

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
25	12/08/14	Open	Information	11/17/14

Subject: FY 2015 Quarterly Financial Update and Projections

## ISSUE

To receive information on RT's Fiscal Year 2015 Financial Position for the first quarter of the Fiscal Year and future year projections.

## RECOMMENDED ACTION

None. Information item only.

## FISCAL IMPACT

None as a result of this report.

## DISCUSSION

The purpose of this Issue Paper is to provide the Board with a Quarterly update on the District's financial position with the FY 2015 Operating Budget and alert the Board of Directors to areas of financial uncertainty. In addition, staff is including a three year financial projection from FY 2015 through FY 2018.

### *Background:*

On June 23, 2014, the Board adopted the FY 2015 Operating Budget of \$147.5 million in revenues and \$147.5 million in expenses, a balanced budget. The adopted budget incorporated all known revenues and estimates of expenses at that time.

### FY 2015 1st Quarter Financial Operating Recap

FY 2015 First Quarter results (as of September 30, 2014) indicate a deficit of \$417,000 due to total revenues being below budget by \$411,000, and total operating costs being over budget by \$6,000 in total.

Table 1 below shows RT's financial position at September 30, 2014:

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Approved:

Presented:

Final 12/2/14

General Manager/CEO

Acting, Chief Financial Officer

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**Table 1  
Sacramento Regional Transit District  
Income and Expenses as of September 30, 2014**

In thousands Categories	FY 2015 July - September		
	Actual	Budget	Variance
<b>Income</b>			
Fare Revenue	\$ 7,191	\$ 7,544	\$ (353)
Contracted Services	1,417	1,389	28
Other Income	694	780	(86)
State & Local Revenue	19,300	19,300	-
Federal Revenue	7,543	7,543	-
<b>Total</b>	<b>36,145</b>	<b>36,556</b>	<b>(411)</b>
<b>Expenses</b>			
Labor/Fringes	23,962	23,618	(344)
Services	6,419	6,463	44
Supplies	2,297	2,465	168
Utilities	1,757	1,841	84
Insurance/Liability	2,186	2,151	(35)
Other Expenses	418	495	77
<b>Total</b>	<b>\$ 37,039</b>	<b>\$ 37,033</b>	<b>\$ (6)</b>
<b>Net Operating Surplus (Deficit)</b>	<b>(894)</b>	<b>(477)</b>	<b>(417)</b>

Operating revenues are below budget by \$411,000 mainly due to Fare Revenue trending under budget by \$353,000 due to lower than expected prepaid sales and lower than expected ridership compared to FY 2015 budget.

Operating expenses are over budget by \$6,000 due to Labor/Fringes cost being over budget by \$344,000 while other expense categories being under budget or just slightly over.

**REVENUE IMPACTS:**

*Fare Revenue:*

Based on the first quarter results, Fare Revenue is trending \$353,000 below budget and about \$200 thousand below prior year first quarter Fare Revenue. For the first quarter of FY 2015, total actual ridership is below budget by 3.1% causing Fare Revenue to be below budget. The other factor that causes the Fare Revenue to be below budget is the Ticket exchange program. September was the first month of the Ticket exchange program. Every time the ticket exchange takes place, there is a decline in sales for a period of approximately three months. Returns are significantly higher due to individuals accumulating tickets. Riders finally realize how many tickets they have and decide not to buy additional merchandise causing pre-paid sales to drop. For the first three months, prepaid sales are 3.4% lower than prior year.

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At Mid-Year, staff will present to the Board the six-month budget to actual comparison and will propose necessary adjustments to budget classifications to realign the budget to actual results. While it appears that Fares are trending under budget, based on the first quarter results, staff will monitor them and adjust to what is projected for the remainder of FY 2015, with six months of actual results. One factor also included in Fare Revenue assumptions was the Connect Card being implemented in January 2015. The actual date of this implementation may impact Fare Revenue for FY 2015.

*State and Local Subsidy Revenue:*

Local Transportation Fund (LTF) and Measure A - RT's sales tax based revenues are posted each month at budgeted levels. RT's FY 2015 Operating Budget includes Measure A and the Local Transportation Funds (LTF) sales tax based revenue sources. During the budget process, staff assumed 5% growth for Measure A and 4% growth for LTF funds. Based on State Board of Equalization reports, during the first quarter of FY 2015, the actual LTF growth was recorded at 6.5% and Measure A growth was recorded at 5.7%. Staff will continue to monitor the sales tax growth. Once the December "true-up" numbers are in place, a realistic assumption can be derived for the remainder of the year for sales tax revenues.

LTF distributions are received according to the Sacramento Area Council of Governments (SACOG) annually adopted Finding of Apportionment and subsequent revisions.

RT receives Measure A funds from the Sacramento Transportation Authority as it comes in, and it is not subject to a delayed apportionment process. As previously reported, staff closely monitors sales tax receipts through the State Board of Equalization (BOE) website and the Measure A sales tax reports also run two months behind actual sale transactions. As previously noted, the next posting in December will be for the month of October and will be the next "true-up" month as well. This report will be a good indicator of the economic growth in the region for the first half of FY 2015 year.

*Other income:*

The Compressed Natural Gas (CNG) tax rebate program is a federal alternative fuels program that provides a rebate of nearly 50% of the cost of alternative fuels. RT has been able to receive approximately \$1.2 million in prior years in annual rebates through this program. Unfortunately, the last reauthorization of this program expired on December 31, 2013, while RT included a full year of potential rebates in the amount of \$1.3 million in the FY 2015 Operating Budget. The expectation is that this program may be reauthorized sometime during FY 2015. Staff is closely monitoring this, and if this is still outstanding in February 2015, we will need to consider reducing our FY 2015 revenues for CNG rebate by \$1.3 million, which is the current budget for FY 2015 for this revenue source.

Another revenue source related to CNG is CNG Sales to other agencies. Currently, several agencies such as Paladin Securities, Twin Rivers Unified School District, Robla School District buy CNG from RT at the newly opened fueling station at McClellan Bus Maintenance facility. In

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FY 2014, CNG outside sales totaled approximately \$83,000. In FY 2015, it is estimated CNG sales will total approximately \$110,000.

## EXPENSE IMPACTS AND UPDATE

### *Labor/Fringes:*

Based on the first quarter results, Labor/Fringes are \$344,347 over budget due to capital recovery being below budget and overtime trending over budget. Overtime is trending over budget by \$101,430 with 85% of this overage coming from Bus Maintenance, Light Rail, Facilities, and Police Services employees' overtime. Capital Recovery is about \$224,000 below budget due to departments charging less time to capital projects than was assumed in the FY 2015 Operating budget. At the end of September, RT had 945 filled positions, which computes to 5.7% vacancy factor compared to the number of funded positions. During the budget development, a 6.0% vacancy rate was assumed. Labor cost will be evaluated at mid-year, and necessary adjustments will be incorporated into Mid-year Budget Revision.

### *Non-labor expenses:*

Staff continues to monitor other expense categories. At the end of the first quarter, the budget to actual variances in those expense categories are about \$338,000 under budget.

## FY 2015 AND FINANCIAL FORECAST

Table 2 provides the revenue and expense budget for the current year FY 2015 and projections for the following three years FY 2016 through FY 2018.

Table 2  
Sacramento Regional Transit District  
FY 2015 Operating Budget and  
FY 2016 Through FY 2018 projected Revenue and Expenses  
(Dollars in Thousands)

	FY 2015	FY 2016	FY 2017	FY 2018
<b>Revenues</b>				
Fare Revenue	\$ 31,434	\$ 35,678	\$ 39,245	\$ 41,208
Contracted Services	5,556	5,783	5,990	6,200
Other	3,120	3,276	3,375	3,476
State & Local	81,048	84,524	88,142	91,892
Federal	30,174	32,501	32,963	33,431
<b>Total Operating Revenues</b>	<b>151,332</b>	<b>161,762</b>	<b>169,715</b>	<b>176,207</b>
<b>Expenses</b>				
Salaries & Benefits	95,046	100,927	105,577	109,952
Professional Services	25,923	27,527	28,795	29,989
Materials & Supplies	9,857	10,467	10,949	11,403
Utilities	5,873	6,236	6,524	6,794
Insurance & Liability	8,603	9,135	9,556	9,952
Other	2,180	2,315	2,422	2,522
<b>Total Operating Expenses</b>	<b>147,482</b>	<b>156,607</b>	<b>163,823</b>	<b>170,612</b>
<b>Non-Operating Expenses</b>				
Debt Service	(\$3,850)	(\$4,950)	(\$5,492)	(\$5,488)
<b>Net result</b>	-	205	400	107
<b>Cumulative reserve</b>	\$ 4,562	\$ 4,767	\$ 5,167	\$ 5,274

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**Notes:**

- South Line Phase 2 project goes into operation in September 2015 (FY 2016)
- FY 2016 - 2018 Federal revenue includes \$2.0 million of "Congestion Mitigation Air Quality" funding each year to cover operating costs for South Line Phase 2 project
- Estimated Operating costs for South Line Phase 2 project is \$4.3 million in FY 2016 prorated for (10/12) of FY 2016

**RISK ANALYSIS FOR FINANCIAL FORECAST**

- This assumes an increase of 10% in average fares in January 1, 2016, and then another increase of 10% in January 1, 2017. This is consistent with RT's 20 year financial forecasting model. Staff will use the data from the implementation of Connect Card to determine the ridership trends and patterns to assist in determining what the best fare structure will be to reach our 20% increase in average fare goal.
- The assumption includes the extension of the CNG Federal Tax Rebate, which expired on December 31, 2013 and assumes approximately \$1.3 million per year in FY 2016 through FY 2018 from this funding source.
- These assumptions do not include any additional funds from new revenue sources including State Cap and Trade Funds. There are a number of Cap and Trade funding efforts currently being developed by the legislature that could result in increased transit funding for RT.

**Proposed Schedule of FY 2015 Financial Updates and Activities:**

February 2015 - FY 2015 Mid-Year Budget Update

February/March 2015 - FY 2015 Mid-Year proposed budget adjustments