

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
8	02/23/15	Open	Information	02/17/15

Subject: 2015 Mid-Year Financial Update

ISSUE

To receive information on RT's Fiscal Year 2015 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 for the FY 2015 Operating Budget in light of current economic conditions, and to alert the Board to areas of financial uncertainty.

Background:

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

FY 2015 MID-YEAR OPERATING RECAP

FY 2015 mid-year results (as of December 31, 2014) indicate a deficit of about \$1.65 million due to total revenues being below budget by \$1.41 million, and total operating costs being above budget by \$240,000.

Approved:

Presented:

Final 02/18/15

General Manager/CEO

Chief Financial Officer, Acting

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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, 2014**

In thousands Categories	FY 2015 July - December		
	Actual	Budget	Variance
Income			
Fare Revenue	\$ 14,290	\$ 15,711	\$ (1,421)
Contracted Services	2,827	2,778	49
Other Income	1,520	1,560	(40)
State & Local Revenue	38,599	38,599	-
Federal Revenue	15,087	15,087	-
Total	72,323	73,735	(1,412)
Expenses			
Labor/Fringes	48,006	47,236	(770)
Services	12,780	12,939	159
Supplies	4,665	4,928	263
Utilities	3,055	3,062	7
Insurance/Liability	4,342	4,302	(40)
Other Expenses	1,044	1,183	139
Total	\$ 73,892	\$ 73,650	\$ (242)
Net Operating Surplus (Deficit)	(1,569)	85	(1,654)

Revenues are below budget by \$1.41 million due to Fare Revenue trending below budget by \$1.42 million due to lower than expected ridership and prepaid sales.

Mid-year financial results also indicate a \$242,000 negative variance in total operating expenses. Labor/Fringes are over budget by \$770,000 due to higher than anticipated vacancies, overtime and less than budgeted capital recovery. Professional Services are under budget by \$159,000 due to the Finance and Marketing Departments trending under budget. Materials & Supplies are under budget by \$263,000 due to compressed natural gas (CNG) and bus parts costs trending under budget. Utilities are right on budget. The Insurance & Liability category is over budget by \$40,000 due to unexpected Federal and State excise tax charges due to RT using off-shore insurers. Other expenses are under budget due to GM's Contingency located in this expense category, Interest Expense trending below budget and seasonality with Roadeo costs.

For the first six months of FY 2015, RT's total expenses are exceeding revenue by \$1.6 million. If this trend continues, total expenses will exceed revenues by \$3.2 million at year-end.

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REVENUE IMPACTS:

Staff’s plan is to present the Board with a number of adjustments to budget classifications in March 2015 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. The most significant impacts on RT’s revenue streams are noted below:

Fare Revenue:

For the first six months of FY 2015, Fare Revenue is below the seasonally adjusted budget by \$1.4 million, or 9.0%. Certain assumptions were used in calculating the FY 2015 Fare Revenue budget, such as an assumption that the Connect Card project would be implemented by January 2015 and would result in added Fare Revenue due to better internal controls and less counterfeiting. However, Connect Card has not been launched to date. Also, staff assumed an increase in ridership as a result of the Fix-50 project last summer that has not happened to date. Ridership for the first six months of FY 2015 is 1.3% below FY 2014 amounts, and Fare Revenue through December is 1.6% less than the same time period in FY 2014. If the current trend continues, Fare Revenue is projected to be \$2.6 million below budget by the end of FY 2015.

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 2015, actual sales tax receipts are trending at 5.6% growth over the prior year actuals for Measure A, and at 6.6% growth for LTF, which is 2.6% higher than RT’s current LTF assumption and right on budget for Measure A. Staff is monitoring sales tax closely. Every 1% increase in actual sales tax growth for Measure A or LTF funding increases sales tax funding by approximately \$350,000 for the 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 Findings of Apportionment and subsequent revisions. SACOG staff will revise the FY 2015 Findings of Apportionment (FOA) for LTF funding in February, which will not result in a change to RT’s LTF budgeted revenue for FY 2015 because the LTF budget already assumes 4% growth compared to last year’s estimated sales tax receipts. The LTF allocation process is very cumbersome. In addition to the State Board of Equalization collecting actual sales tax receipts, Sacramento County and SACOG are both involved with allocation of LTF funds. Sacramento County uses what RT believes to be an extremely conservative approach with the funds allocation. While the Sacramento Transportation Authority projects approximately 5.0% growth on an annual basis for Measure A revenue, Sacramento County projects no growth or very minimal 1-2% growth in its sales tax projections on an annual basis. This process prevents transit agencies from receiving collected sales tax revenue in a timely manner.

For FY 2015, the original LTF FOA for RT was \$34,276,160. Out of this amount, about \$33 million was for FY 2015 and about \$1.3 million for prior year funds. Allocation of \$33 million for

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FY 2015 computes to a decrease of 1.9% compared to the State Board of Equalization (BOE) estimates of about \$33.6 million in collected sales tax receipts in FY 2014. RT's budget for FY 2015 is \$34.9 million (assumed 4% growth compared to BOE records). RT also budgeted to receive prior year LTF in the amount of \$1.25 million due to delayed apportionment process. With the actual sales tax receipts growth rate of 6.6% for the first six months, RT's estimated 2015 LTF revenue would be \$35.8 million, which is about \$885 thousand more than RT's current budget for FY 2015, not including prior year LTF funds or increase of \$2.9 million compared to the original FOA issued by SACOG. Table 2 below illustrates this issue:

Table 2
Local Transportation Fund Allocation

Total Sacramento County Allocation	2014 LTF	2015 LTF	2015 LTF	2015 LTF	2015 LTF
	BOE	SACOG Original	SACOG Revised	BOE trending	RT's Budget
BOE 2014 LTF	50,739,369				
FY 2015 LTF		49,778,673	51,778,673	54,088,167	
Change over 2014 BOE		-1.9%	2.0%	6.6%	
Prior year LTF funds		2,000,000	1,300,000	1,888,000	
RT's Allocation - 66.2%					
BOE 2014 LTF	33,588,167				
FY 2015 LTF		32,952,211	34,285,922	35,815,184	34,929,997
Change over 2014 BOE		-1.9%	2.1%	6.6%	4.0%
Prior year LTF funds		1,323,949	860,812	1,250,164	1,250,000
RT Total (2015 + prior year)		34,276,160	35,146,734	37,065,348	36,179,997

The issues with the LTF allocation process cause a fiscal impact on RT. Staff strongly believes that RT used reasonable and conservative assumptions to budget the FY 2015 LTF Revenue. If SACOG doesn't revise FY 2015 FOA again before the end of the FY 2015, RT will be required by our Auditor to record \$35.1 million as LTF revenue for FY 2015 (need to match SACOG LTF FOA). The revised SACOG LTF allocation of \$35,146,734 is \$1,033,263 below RT's LTF FY 2015 Budget and \$1,919,614 below the current BOE trending in sales tax receipts.

RT receives Measure A funds from the Sacramento Transportation Authority as sales tax receipts are collected by the Board of Equalization (BOE), and is not subject to a delayed apportionment process. As previously reported, staff closely monitors sales tax receipts through the BOE website. The Measure A sales tax reports 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 2014. This "true up" will be a strong indicator of economic growth in the region.

State Transit Assistance (STA) – STA statewide funds are still estimated to be \$373 million in FY 2015 based on projected tax receipts. Staff does not anticipate that this amount will change. The first half year of statewide funds is trending very close to this budget of \$373 million statewide.

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Federal Revenue:

The current assumption for FY 2015 Section 5307 and Section 5337 Federal funding is an increase in funding of 1.0% compared to the FY 2014 actual revenue. The FTA in early February apportioned 8/12th of the FY 2015 funding amounts for both of these programs. There is no certain date as to when the full year will be apportioned for FY 2015, and the full year allocation most likely will be equal to RT's current budget for both programs. However, the Section 5337 funding program could be more than budget based on the application of the federal methodology utilized to distribute funding under this program.

Other Revenue:

The 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 \$1.3 million in annual rebates through this program. Unfortunately, the last reauthorization of this program expired on December 31, 2014; RT included a full year of potential rebates in the FY 2015 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. In FY 2014, because of a delay with the last reauthorization, staff had to write off about \$680,000 in CNG tax rebate revenue. With the extension of the program to December 31, 2014, RT will be able to claim the CNG tax rebate lost in FY 2014 in FY 2015. This revenue in the amount of \$680,000 is an additional revenue for FY 2015.

EXPENDITURE IMPACTS AND UPDATE

Labor/Fringes:

Labor/Fringes are \$770,000 over budget for the first six months of the fiscal year mainly due to overtime trending over budget and capital recovery trending below budget. In addition, at the end of December, RT had 946 filled positions, which equates to a 5.6% vacancy factor compared to the number of funded positions. During the budget development, a 6.0% vacancy rate was assumed.

Overtime is trending \$406,000 over budget for the first six months of the fiscal year. A large portion of the overtime is associated with Managers' Training. With Managers' Training coming to an end, it is anticipated that there will be less overtime in the second half of the fiscal year.

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 \$945,000 below the budgeted level. There are two reasons for capital recovery to be below budget: 1) \$429,000 of this variance comes from departments charging less labor to capital projects than expected due to project delays or deferrals. In the second half of the fiscal year, staff anticipates higher capital recovery but will still likely propose an amendment to the direct and indirect capital labor recovery to meet the shortfall; and 2) Capital recovery is also under budget by \$516,000 because of delays

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with hiring positions for South Line operation. These positions are funded by South Line phase 2, but since these positions remain vacant, no charges could be applied.

AREAS OF CONCERN AND ACTIONS TAKEN

As mentioned above, for the first six months of FY 2015, RT's total expenses are exceeding revenue by \$1.6 million. If this trend continues, total expenses will exceed revenues by \$3.2 million at year-end.

As a result of the challenges mentioned above, staff has taken the following steps to reduce expenses in FY 2015:

- Initiated a hiring freeze effective January 30th for all employees, except the backfill of Operator positions to maintain our current service levels and service reliability.
- Effective January 30th, overtime is prohibited except with the permission of the GM/CEO, with the exception of Bus, CBS and Rail Operators. These groups are excluded from the ban on overtime due to how RT's bus and rail runs are structured and scheduled to ensure that we continue to provide reliable service.
- In late January, the GM/CEO requested reductions in non-labor expenses from all Divisions. Staff is currently revising non-labor budgets in an effort to reduce expenses for the remainder of FY 2015.
- Staff has reached out to all management and project managers to remind them to charge time spent on Capital Projects to those projects, to assist in more savings to the operating labor costs.
- Staff receives Actuary Valuations for our Worker's Compensation and Liability coverage at the end of each Fiscal year in July/August and also mid-year in January/February time frames. The mid-year actuary report for the period July to December 2014, has been received and it is projecting costs for FY 2015 to be above our current budget of approximately \$2.0 million in total. There will be a final actuary review done in July for FY 2015 based on the January to June 2015 time frame. This final report for FY 2015 could result in actual expenses above our current budgeted levels.

The projected potential savings from the items in the bullets above are projected to reduce expenses in the range of \$1.0 million to \$2.1 million towards this shortfall in Fare Revenue.

Staff is looking into potential revenue sources that could reduce our current projected revenue shortfall. Below is a list of those potential sources:

1. LCFS Credits:

In 2014, in order to reduce greenhouse gas emissions, the California Air Resources Board established a Low Carbon Fuel Standard (LCFS) for transportation fuels in California. Staff estimates that RT will have 9,122 LCFS credits earned for CNG usage by the end of June 2015.

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These credits have values based upon the market, which is estimated between \$25 to \$85 per credit depending upon market conditions. Sale of LCFS credits could bring additional revenue in the range between \$228,000 and \$328,000 in FY 2015.

2. LCTOP Funds:

Another new program is the Low Carbon Transit Operations Program (LCTOP). It is one of several programs that are part of the State Cap and Trade Program established by the California Legislature in 2014 by Senate Bill 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emission and improve mobility, with a priority on serving disadvantaged communities. Approved projects in LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities. The extension of Route 28 to Butterfield light rail station is a new service for RT that will start in April of 2015. This service could bring additional revenue in the amount of \$170,000 in FY 2015 if it qualifies as a new/expanded bus service under LCTOP program.

3. Excess Property Sale:

One additional potential source of revenue is the sale of excess property that may or may not happen by the end of June 2015. Appraisal of RT's Cemo Circle property is scheduled to be complete by March 31, 2015. The value of this property is projected to be in the range of \$1.5 million to \$3.4 million. Another property for sale is the old I-5 ROW, which is already approved for sale. The City of Sacramento is looking to purchase the property and is likely to pay a down payment and pay the remaining balance over a 2 or 3 year period. Staff is working to partner with the City on an appraisal, and the value should be determined in the next 60 days. Most of the other properties are still going through the FTA approval process and will be entering the excessing to other agencies in the next 30 days or so. An optimistic view would have some of these selling in the next 12 months.

Summary of FY 2015 Financial Status

Based on current trends, RT's expenses will exceed revenues by \$3.2 million at the end of FY 2015 due mainly to fare revenues coming in much less than budgeted. To address this issue staff has taken the actions mentioned above. It is reasonable to project that expenses can be reduced from \$1.0 million to \$2.0 million over the next five months. There is potential for one time revenue from the sale of property as mentioned above; however, the timing of this is difficult to estimate. Staff will bring the FY 2015 mid-year budget update to the Board on March 23rd to re-balance FY 2015. Staff's goal is to balance the FY 2015 expenses with revenues without use of the reserve. However, there are many challenges and uncertainties regarding some revenue and expense estimates at this time. Staff will continue to monitor revenues and control expenses closely in the months ahead.

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PROPOSED SCHEDULE OF FINANCIAL UPDATES AND ACTIVITY:

- March 9, 2015 - Board Priority Setting Workshop for FY 2016 Operating Budget
- March 23, 2015 - FY 2015 Operating and Capital Budget Revisions
- April 13, 2015 - Call for Public Hearing and Release FY 2016 Preliminary Operating and Capital Budgets for 60 Day Review
- April 27, 2015 - Board Budget discussions
- May 11, 2015 - Open Public Hearing on FY 2016 Preliminary Operating and Capital Budgets
- June 8, 2015 - Board Budget discussions
- June 22, 2015 - Close Public Hearing and Adopt FY 2016 Operating and Capital Budgets