

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
6	04/27/15	Open	Information	04/21/15

Subject: FY2016 Operating Budget Update

## ISSUE

Discussion of updates to FY 2016 Operating Budget since the April 13, 2015 Board Meeting.

## RECOMMENDED ACTION

Information only.

## FISCAL IMPACT

None as a result of this presentation.

## DISCUSSION

The Proposed Fiscal Year 2016 Operating and Capital Budgets were released for public review on April 13, 2015. Through this process, the public is offered an opportunity to express opinions regarding the proposed FY 2016 Budget. The presented revenues and expenditures for the FY 2016 Preliminary Operating Budget are based on the knowledge and expectations at that time. There are several areas of uncertainty that still remain. This report provides updates and additional information regarding certain line items in the FY 2016 Operating Budget.

Operating Revenues are projected to be \$154.2 million in FY 2016 as compared to \$146.9 million in the FY 2015 Amended Budget, which is an increase of 5.0% in total revenues. This estimate includes \$3.9 million in revenue for South Line Phase 2, which includes fare revenue estimates, Low Carbon Transit Operations Program (LCTOP) grant funding, and Federal Congestion Mitigation Air Quality (CMAQ) funding.

The total Operating Expense Budget is projected to be \$156.9 million in FY 2016 as compared to \$146.9 million in the FY 2015 Amended Budget, which is an increase of 6.8% in total expenses. This estimate includes \$3.7 million in South Line Phase 2 costs. This estimated cost is based on 27 fully funded South Line positions with a 17% capital recovery rate, as well as a \$1.4 million increase in non-labor expenses for traction power, maintenance and other costs.

## Summary of the FY 2016 Preliminary Operating Budget

Table 1 provides a summary of the FY 2015 Amended Budget and the FY 2016 Preliminary Operating Budget.

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Approved:

Presented:

Final 04/21/15

General Manager/CEO

Chief Financial Officer, Acting

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**Table 1**  
**Sacramento Regional Transit District**  
**FY 2016 Operating Revenues and Expense Summary**

Categories	FY 2015 Amended Budget	FY 2016 Draft Base Budget	FY 2016 Base Budget % Changes	FY 2016 Draft South Line	FY 2016 Draft Budget Total	FY 2016 Total Budget % Changes
<b>Operating Revenue</b>						
Fare Revenue	\$ 28,834,224	\$ 29,270,639	1.5%	\$ 594,458	\$ 29,865,097	3.6%
Contracted Services	5,664,819	6,330,374	11.7%	-	6,330,374	11.7%
Other	4,701,369	3,817,545	-18.8%	1,482,747	5,300,292	12.7%
State & Local	77,560,824	80,699,146	4.0%	-	80,699,146	4.0%
Federal	30,173,615	30,393,610	0.7%	1,638,356	32,031,966	6.2%
<b>Total Operating Revenue</b>	<b>\$ 146,934,851</b>	<b>\$ 150,511,314</b>	<b>2.4%</b>	<b>\$ 3,715,561</b>	<b>\$ 154,226,875</b>	<b>5.0%</b>
<b>Operating Expenses</b>						
Salaries & Benefits	\$ 95,045,703	\$ 98,199,795	3.3%	\$ 2,267,732	\$ 100,467,527	5.7%
Professional Services	25,899,283	27,718,510	7.0%	229,829	27,948,339	7.9%
Materials & Supplies	9,494,600	9,733,750	2.5%	541,500	10,275,250	8.2%
Utilities	5,757,900	5,757,900	0.0%	676,500	6,434,400	11.7%
Casualty & Liability	8,603,540	9,772,996	13.6%	-	9,772,996	13.6%
Other	2,133,825	1,966,345	-7.8%	-	1,966,345	-7.8%
<b>Total Operating Expenses</b>	<b>\$ 146,934,851</b>	<b>\$ 153,149,296</b>	<b>4.2%</b>	<b>\$ 3,715,561</b>	<b>\$ 156,864,857</b>	<b>6.8%</b>
<b>Shortfall TBD</b>	<b>\$ -</b>	<b>\$ (2,637,982)</b>		<b>\$ -</b>	<b>\$ (2,637,982)</b>	

The following changes have taken place since the April 13th FY 2016 Budget presentation to the Board:

1. Advertising Revenue (Other Revenue) increased by \$110,000 due to an increase in revenue vehicle advertisement.
2. Miscellaneous Revenue (Other Revenue) decreased by \$110,991 due to a change in how Pension Administrator reimbursements from the Pension fund are budgeted.
3. Salaries & Benefits decreased by \$110,991 due to an increase in labor cost recovery for the Pension Administrator position.

## Follow Up Items

### Police Services Department - Increase in Fare Inspection Cost

The FY 2016 Operating Budget assumes added costs for fare inspections. This would include \$149K to fund two station guard positions, and \$260-390K to fund two sworn officer positions, officers who would be partially dedicated to fare inspections.

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## Office Space

Staff is exploring the possibility of building additional office space in RT-owned buildings in an effort to move staff from leased buildings into RT-owned buildings. The goal over time is to reduce RT's lease costs in the Operating Budget. The remodeling of Hallcraft into additional office space is planned to be completed in the December 2016 time frame. This will not impact the FY 2016 Operating Budget. The only changes in property lease costs that staff expects in FY 2016 are the elimination of the Land Avenue Warehouse lease, as well as a sublease of the P/Q Parking Lot to Sutter Medical Group, which will generate about \$4,000 a month in additional revenue. This is included in Table 1 above.

## Parking Fees

In January 2010, RT introduced parking fees of \$1.00 at three Park-and-Ride (PNR) lots on the Blue Line to I-80. This pilot program was followed by the introduction of \$1.00 parking fees at the Meadowview, and Florin, and Power Inn stations in October 2010. Gross revenues generated by the program totaled \$306,088 for the first full fiscal year that the program was in effect (FY 2011). Program revenues have been trending downward: \$291,468 in FY 2012, \$258,601 in FY 2013, \$252,640 in FY 2014, and it is projected to be approximately \$260,000 for FY 2015. Based on a 12-month average, Park and Ride lots are utilized at 35% of their capacity.

Based on previous Board action, the parking fee will be applied at the South Line Phase 2 Franklin light rail station. The FY 2016 Park & Ride revenue budget of \$300K includes estimates for the fees collected at the added light rail station.

## Salaries & Benefits costs

FY 2016 Labor Budget includes the cost of 1,032 funded or partially funded positions. A position count summary is presented in Table 2. The FY 2016 Budget includes 89 current vacant positions. Out of 89 vacant positions, 25 positions are funded 100%, and 64 positions are 50% funded. In addition, the Labor budget includes a vacancy rate of 6% for all non-operator positions. The vacancy rate for operator positions is 2%.

**Table 2**  
Sacramento Regional Transit District  
FY 2016 Positions and Level of Funding

	Total Funded	Filled	Vacant	
			100% funded	50% funded
Total number of positions	1,032	943	25	64
South Line positions	27	14	13	-
Non-South Line positions	1,005	929	12	64

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If staff fully unfunded 20 of the positions that are currently 50% funded, the net savings is estimated to be approximately \$1.0 million in the FY 2016 Budget. This would change the position listing to the following breakdown:

	Total Funded	Filled	Vacant		
			100% funded	50% funded	0% funded
Total number of positions	1,012	943	25	44	20
South Line positions	27	14	13	-	-
Non-South Line positions	985	929	12	44	20

Staff is in the process of evaluating staffing needs by Division and Department.

## Potential Revenue Increase/Cost Reduction Methods to Achieve a Balanced Budget

### RIN's

Another potential new funding source for RT is through the United States Congress Environmental Protection Agency (EPA). The EPA is responsible for ensuring that all gasoline sold in the U.S. contains the applicable volume of renewable fuel required by the Energy Policy Act of 2005. The Act led to the creation of the Federal Renewable Fuel Standard in September 2007. This raised the amount of renewable fuels to be used in gasoline in the United States from 8 billion gallons to 36 billion gallons by 2022. In order to monitor this mandate, the EPA required that each gallon of renewable fuel produced be issued a unique serial number. These Renewable Identification Numbers (RINs) are turned in to the EPA each year to track the renewable fuels. These RINs can be bought and sold, similar to the State Cap and Trade Carbon Credits. RT, working with DGS, has applied for certification to earn RINs for CNG (Bio-gas) fuel usage. Staff will soon have more information about the potential revenue from this funding source and the projected fiscal impact, at which time a report will be presented to the Board. The current projected revenue from this source is in the range of \$168,000 to \$960,000 annually. (Based upon the improved carbon intensity number of the green gas being provided, there will be an increase in the quantity of RINs generated from the gas. The range represents the fluctuation in value of the RINs on the open market at the time of the sale. The trend and market pressure are pushing the average sales value upward.) Staff continues to monitor this closely and plans to have a more firm estimate of the revenue impact in the new few weeks.

### Fare Revenues

RT's Fare Structure Committee has been meeting for months discussing the District's fare policy and plans to bring a draft fare policy to the May 11<sup>th</sup> 2015 Board meeting. Staff will present the plans, including a full proposal of potential fare structure changes, to the Board to consider and provide input. The draft will include potential fare increases, opportunities to reduce the current school discounts over the next two years, as well as a discussion of discount fares. A 10% increase in fares effective January 2016 would increase fare revenue in the range of \$1.0 to \$1.5

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million in FY 2016. This estimate is a rough number that needs to be fine-tuned in the months ahead, in alignment with the fare policy and fare structure discussion with the Board moving forward.

### Service Reductions

Staff has done some analysis of ridership trends to determine what routes might be performing under our current performance goals to determine what service levels could be considered to be reduced or discontinued. This data was presented at the April 13<sup>th</sup> Board meeting.

If service reductions were employed as a means of closing RT's budget deficit, staff estimates that roughly 3 to 4 percent of systemwide bus service could be reduced by making modifications such as decreasing frequency of service and eliminating select segments of service on some routes. Assuming January 2016 implementation, limited service reductions would reduce RT's budget deficit by approximately \$500,000 in FY 2016. Staff estimates that ridership loss would be approximately 250,000 boardings annually for a reduction of this nature. A larger reduction that would include elimination of most of the routes that are not currently meeting service standards would result in a service reduction of approximately 8 percent and would save an estimated \$2.1 million annually, approximately \$1.0 million of that savings would affect FY 2016, and could result in a ridership loss of approximately 500,000 boardings annually.

### **Looking Ahead**

Staff's goal is to have a balanced budget for FY 2016. Currently there is a projected shortfall of \$2.6 million. Staff's goal is to achieve balance through further cost reductions or revenue adjustments. Staff will continue to work diligently to confirm and modify plans within the Federal and State budget constraints.

### **Budget Schedule - Next Steps**

- 5/11/15      Public Hearing accepting Public Comment on Proposed FY 2016 Budgets and Continue Public Hearing to June 22, 2015.
- 6/8/15      Board Discussion.
- 6/22/15      Continue Public Hearing to accept Public Comment on the Proposed FY 2016 Operating and Capital Budgets, and Adopt the FY 2016 Operating and Capital Budgets.