

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
5	03/10/14	Open	Information	02/28/14

Subject: FY2015 Operating Budget Planning and Priority Setting

## ISSUE

Discussion of FY 2015 Operating Budget planning and priority setting for budget development purposes.

## RECOMMENDED ACTION

Information Item only

## FISCAL IMPACT

None as a result of this presentation.

## DISCUSSION

This presentation will provide the basis for Board discussion on priority setting for use in developing the FY 2015 Operating Budget. Each year since 2011, the Board has received a report from staff on key funding priorities and asked for direction on prioritizing the use of any revenues received in excess of the planned budget. The key priority list is not intended to be all inclusive and the Board may wish to add or modify a priority category during the priority setting discussion.

The priorities discussed annually include: (1) reserves; (2) service restoration; (3) improve internal services such as weed abatement, graffiti removal, etc.; (4) investment in personnel; and (5) capital funding. In the past three discussions, almost every Board member expressed that the Federal Transit Administration (FTA) South Line requirement to develop Operating and Capital Reserves (as shown in the financial plan that was accepted as part of the Full Funding Grant Agreement) was the first priority. Service restoration was a close second. The remaining categories were also considered important and in early FY 2013, a preference for improved internal services was generally agreed upon as a firm third priority for FY 2014. Staff develops the Operating and Capital Budgets based on feedback received from the priority setting discussions.

Internal planning for the FY 2015 Operating and Capital Budgets has been underway since early February of 2014 and, with this report, staffs seeks confirmation of the Board's funding priorities as we move through the process to finalize a proposed budget for consideration.

## FY 2015 Financial Outlook

As you will see from the following table, revenue projections for the upcoming year and the following three years exhibit slow growth across the board.

---

Approved:

Presented:

Final 03/05/14

General Manager/CEO

Chief Financial Officer

J:\FIN\Issue Papers ALL\2014 Issue Papers\03-10-14 Issue Paper FY 2015 Operating Budget Planning and Priority Setting.doc\3.doc

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
5	03/10/14	Open	Information	02/28/14

Subject: FY2015 Operating Budget Planning and Priority Setting

While the preliminary budget is still in development, it is evident that under the conservative scenarios we are working with, an addition to reserves at the end of FY 2015 will not be possible unless revenues grow at a rate greater than the conservative rate(s) used in the table.

Sacramento Regional Transit District  
 FY 2014 Revised budget and FY 2015  
 Through FY 2018 projected Revenues and Expenses

Categories	FY 2014 Budget	2014 Draft Revised Budget	FY 2015 Projected Budget	FY 2016 Projected Budget	FY 2017 Projected Budget	FY 2018 Projected Budget
<b>Operating Revenue</b>						
Fare Revenue	\$ 30,085,847	\$ 29,585,846	\$ 30,381,563	\$ 35,749,412	\$ 41,145,826	\$ 43,215,001
Contracted Services	5,416,127	5,416,127	5,593,901	5,876,353	6,176,047	6,491,026
Other	2,920,292	2,920,292	2,920,292	2,996,986	3,387,004	3,494,794
State & Local	79,868,657	79,868,657	81,459,129	84,421,101	88,756,325	93,336,872
Federal	28,142,128	28,501,483	27,992,128	32,910,000	34,455,500	36,078,275
<b>Total Operating Revenue</b>	<b>\$ 146,433,051</b>	<b>\$ 146,292,405</b>	<b>\$ 148,347,013</b>	<b>\$ 161,953,852</b>	<b>\$ 173,920,702</b>	<b>\$ 182,615,968</b>
<b>Operating Expenses</b>						
Salaries & Benefits (All costs)	\$ 90,983,542	\$ 91,134,135	\$ 93,868,159	\$ 96,684,204	\$ 103,452,098	\$ 110,279,937
Paratransit	12,361,515	12,361,515	12,979,591	13,628,570	14,582,570	15,603,350
Professional Services	4,897,997	5,123,997	5,226,477	5,291,577	5,419,451	5,574,644
Security services	7,953,909	7,953,909	8,351,604	8,769,185	9,207,644	9,668,026
Materials & Supplies	9,367,650	9,357,650	9,544,803	9,663,690	9,897,220	10,180,640
Utilities	5,810,000	5,810,000	5,926,200	6,000,015	6,145,009	6,320,980
Casualty & Liability	8,528,942	8,528,942	8,699,521	8,807,880	9,020,728	9,279,048
Other	2,400,095	2,184,095	2,227,777	2,255,525	2,310,032	2,376,183
South Line costs	-	-	-	5,000,000	6,866,667	7,072,667
<b>Total Operating Expenses</b>	<b>\$ 142,303,650</b>	<b>\$ 142,454,243</b>	<b>\$ 146,824,132</b>	<b>\$ 156,100,646</b>	<b>\$ 166,901,418</b>	<b>\$ 176,355,474</b>
<b>Non-Operating Expenses</b>						
Debt Service	\$ (3,750,217)	\$ (3,838,162)	\$ (3,850,000)	\$ (2,365,000)	\$ (5,492,000)	\$ (5,488,000)
<b>Potential Reserve</b>	<b>\$ 379,184</b>	<b>\$ -</b>	<b>\$ (2,327,119)</b>	<b>\$ 3,488,206</b>	<b>\$ 1,527,284</b>	<b>\$ 772,494</b>
<b>Prior year reserves</b>	<b>7,904,358</b>	<b>7,904,358</b>				
<b>Total Reserve</b>	<b>8,283,542</b>	<b>7,904,358</b>	<b>5,577,239</b>	<b>9,065,445</b>	<b>10,592,729</b>	<b>11,365,223</b>

**Notes:**

South Line Phase 2 goes into operations in September 2015 (FY 2016)  
 2016 - 2018 Federal Revenue includes \$2.0 million of CMAQ funding each year to cover operating cost for South Line Phase 2  
 Estimated Operating cost for South Line Phase 2 is \$5.0 million in FY 2016

## Key Budgeting Priorities

Here is a recap of the five priority areas identified by staff and discussed annually with the Board along with updates on how RT is doing in each area. The priorities are listed in priority order.

### 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.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
5	03/10/14	Open	Information	02/28/14

Subject: FY2015 Operating Budget Planning and Priority Setting

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 FTA advised RT that the identification of funds for an Operating Reserve of 1.5 months of expenditures is an important element of the successful Financial Capacity Assessment (FCA) for the Blue Line to Cosumnes River College project. Now that RT has entered into a Full Funding Grant Agreement (FFGA) with FTA, we have a planned goal to grow reserves to the expected level.

Because 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) indicated 2012 as the first year funds would be available to designate as Operating Reserves. The reserve target changes as the annual budget changes. The rolling cumulative reserve line in the FFM now shows that RT will achieve its minimum reserve target in 2022.

As a secondary financial goal of RT's New Starts process, 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.

Building reserves has been the number one priority of the Board, based on the budget development priority setting discussions. RT met this priority in FY 2012 by designating \$5.2 million as the Operating Reserves on December 10, 2012 after receiving and filing the Comprehensive Annual Financial Reports (CAFR) and other documents resulting from the FY 2012 Annual Audit.

A potential reserve was identified during budget planning for both FY 2012 and FY 2013. As a recap for FY 2013, on November 11, 2013, after receiving and filing the CAFR for FY 2013, the Board designated \$2.66 million as Operating Reserves. This designation brought the Operating Reserve balance to \$7.86 million.

Barring a need to use reserves to re-balance the FY 2014 Operating Budget, this is the amount that staff expects to carry into FY 2015.

## **2. Service Restoration**

On June 20, 2010, RT implemented service reductions amounting to 20.1% 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

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
5	03/10/14	Open	Information	02/28/14

Subject: FY2015 Operating Budget Planning and Priority Setting

sales tax based revenues, as well as the expiration of the Compressed Natural Gas rebate all contributed to the need to make the difficult decisions to cut service and layoff staff.

The FMM included the restoration of service beginning in FY 2013. In the year following service cuts, RT undertook a Comprehensive Operational Analysis (COA or “TransitRenewal”) to help determine how best to restore service throughout the RT system. TransitRenewal was adopted in FY 2011.

Restoration of service has been the number two priority of the Board based on the budget development priority setting discussions. With this in mind, RT was able to identify sustainable funding to restore bus service by 6.3% and rail service by 13.3% for a total restoration of service of 8.3% on September 1, 2012, well ahead of the FFM schedule. In January 2014, under the General Manager’s authorization, an additional 1% of service changes were implemented as “tweaks” to TransitRenewal Phase 1. These changes brought the service restoration to 9.3% of the 20.1% cut in 2010.

### **3. *Improving Service Quality***

This key priority directs additional funding toward improving the quality of service that has been cut back in recent years to reduce costs. For example, maintenance budgets have been reduced over time to meet critical needs but very little more. Station cleaning and landscape maintenance budgets were cut 30%, 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 primarily performed, 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, and dumped appliances/furniture has been cut back from monthly to being provided on a complaint basis. Gradual station deterioration due to reduced maintenance is evident but unavoidable unless additional resources are directed toward improving service quality.

Improving service quality was identified as the third highest priority by the RT Board in the FY 2013 priority setting discussion. As a result, more resources were allocated in FY 2013 to improve service quality and those levels were continued in FY 2014. In addition, security services were also increased which had a positive impact on reducing vandalism and crime at the stations.

### **4. *Investment in Personnel***

Economic conditions since 2006 required RT to cut back and, in some areas, eliminate what could be called RT’s investment in personnel. This key 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 deep, leaving staffing levels too thin in some functional areas.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
5	03/10/14	Open	Information	02/28/14

Subject: FY2015 Operating Budget Planning and Priority Setting

An additional three Facility Maintenance Mechanic positions were added in the FY 2014 Operating Budget to improve service quality in the Facilities Division. In addition, the most recently approved positions of Senior Information Technology Business Systems Analyst, Principal Systems Engineer, and Principal Civil Engineer will be added as part of the FY 2014 mid-year budget revisions in March 2014.

**5. Capital Investment**

This key priority directs a level of funding toward smaller capital and ongoing maintenance projects separate from the larger Capital Reserve described above. This funding source provides local match or total funding available for unfunded and under-funded capital projects in project areas such as ongoing maintenance, system repair, and equipment purchases. 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.

While it is one of the lowest funding priorities based on past priority setting discussions, RT has been able to leverage small capital investments in order to successfully compete for state or federal grants by reclassifying small amounts of STA revenue to cover local match as awards are received for internal funding priorities.

Conclusion

Input received from the Board on priority setting will be incorporated into the planning and development process for the preliminary FY 2015 Operating and Capital Budgets. Both budgets will be presented to the Board in late March and issued for a sixty-day review period. At least one public hearing will follow before final presentation and adoption in June 2014. RT is statutorily required to adopt a budget by July 1 for the next fiscal year.