New	Bus Lot Improvements	640,000	640,000	-	No change
966	Information system Maintenance & expansion	-	2,870	2,870	Reclassify TDA-STA revenues
715	Bus Maintenance Facility #2 (Phase 1)	500,000	500,000	-	No change
4011	General Facilities Improvements	58,600	58,600	-	No change
R175	Watt Ave. Station Improvements	(20,478)	-	20,478	Reclassify TDA-STA revenues
New	Enhancement of Emergency Power Generation	430,000	430,000	-	No change
F010	Parking Lot Pilot Program	80,000	90,000	10,000	Reclassify TDA-STA revenues
G240	Additional Fare Vending Machines/Spares	1,150,000	1,150,000	-	No change
New	LRT Video Surveillance System Upgrade	525,350	525,350	-	No change
G230	Certificates of Participation Payments (COP's)	2,082,282	2,082,282	-	No change
0580	Comprehensive Operational Analysis Study	250,000	275,000	25,000	Reclassify TDA-STA revenues
Total Capital Project Funding		\$ 19,148,498	\$ 19,206,846	\$ 58,348	