

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
7	03/26/12	Open	Information	03/20/12

Subject: FY 2013 Preliminary Operating Budget-First Look

## ISSUE

To receive an informational update on FY 2013 Preliminary Operating Budget.

## RECOMMENDED ACTION

None, information item only.

## FISCAL IMPACT

None as a result of this report.

## DISCUSSION

On March 12, 2012, the Board discussed budget priorities for FY 2013. The priorities discussed included: (1) reserves, (2) service restoration, (3) improve internal services such as weed abatement, graffiti removal, etc., (4) investment in personnel, and (5) capital funding. Most Board members expressed that the key priorities are FTA's requirement for RT to develop operating and capital reserves and service restoration.

FY 2013 Budget discussions with RT's General Manager began in mid January and non-labor cost discussions with EMTs began on February 28, 2012. FY 2012 year-to-date performance in revenues and expenditures were reviewed thoroughly, and preliminary FY 2013 projections were developed. Staff from Operations, Planning and Finance worked together to estimate the cost of proposed service increases for Phase I of Transit Renewal.

Major cost drivers in the FY 2013 Preliminary Base Operating Budget before service increase considerations include a dramatic increase in pension costs; a full year of Green line operations; the Gold Line 8<sup>th</sup> train operations; increased Paratransit costs; and the end of negotiated labor agreement concessions in March 2013.

In addition to providing the Board with a first look at the financial picture for FY 2013, this report attempts to provide the Board with the estimated net costs for Phase 1 of the TransitRenewal/Comprehensive Operations Analysis (COA) for FY 2013 which are broken out separately to show the dollar impact of the proposed service restoration.

## Summary of FY 2013 Preliminary Base Operating Budget

Table 1 provides a summary of the projected financial result. Revenue assumptions for sales tax are conservatively tracking with the latest official projections from the Sacramento Transportation Authority and non-labor expenditures, exclusive of Paratransit, are just 3.6% over prior year.

Approved:

Presented:

Final 3/21/12

General Manager/CEO

Chief Financial Officer

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Before consideration of service restoration, the first look at the FY 2013 Preliminary Base Operating Budget projects a potential reserve at year-end of \$4,141,643.

**Table 1**  
**FY 2013 Preliminary Base Operating Budget**  
**Financial Summary**

Categories	FY 2012 Revised	FY 2013 Base Budget	FY 2013 \$ Changes	FY 2013 % Changes
<b>Operating Revenues</b>				
Fare Revenue	\$ 29,518,043	\$ 30,113,534	\$ 595,491	2.0%
Contracted Services	5,194,479	5,555,646	361,167	7.0%
State & Local	69,594,842	72,751,346	3,156,504	4.5%
Federal	24,214,766	25,684,226	1,469,460	6.1%
Other	3,245,292	3,245,292	-	0.0%
Carryover	(378,567)	-	378,567	-100.0%
<b>Total Operating Revenue</b>	<b>\$ 131,388,855</b>	<b>\$ 137,350,044</b>	<b>\$ 5,961,189</b>	<b>4.5%</b>
<b>Operating Expenses</b>				
Salaries & Benefits	\$ 81,493,669	\$ 85,911,393	\$ 4,417,724	5.4%
Professional Services	10,740,526	10,464,278	(276,248)	-2.6%
Paratransit	10,961,292	11,873,145	911,853	8.3%
Materials & Supplies	7,670,250	8,397,300	727,050	9.5%
Utilities	5,986,260	6,285,000	298,740	5.0%
Insurance & Liability	7,891,094	8,209,500	318,406	4.0%
Other Expenses	1,920,840	2,067,785	146,945	7.7%
<b>Total Operating Expenses</b>	<b>\$ 126,663,931</b>	<b>\$ 133,208,401</b>	<b>\$ 6,544,470</b>	<b>5.2%</b>
<b>Projected Reserve</b>	<b>\$ 4,724,924</b>	<b>\$ 4,141,643</b>	<b>\$ (583,281)</b>	

A detailed presentation on the budget is planned for April 9, 2012.

### **Transit Renewal/COA - Phase 1 projected Revenue and Expenditures**

This section outlines the projected fiscal impact of Phase 1 of Transit Renewal. The projected service changes, if adopted in their present form, would be implemented on September 1, 2012. The fiscal impact represents 10/12<sup>th</sup> of the annualized revenue and costs.

Table 2 on the following page illustrates the projected revenues and expenses associated with the current Transit Renewal Phase 1 plan.

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**Table 2  
Transit Renewal Phase 1  
Revenue and Expenses FY 2013**

	FY 2013 Phase 1
<b>Operating Revenues</b>	
Fare Revenue	\$ 951,002
<b>Operating Expenses</b>	
Salaries & Benefits	1,389,695
Professional Services	305,000
Paratransit	309,208
Materials & Supplies	408,000
Utilities	162,245
Insurance & Liability	-
Other Expenses	-
Total Operating Expenses	\$ 2,574,148
<b>Fare Box Recovery Ratio</b>	<b>36.9%</b>

*Fare Revenues - COA Phase 1*

The Fare Revenue projections are based on bus and rail ridership estimates for phase 1 of Transit Renewal and before service reduction average fare of \$0.94. RT's staff estimated that bus and rail ridership will increase by 1,011,704. Assuming \$0.94 average fare, Fare Revenue associated with Phase 1 of Transit Renewal is projected to be \$951,002.

*Expenses - COA Phase 1*

Salaries & Benefits - The staffing needs for the Phase 1 of Transit Renewal require an additional 26 positions, which include 13 CBS bus operators, 5 light rail operators, 5 big bus operators, 2 Transportation Supervisors and 1 Bus Service Worker. The Salary and Benefit costs for these positions totals \$1,389,695.

Professional Services - Professional services include security costs and the estimated increase in security costs for the additional light rail service is \$300,000.

Paratransit - The projected increase in Paratransit costs associated with the Phase 1 of Transit Renewal is \$309,208.

Materials & Supplies - The projected increase in supplies is \$408,000, which includes an increase in gasoline costs of \$232,000, lubricants of \$96,000, parts of \$40,000 and other supplies.

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Utilities - The traction power costs for light rail are projected to increase by \$162,245.

## Summary of FY 2013 Preliminary Base Operating Budget with Transit Renewal Phase 1:

Table 3 provides a summary comparison of the Amended FY 2012 Operating Budget and the FY 2013 Preliminary Base Operating Budget with the Transit Renewal Phase 1 fiscal impact:

**Table 3  
FY 2013 Preliminary Operating Budget with Transit Renewal Phase 1  
Revenue and Expense Summary**

Categories	FY 2012 Revised Budget	FY 2013 Base Budget	Phase 1 Transit Renewal	FY 2013 Total Budget
Revenue	\$ 131,388,855	\$ 137,350,044	\$ 951,002	\$ 138,301,046
Expenses				
Labor	81,493,669	85,911,393	1,389,695	87,301,088
Non-labor	34,208,970	35,423,863	875,245	36,299,108
Paratransit	10,961,292	11,873,145	309,208	12,182,353
Total cost	126,663,931	133,208,401	2,574,148	135,782,549
Projected Reserve	\$ 4,724,924	\$ 4,141,643	\$ (1,623,146)	\$ 2,518,497

## Fiscal Impact Analysis

Based on the current assumptions and cost estimates, service restoration anticipated for September 2012 may need to be phased. While the revenue picture is improving, there is still considerable uncertainty surrounding RT's revenue streams, especially at the Federal level and this uncertainty may exist well into the next fiscal year.

One area of continuing concern is the CNG tax rebate, which is included in both the Revised FY 2012 Operating Budget (\$600,000) and is assumed in the FY 2013 Preliminary Base Operating Budget (\$1.2 million). Continuation of the CNG tax rebate seems increasingly less likely given the current political climate at the national level. If no action is taken to restore the rebate by June, 2012, staff will adjust the FY 2013 Preliminary Operating Budget to take it out of the revenue projections.

An additional area of exposure exists with regard to the sales tax projections assumed in the FY 2013 Preliminary Operating Budget. Growth in Measure A in FY 2013 is based on a projection of 5.5% issued by the Sacramento Transportation Authority this week. If this projection proves to be too optimistic, the level of sales tax revenue in the budget will not be realized.

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Another area of uncertainty exists in determining the level of State Transit Assistance to use to calculate RT's share of statewide STA revenue. It is largely dependent on the sales tax on Diesel fuel and the price of Diesel fuel has fluctuated significantly over time. State wide projections for FY 2012 currently range dramatically. The Legislative Analyst's Office (LAO) projections for FY 2013 range upward to \$420 million, while the California Transit Association is recommending that we use \$376 million. The FY 2013 Preliminary Operating Budget projection for STA is currently based on \$399 million. As the remainder of FY 2012 progresses and the Governor's May Revise Budget is issued, we may have a better sense of where this number will land.

Another factor that will determine the final revenue projections is whether or not the Retirement Boards revise the action taken on March 19, 2012 and direct the Actuary to revise the actuarial study with changed yet reasonable investment and inflation assumptions. The Retirement Boards accepted an actuarial study that will significantly increase the level of required pension funding in FY 2013 due to changed assumptions in the actuarial methodology used to prepare the study. The Actuary did not offer an acceptable range of assumptions for consideration by the Retirement Boards, instead offering up only one scenario for consideration in the study. This resulted in the adoption of the study by the Retirement Boards as presented. RT staff had no choice but to include the resulting funding levels in the FY 2013 Preliminary Operating Budget. The Retirement Boards did ask the Actuary to return with alternatives to the assumptions used in the study for their consideration. This may result in a change to the FY 2013 Actuarial Study. Restoring prior year assumptions for both the investment and inflation rates to the actuarial study would return approximately \$1.3 million to the FY 2013 Preliminary Operating Budget.

**BUDGET SCHEDULE:**

- 4/9/12 Board Action authorizing staff to release the FY 2013 Operating and Capital Budgets and notice a Public Hearing for May 14, 2012
- 5/14/12 Public Hearing accepting Public Comment on Proposed FY 2013 Budgets and Continue Public Hearing to June 25, 2012
- 6/25/12 Continue Public Hearing to accept Public Comment on the Proposed FY 2013 Operating and Capital Budgets, and Adopt the FY 2013 Operating and Capital Budgets