

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/23/15	Open	Information	03/17/15

Subject: Fiscal Year 2016 Operating Budget

ISSUE

Presentation of the FY 2016 Draft Operating Budget.

RECOMMENDED ACTION

None.

FISCAL IMPACT

None as a result of this report.

DISCUSSION

Staff will begin this FY 2016 draft budget presentation with projections for revenues and expenditures based on current knowledge and expectations, recognizing that several areas of uncertainty remain. The FY 2016 Preliminary Operating and Capital Budgets will be presented to the Board on April 13 and will be released for 60 day review; it will be updated over the next few months as conditions change until June 22nd, at which time the final result of all updates to both budgets will be presented to the Board for adoption.

To summarize, the primary areas of uncertainty remain: (1) whether or not the Compressed Natural Gas (CNG) rebate is legislatively continued beyond December 31, 2014; (2) whether or not regional sales tax projections will hold or exceed the projected levels; (3) the amount of the proceeds from the sale of excess property; and (4) the impacts of a potential fare change to increase RT's average fare and fare revenue.

Budget Process and History

FY 2016 Budget discussions with RT's General Manager/CEO began in early January 2015 and non-labor cost discussions with the Executive Management Team (EMT) began in February 2015. Staff thoroughly reviewed the FY 2015 year-to-date performance in revenues and expenditures and developed preliminary FY 2016 projections based on prior year trends and projected increases or decreases in expense accounts for each line item, Department, and Division at RT.

The Operating Revenue Budget is projected to be \$154.1 million in FY 2016 compared to \$146.9 million in the FY 2015 Amended Budget, which is an increase of 4.9% in total revenues. This estimate includes \$3.9 million in revenues 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.

Approved:

Presented:

Final 03/17/15

General Manager/CEO

Acting Chief Financial Officer

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The total Operating Expense Budget is projected to be \$157.4 million in FY 2016 compared to \$146.9 million in the FY 2015 Amended Budget, which is an increase of 7.1% in total expenses. This estimate includes \$3.9 million in South Line Phase 2 costs. The estimated cost is based on 27 fully funded South Line positions with a 10% capital recovery rate (charges to South Line project for July and August 2015) and a \$1.4 million increase in non-labor expenses for traction power, maintenance and other costs.

The major cost drivers in the Draft FY 2016 Operating Budget are labor cost increases due to contractual obligations, an increase in Paratransit costs of about \$1.0 million, an increase in security costs of approximately \$0.9 million, an increase in insurance premiums and reserves for workers' compensation and liability claims of about \$1.2 million, and the South Line Phase 2 cost of \$3.9 million. If you isolate these inevitable cost increases and look at the remainder of the difference between FY 2015 and FY 2016 Draft Operating Expense Budget, the cost increased at a moderate rate of 2.4%.

This report provides in-depth information on FY 2016 revenue and expense projections as well as the supplementary information upon which the annual budgets are developed.

Operating Revenues

The following table includes revenue for the FY 2015 Amended Budget and the FY 2016 Draft Operating Budget:

Table 1
Sacramento Regional Transit District
FY 2015-2016 Operating Revenue

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
Operating Revenue						
Fare Revenue	\$ 28,834,224	\$ 29,280,097	1.5%	\$ 900,000	\$ 30,180,097	4.7%
Contracted Services	5,664,819	6,330,374	11.7%	-	6,330,374	11.7%
Other	4,701,369	3,841,493	-18.3%	1,348,799	5,190,292	10.4%
State & Local	77,560,824	80,501,015	3.8%	-	80,501,015	3.8%
Federal	30,173,615	30,294,414	0.4%	1,638,356	31,932,770	5.8%
Total Operating Revenue	\$ 146,934,851	\$ 150,247,393	2.3%	\$ 3,887,155	\$ 154,134,548	4.9%

Fare Revenue

The FY 2016 Draft Budget proposes \$30.2 million in fare revenue, which represents an increase of \$1.3 million (4.7%) from the FY 2015 Amended Budget of \$28.8 million. \$0.9 million of the projected fare revenue increase is due to the startup of South Line operations in September 2015. The remaining increase of \$0.4 million is due to the assumption that the launch of the Connect Card sometime in 2016 will provide a minor increase in systemwide ridership and fare revenues.

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Contracted Services

The Contracted Services category includes transit service contracts with the Cities of Citrus Heights, Elk Grove, Folsom, and Rancho Cordova; as well as the Granite Park and North Natomas shuttle services. The FY 2016 Draft Budget proposes \$6.3 million in Contracted Services revenue, an increase of \$0.7 million (11.7%) from the FY 2015 Amended Budget (\$5.7 million). This reflects a 3.9% increase in the Citrus Heights contract due to an increase in TDA revenue. This also reflects an increase in the Elk Grove contract of \$0.5 million due to the recently adopted new contract.

Other

The Other Revenue category includes investment income, commercial real estate leases, advertising income, bus book sales, fare evasion fines, promotional item sales, photo identification activities, and parking revenue. This category also includes new Cap & Trade revenue sources, low carbon credits sell back, and LCTOP revenue. The FY 2016 Draft Budget proposes \$5.2 million in other revenue, which is an increase of \$0.5 million from the FY 2015 Amended Budget. The FY 2016 Draft Budget includes 12-months of Compressed Natural Gas (CNG) tax rebates in the amount of \$1.4 million, however this rebate expired in December 2014. Staff is anticipating the adoption of Federal legislation that will extend the rebate to include the period of January 1 to June 30 in FY 2015 and all of FY 2016. Staff will continue to monitor this closely. The FY 2016 Draft Budget also includes \$1.8 million in LCTOP revenue, \$1.3 million of which is associated with the new South Line Phase 2 service and the remainder is projected to fund the new expanded service portion of bus route 65. The FY 2016 Draft Budget also includes the sell back of \$0.4 million of Low Carbon Credits through the State Cap and Trade program.

State & Local Revenue

These funds are derived from sales taxes collected within Sacramento County by the State of California and are returned to the County for transit programs based on established formulas. This category includes RT's 38.2% share of the revenues from Measure A, a local half cent sales tax initiative originally authorized by Sacramento County voters in 1988 and renewed in 2004. This category also includes the State of California Transportation Development Act (TDA), Local Transportation Funds (LTF), and State Transit Assistance (STA) allocations. The Measure A and LTF are sales tax based revenues. RT monitors sales tax receipts closely and tracks them several different ways including month-to-month (prior year), quarter-to-quarter (prior year), and comparisons of current fiscal year-to-date to prior fiscal year-to-date. Staff believes that the cumulative fiscal year-to-date receipts over the same period last fiscal year provides the most accurate growth measurement; as of the most recent posting, receipts are showing an average of 6.0% growth over the prior year's sales tax receipts. The next true-up by the Board of Equalization is expected to be in mid-March, which will include holiday season sales tax receipts. Staff is closely monitoring this third quarter true-up.

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RT’s proposed Measure A revenue for FY 2016 is \$37.6 million, which is a 5.0% increase over the FY 2015 Amended Budget.

RT’s proposed LTF revenue for FY 2016 is \$36.6 million, which is a 4.6% increase over the FY 2015 Amended Budget and is consistent with the Sacramento Area Council of Governments (SACOG) Board of Directors adopted Findings of Apportionment for FY 2016. RT staff will continue to work with SACOG to determine how best to work with Sacramento County to ensure that the LTF Findings of Apportionment are more closely aligned with actual Sacramento County sales tax receipts in FY 2015, as well as FY 2016.

STA funding is currently projected at \$388 million statewide for FY 2016, which matches the Governor’s proposed FY 2016 State Draft Budget that was released in January 2015. This statewide funding level is projected to be slightly higher than FY 2015 levels. RT is projecting to receive \$9.3 million of STA funding in FY 2016, which is \$0.5 million more than the FY 2015 Amended Budget of \$8.8 million. This may change as projections at the state level become more certain. Staff is monitoring the State budget closely, along with projections of diesel fuel sales for FY 2015 and FY 2016.

The FY 2016 preliminary revenue projections reflect a transfer of STA funds to capital in the amount of \$3.0 million to cover RT’s annual 2012 Revenue Bond payment.

Federal Revenue

Federal Revenues include all formula-based allocations to RT from the federal government. Each year, Congress authorizes an appropriation of funds, and the FTA allocates those dollars to the region. RT can use the funds for operating, planning, or capital purposes, subject to specific regulations. The FY 2016 Draft Budget proposes \$31.9 million in federal revenue in the Operating Budget, which represents an increase of \$1.7 million (5.8%) from the FY 2015 Amended Budget of \$30.2 million. This increase includes \$1.6 million in South Line CMAQ revenue.

Federal revenue from the Section 5307 Urbanized Area Formula grant is projected at \$19.6 million for FY 2016 to cover Preventive Maintenance costs in the Operating Budget. The current FY 2016 estimate is based on the SACOG Transit Coordinating Committee’s recommended funding level for the Sacramento Urbanized Area for FY 2015, which includes \$24.6 million for the region, of which \$19.2 million is for RT. The FY 2016 preliminary budget includes a 1% increase over the FY 2015 amount of \$19.2 million.

The Section 5337 Formula funds “State of Good Repair” program (a new program under MAP 21), is projected at \$10.2 million in FY 2016 to cover Preventive Maintenance costs in the Operating Budget, which is a 1% increase over the FY 2015 amount of \$10.1 million.

Job Access Reverse Commute (JARC) revenue is projected at \$500,000 for FY 2016, which is a decrease of \$174,000 compared to the FY 2015 Amended Budget. RT staff will be applying for 5307 formula “JARC type projects” for the FY 2016 year through SACOG’s discretionary grant process, which staff expects will take place in late 2015. If RT’s grant application is not approved

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and awarded, RT will need to reduce this Federal revenue source for FY 2016. Staff will monitor this closely.

Operating Expenditures

Table 2 compares operating expenses in the FY 2015 Revised Operating Budget and the FY 2016 Draft Operating budget. The FY 2016 table below includes three columns for FY 2016 costs: the FY 2016 Draft Base Budget column shows the cost for the current service levels, and the FY 2016 Draft South Line column shows the South Line Phase 2 operating cost, which is expected to begin service operation in September 2015. The total estimated operating expenditures for FY 2016 are shown in the FY 2016 Draft Budget Total column:

Table 2
Sacramento Regional Transit District
FY 2015 and FY 2016 Operating Expenses

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
Operating Expenses						
Salaries & Benefits	\$ 95,045,703	\$ 98,601,597	3.7%	\$ 2,439,326	\$ 101,040,923	6.3%
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%
Total Operating Expenses	\$ 146,934,851	\$ 153,551,098	4.5%	\$ 3,887,155	\$ 157,438,253	7.1%

- Salaries & Benefits includes: payroll and benefits for all positions authorized by the Board. It accounts for wages, overtime, pension, dental, medical, FICA, vision, and all other RT-paid employee benefits. The FY 2016 Draft Budget proposes \$101.0 million for salaries and benefits in total, which is an increase of \$6.0 million (6.3%) from the FY 2015 Amended Budget of \$95.0 million.
- The FY 2016 Draft Budget includes 1032 positions with a 6.0% vacancy rate. This is the same number of positions as in the FY 2015 Amended Budget. The FY 2015 Operating budget included 15 unfunded positions and 15 partially funded positions with higher capital recovery projections for staff time charged to projects. The FY 2016 Operating budget includes 5 unfunded positions with all other positions fully funded with either Operating or Capital budget.

Major areas of change District wide:

- Pension costs increased by \$330,000.
- Medical costs increased by \$393,000.
- Capital Recovery, which is staff time charged to capital projects, has been reduced by approximately \$2.0 million in FY 2016 compared to FY 2015 Amended Budget. This is due to

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the anticipated completion of RT’s largest capital project, South Line Phase 2 in early September 2015. Staff expects that there will be future major capital projects such as the Street Car Project or Light Rail projects at K and H street that will allow RT staff to charge time; however, this may not happen in the FY 2016, and could be in the FY 2017 and future years.

- Consequently, the FY 2016 Salaries & Benefits costs increased by \$2.4 million to account for the cost of the 27 fully funded South Line Phase 2 positions that will no longer be charged to the capital budget. In FY 2015, the cost of these positions was charged to the South Line Phase 2 capital project.
- The remaining difference in Salaries & Benefits reflects the contractual labor cost increases in accordance with the approved labor agreements.

Professional Services includes: Purchased Transportation (Paratransit) to comply with the Americans with Disabilities Act (ADA), transit security, equipment maintenance, facilities maintenance, legal services, and services provided by outside consultants. The FY 2016 Draft Budget proposes \$27.9 million for Professional Services, an increase of \$2.0 million (7.9%) from the FY 2015 Amended Budget of \$25.9 million.

- This reflects an increase in Purchased Transportation cost of \$1.1 million, based on a projected increase in demand for ADA service and an increase in cost per trip.
- This includes a \$0.9 million increase in Security services based on contractual cost increases.
- This also includes \$0.2 million in South Line Phase 2 related costs.

Materials & Supplies includes: fuel, bus and light rail parts, small maintenance tools and equipment, cleaning supplies, printing materials, and general office supplies.

- The FY 2016 Draft Budget proposes \$10.3 million for materials and supplies, an increase of \$0.8 million (8.2%) from the FY 2015 Amended Budget of \$9.5 million.
- This includes \$0.5 million in South Line Phase 2 related costs.
- This also includes a slight increase in CNG, gasoline, and bus parts costs.

Utilities includes: electricity, water, gas, refuse, and telephone for bus, light rail, and administrative facilities.

- The FY 2016 Draft Budget proposes \$6.4 million for Utilities, an increase of \$0.7 million (11.7%) from the FY 2015 Amended Budget (\$5.8 million).
- This reflects an increase in traction power costs of \$0.7 million associated with South Line Phase 2 costs.
- All other GL accounts are budgeted at the same level as FY 2015.

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Insurance & Liability includes: premiums, claims, and attorney fees related to personal liability insurance, property damage insurance, worker’s compensation claims, and commercial insurance for amounts in excess of self-insured amounts.

- The FY 2016 Draft Budget proposes \$9.8 million for casualty and liability insurance, an increase of \$1.2 million (13.6%) from the FY 2015 Amended Budget (\$8.6 million).
- This reflects an increase in the projected claims reserves for Property and Liability for FY 2016, per RT’s most recent actuary report completed in February 2015. This amount exceeds the FY 2015 Amended Budget amount for Property and Liability by approximately \$0.7 million.
- Also, this reflects an increase in the projected claims reserve for Workers’ Compensation for FY 2016, per RT’s most recent actuary report completed in February 2015. This amount exceeds the FY 2015 Amended Budget amount for Workers’ Compensation by approximately \$0.4 million.

Other includes, but is not limited to: travel and training, seminars, dues and subscriptions, awards and ceremonies, building leases, equipment leases, taxes, freight, advertising, legal notices, and bad debt.

- The FY 2016 Draft Budget proposes \$2.0 million for other expenditures, a decrease of \$0.1 million (7.8%) from the FY 2015 Amended Budget (\$2.1 million).
- This includes a decrease in staff training cost of \$180,000 in FY 2016; the training took place and will be completed in FY 2015 and is not budgeted in FY 2016.

Summary Recap of FY 2016 Draft Operating Budget

Table 3 provides a summary of the FY 2015 Amended Budget and the FY 2016 Draft Operating Budget. Revenue assumptions are based on current estimates from Federal, State and Local sources:

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Table 3
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
Operating Revenue						
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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%
Total Operating Expenses	\$ 146,934,851	\$ 153,551,098	4.5%	\$ 3,887,155	\$ 157,438,253	7.1%
Shortfall	\$ -	\$ (3,303,705)		\$ -	\$ (3,303,705)	
Proposed impact of 10% increase in Fares in Jan 2016					\$ 1,498,813	
Revised Shortfall					\$ (1,804,892)	

RT's Operating Budget reserve was \$4.6 million at the end of FY 2014. The reserve is projected to remain at \$4.6 million through June 30, 2015; however, that is assuming that RT's Cemo Circle property sale is completed before June 30, 2015, revenues from which are needed to balance RT's FY 2015 revenues with projected expenses.

The Draft FY 2016 Budget includes total Revenues of \$154.1 million and total expenses of \$157.4 million which nets to expenses exceeding revenues by \$3.3 million. Staff will continue to fine tune expense projections and closely monitor all revenue sources over the next few months.

Potential Ways to Balance the FY 2016 Budget

Fare Revenues

Staff has projected an increase in RT's average fare in FY 2016. Staff has planned for an increase in the average fare for a number of years in RT's budget projections, as well as in the Financial Forecasting Model as part of the Full Funding Grant Agreement (FFGA) South Line Phase 2 project approval process. RT's Fare Structure Committee has been discussing this issue for the past six months and plans to bring a draft fare policy to the Board as an information item on April 13th. Staff plans to bring a full proposal of potential fare structure changes to the Board on

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April 27th, for changes to take effect in January 2016. This will include fare increases, opportunities to reduce the current school discounts over the next two years, as well as a discussion of discount fares. The fiscal impact of a proposed 10% increase in fares effective January 1, 2016 is an increase \$1.5 million from January to June 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 discussions with the Board in the months ahead.

Sale of Excess Property

As mentioned in recent Board meetings, staff currently has for sale the old I-5 Right of Way Property. Staff is currently working with the City of Sacramento to have an appraisal completed and the value of the property should be determined in the next 60 days. The City of Sacramento has shown interest in purchasing this property from RT. The sale price would likely be paid over a three year time frame and there would potentially be some revenue received in FY 2016. Staff will closely monitor this one-time revenue source in the months ahead.

RINs

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 through 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 would 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 is currently in the process of applying for approval to earn RINs for our CNG fuel usage, as well as for our Light Rail traction power costs. 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.

Service Reductions

Staff is analyzing ridership trends to determine what routes might be performing under our current performance goals to determine what service levels if any, should/could be considered to be reduced or discontinued. There could be significant savings to the Operating Budget as a result of this analysis and discussion; the dollar amount is unknown at this time.

Looking Ahead

Staff’s goal is to have a balanced budget for FY 2016. Staff will continue to work diligently to confirm and modify plans. This will include closely monitoring actual results versus fare revenue projections in the current year and sales tax growth projections throughout FY 2016.

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FY 2016 BUDGET SCHEDULE:

- 4/13/15 Release of FY 2016 Operating Budget for 60-day public review.
- 04/27/15 Board Discussion
- 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.