

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
9	02/24/14	Open	Information	02/13/14

Subject: 2014 Mid-Year Financial Update

## ISSUE

To receive information on RT's Fiscal Year 2014 Financial Position at mid-year.

## 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 mid-year update on the District's financial position within the FY 2014 Operating and Capital Budgets in light of current economic conditions and alert the Board to areas of financial uncertainty.

### *Background:*

On June 24, 2013, the Board adopted the FY 2014 Operating Budget of \$142.3 million in revenues and \$142.3 million in expenditures, and included a projected year-end operating reserve of approximately \$400,000. The adopted budget incorporated all known revenues and estimates of expenditures at that time; including the projected increase in costs associated with providing a full year of reinstated service as described in TransitRenewal Phase 1 of the TransitRenewal study, which restored approximately 8.3% of the 20.1% of service that was cut in June 2010. TransitRenewal Phase 1 service levels were implemented in September 2012 and included 10 months of costs in FY 2013 year, and a full year of costs in FY 2014.

The FY 2014 Operating Budget also included six months of an additional 1% of service increases in the form of changes characterized as "tweaks" to TransitRenewal Phase 1 service levels. FY 2015 will contain a full year of reinstated service and will bring the total service added since 2010 to approximately 9.3% of the 20.1% of service that was cut in June 2010.

## FY 2014 MID-YEAR OPERATING RECAP

FY 2014 mid-year results (as of December 31, 2013) indicate a surplus of about \$152,000 due to total revenues being below budget by \$156,000, and total operating costs being under budget by \$308,000.

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Approved:

Presented:

Final 02/19/14

General Manager/CEO

Chief Financial Officer

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Table 1 below shows RT's financial position at Mid-Year.

**Table 1  
Sacramento Regional Transit  
Income and Expenses as of December 31, 2013**

In thousands Categories	FY 2014 July - December		
	Actual	Budget	Variance
<b>Income</b>			
Fare Revenue	\$ 14,521	\$ 15,043	\$ (522)
Contracted Services	2,706	2,708	(2)
Other Income	1,828	1,460	368
State & Local Revenue	38,059	38,059	-
Federal Revenue	14,071	14,071	-
<b>Total</b>	<b>71,185</b>	<b>71,341</b>	<b>(156)</b>
<b>Expenses</b>			
Labor/Fringes	45,406	45,492	86
Services	12,357	12,682	325
Supplies	4,859	4,684	(175)
Utilities	2,978	2,905	(73)
Insurance/Liability	4,122	4,264	142
Other Expenses	1,122	1,125	3
<b>Total</b>	<b>\$ 70,844</b>	<b>\$ 71,152</b>	<b>\$ 308</b>
<b>Net Operating Surplus (Deficit)</b>	<b>341</b>	<b>189</b>	<b>152</b>

Revenues are below budget by \$156,000 mainly due to Fare Revenue trending below budget by \$522,000 due to lower than expected prepaid sales and lower than expected CSUS ridership. Other Income is above budget by \$368,000 due to a one time receipt of revenue for a License agreement with Qwest Communications for the use of RT's underground fiber conduit.

Mid-year results indicate a \$308,000 positive variance in operating expenditures. Salary & Benefits are under budget by \$86,000 due to higher than anticipated vacancies. Professional Services are under budget by \$325,000 due to Police Services and RT's Legal Department trending under budget. Materials & Supplies are over budget by \$175,000 due to bus, Light Rail and fare vending machine parts trending over budget. Utilities are over budget by \$73,000 due to seasonality's in traction power. The Insurance & Liability category is under budget by \$142,000 due to higher than expected recovery from insurance companies.

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## REVENUE IMPACTS:

Before the end of FY 2014, staff will present the Board with a number of adjustments to budget classifications to realign the budget with actual results. While there is still uncertainty surrounding some revenue elements, a potential change in revenue will reflect the net result of numerous increases and decreases in various projected revenues based on actual experience in this fiscal year and will include a reclassification of revenue as capital revenue. The most significant impacts on RT's revenue streams are noted below.

### *Fare Revenue:*

For the first six months of FY 2014, Fare Revenue is below budget by 3.5%. With the addition of evening service, the average fare in FY 2014 is three cents below the FY 2013 average fare at mid-year causing total Fare Revenue to come below last year by 2.7% and below budget by 3.5%. If this trend continues, staff will request that the Board approve an adjustment to the Budget reducing budgeted Fare Revenues to reflect the actual downward trend.

### *State & Local Subsidy Revenue:*

Local Transportation Fund (LTF) and Measure A - RT's sales tax based revenues are posted each month at the budgeted levels. For the first six months of FY 2014, actual taxable sales and sales tax receipts are trending at a growth rate of 2.6% over prior year, which is 2.4% lower than RT's current Local Transportation Funds and Measure A budget assumption of a 5.0% growth rate for FY 2014 over FY 2013. Staff is monitoring sales tax closely. If sales tax growth in FY 2014 does not show improvement, staff will recommend a revision to the FY 2014 Operating Budget in March 2014 to reflect lower sales tax based revenue numbers. Every 1% decrease in actual sales tax growth for Measure A and LTF funding reduces sales tax funding by approximately \$685,000 for the year. The lackluster sales tax based revenue growth in FY 2014 represents the single highest financial risk factor for RT this fiscal year. Once the March "true up" numbers are in place, a realistic assumption can be derived for the remainder of the year and the level of the adjustment to revenue can be determined.

LTF distributions are received according to Sacramento Area Council of Governments (SACOG) annually adopted Finding of Apportionment and subsequent revisions. SACOG staff is currently planning to revise the FY 2014 Finding of Apportionment for LTF funding in the near future, which will result in a change to RT's LTF budgeted revenue for FY 2014.

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 March will be for the month of January and will be the next "true-up" month for the region covering the holiday season through December 2013. It will be a strong indicator of economic growth in the region.

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*Federal Revenue:*

There are many fiscal challenges at the Federal level and the level of funding for Section 5307 Urbanized Area Formula and Section 5337 State of Good Repair (for Fixed Guideway) have been only partially allocated for FY 2014. The current projection for FY 2014 Section 5307 is an increase in funding of 1.5% compared to the original budget, and the current projection for FY 2014 for Section 5337 is the same as the original 2014 budget, the net impact is an increase to the FY 2014 Federal revenue. Staff will also propose an increase in Job Access Reverse Commute (JARC) Federal revenue due to changes to the prior year allocation. As of the writing of this staff report, exact numbers are not yet known.

*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 annual rebates through this program. Unfortunately, the last reauthorization of this program expired on December 31, 2013, while RT optimistically included a full year of potential rebates in the FY 2014 Operating Budget. The expectation is that this program will again be reauthorized; however, it may not be in time from an accounting standpoint to avoid writing down the expected revenue for the second half of this fiscal year. A downward revenue adjustment of \$600,000 may be required as a year-end budget-to-actual adjustment to this category if the CNG tax rebate program is not reauthorized.

EXPENDITURE IMPACTS AND UPDATE

*Salaries & Benefits:*

After conducting extensive analysis of the Labor cost for the first six months and projecting the cost for the fiscal year end, staff recognizes that adjustments to the Salaries & Benefits category will be necessary that could result in a significant cost increase compared to the June 24, 2013 Adopted Budget. Several factors remain at play that may change the amount, more or less.

Position Changes: There have been several personnel changes approved by the Board since the beginning of the fiscal year that, once implemented, will increase overall costs. However, due to delays in recruitments, the fiscal impact will be less than originally anticipated. Internal adjustments to the vacancy rate will also have a favorable impact and will help meet anticipated shortfalls in other areas such as unscheduled overtime and Capital Recovery.

Capital Recovery is a budget classification that credits the operating budget for labor charged directly to capital projects. Each Division estimates the amount of time that will be charged to capital projects during the budget process. Over the course of the year, staff monitors how much actual labor is charged to capital projects. At mid-year, capital recovery is \$500,000 below the budgeted level. Many departments have charged less labor to capital projects than expected due to project delays or deferrals. Staff anticipates higher capital recovery in the second half of the fiscal year but will still likely propose an amendment to the direct and indirect capital labor recovery to meet the shortfall.

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## FY 2014 CAPITAL BUDGET UPDATE

Since the Capital Budget was adopted on June 24, 2013, changes in expected project funding have occurred. These changes will require moving a net \$87,945 in State Transit Assistance revenue from the FY 2014 Operating Budget to the FY 2014 Capital Budget to provide funding for capital projects. The projects will be described in greater detail when the adjustments are brought to the Board later in the year.

## PROPOSED SCHEDULE OF FINANCIAL UPDATES AND ACTIVITY:

- March 10, 2014 - Board Priority Setting Workshop for FY 2015 Operating Budget
- March 24, 2014 - FY 2014 Operating and Capital Budget Revisions
- April 14, 2014 - Call for Public Hearing and Release FY 2015 Preliminary Operating and Capital Budgets for 60 Day Review
- May 12, 2014 - Open Public Hearing on FY 2015 Preliminary Operating and Capital Budgets
- June 23, 2014 - Close Public Hearing and Adopt FY 2015 Operating and Capital Budgets