Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
9	03/12/12	Open	Information	03/05/12

Subject: FY 2013 Budget Planning and Priority Setting

ISSUE

Discussion of FY 2013 Budget Planning and priority setting for budget development purposes.

RECOMMENDED ACTION

Information item only.

FISCAL IMPACT

None as a result of this presentation.

DISCUSSION

On February 28, 2011, as part of the FY 2012 Budget Planning, the Board received a report from staff on various potential funding priorities and a request for direction on prioritizing the use of any additional revenues received in excess of the planned “steady-state” budget for FY 2012.

The priorities discussed included (1) reserves, (2) service restoration, (3) investment in personnel, (4) improve internal services such as weed abatement, graffiti removal, etc., and (5) capital funding. Almost every Board member expressed that the FTA’s South Line requirement for RT to develop operating and capital reserves was a priority. Service restoration was a close second. The remaining categories were also considered important but were not specifically prioritized by the Board. Staff developed the FY 2012 Operating and Capital Budgets based on the feedback received from the priority setting discussion.

On June 27, 2011, the Board adopted the FY 2012 Operating budget of $130.9 million in revenues and $124.6 million in expenditures, which included a projected year-end operating reserve of $4.4 million after an LTF revenue recognition difference of $1.9 million.

On February 27, 2012, the Board adopted a revised budget for FY 2012 that increased revenues to $131.4 million; expenses to $126.7 million; and projected an increased potential reserve at year-end of $4.7 million. The revised budget also included expenditures for investment in personnel and capital funding.

Internal planning for the FY 2013 Operating and Capital Budgets has been underway since January of 2012. This report seeks confirmation of the Board’s funding priorities as we move through the process and finalize a proposed budget for consideration.

Approved:	Presented:
Final 3/05/12	
General Manager/CEO	Chief Financial Officer

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Here is a recap of the five priority areas identified by staff and discussed in the FY 2012 budget planning process:

1. Grow Reserves to Reserve Policy and/or FTA Required Levels

On September 27, 2010, the Board adopted a comprehensive reserve policy that provided a framework through which excess revenues over expenditures could be accumulated to fund three types of reserves: Operating, Self-Insurance, and Capital.

The ranges of the adopted reserve funds vary by type:

Operating Reserve:	1.5 - 2 Months of Operating Expenditures
Capital Reserve:	10% of Blue Line to Cosumnes River College Project Total Cost
Self-Insurance Reserve:	Minimum of 75%, Maximum of 100% of Actuarial Liability

The Federal Transit Administration (FTA) advised RT that the identification of funds for an operating reserve of 1.5 months of expenditures will be an important element of a successful Financial Capacity Assessment (FCA) for the Blue Line to Cosumnes River College (formerly South Line Phase 2) New Starts project and subsequent entry into Final Design (FD). RT submitted updated information for the FCA which included the reserve policy, along with the expectation of a reserve demonstrated in the financial forecast modeling provided.

Since annual expenditures are expected to rise over time, the level of recommended reserves can, with Board designation, also rise to meet the minimum 1.5 months equivalent. The Financial Forecasting Model (FFM) indicates that 2012 is the first year funds will be available to apply toward funding reserves. Using $128 million as an estimate for the annual operating budget, 1.5 months equivalent operating expenses would be approximately $16 million.

As a secondary reserve element of the FCA, the FTA further advised that a capital reserve equivalent to 10% of the total project cost must also be identified. While the exact amount of that reserve is yet to be determined since some of the project costs have already been experienced, the total of that reserve may require as much as $27 million by the end of the project in 2015.

2. Restoration of Service

On June 20, 2010, RT implemented service reductions amounting to 20 percent of all bus service and 16 percent of all light rail service as emergency cost cutting measures to meet the fiscal crisis declared by the Board in March 2010. The uncertainty of state funding, the precipitous decline in all sales tax based revenues, as well as the expiration of the CNG rebate all contributed to the need to contract the agency and the difficult decisions to cut service and layoff staff.

The Financial Forecasting Model anticipates the restoration of service beginning in FY 2013. RT has undertaken the Comprehensive Operational Analysis (COA or TransitRenewal) to help determine how best to restore service throughout the RT system. Completion of the COA is near, with the public outreach program now underway. The Board has been updated periodically on the progress of the COA and recommendations for phasing the return of service over the next few years will soon be forthcoming. Although the Financial Forecasting Model calls for a fixed percentage of service increase over five years, the level of service restored annually will be determined by the availability of sustainable funding.

3. Investment in Personnel

Economic conditions since 2006 have required RT to cutback and, in some areas, eliminate what could be called RT's investment in personnel. This potential priority is intended to highlight areas of extreme cutbacks in recent years that could be addressed for funding, such as: training; changes to compensation programs that would keep benefits and pay ranges competitive; the addition of staff to work on economic development (ED) opportunities (RT cutbacks included the elimination of the Real Estate Department, which included ED); and shoring up staffing levels throughout the District where the cuts have been too deep, leaving staffing levels too thin in some functional areas. Some additional positions have been added in FY 2012, most recently approved on February 27th as part of the mid-year budget revisions.

4. Improving Service Quality:

This potential priority would direct additional funding toward improving the quality of service that has been cut back in recent years to cut costs. For example, maintenance budgets have been reduced over time to meet critical needs and very little more. Station cleaning and landscape maintenance budgets were cut 30 – 40%, from 5 days a week to 2 or 3 days in some areas. As a result, weed abatement, graffiti and litter removal have taken a back seat to more critical services and are now performed, more or less, on a complaint basis. Maintenance of RT owned right of way, such as the larger parcels along I-5 adjacent to roads and levees, has also been deferred. Removal of bushes, blackberries, trees, dumped appliances and furniture has been cut back from monthly to being provided on a complaint basis. A gradual station deterioration due to reduced maintenance is evident but unavoidable unless additional resources are directed toward improving service quality.

5. Capital Investment:

This potential priority will direct a level of funding toward smaller capital and ongoing maintenance projects separate from the larger capital reserve described above. This funding would be made available for unfunded and under-funded capital projects in project areas such as ongoing maintenance, system repair, and equipment purchases. Meeting local match requirements even for small grants has been problematic in recent years. From time to time, funding opportunities in the form of grants become available for which RT's projects would successfully compete, except for the requirement to provide anywhere from 11% to 20% in matching local funds. RT currently reclassifies and redirects small amounts of STA revenues to cover local match as awards are received. The most recent Board approval for this purpose was on February 27th, when STA funds were reclassified for capital purposes as part of the mid-year revisions.

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Conclusion:

Input received from the Board on priority setting will be incorporated into the planning and development process for the preliminary FY 2013 Operating and Capital Budgets. Both budgets will be presented to the Board in April and issued for a sixty-day review period. At least one public hearing will follow before final presentation and adoption in June 2012.

RT is statutorily required to adopt a budget by July 1 for the next fiscal year.