

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
7	03/09/15	Open	Information	02/24/15

Subject: FY2016 Operating Budget Planning and Priority Setting

## ISSUE

Discussion of FY 2016 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 2016 Operating Budget. Each year since 2011, the Board has received a report from staff on key funding priorities, staff has requested direction on prioritizing expenditures based on the level of anticipated revenues in 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.

Staff develops the Operating and Capital Budgets based on feedback received from the priority setting discussions. The priorities discussed annually include: (1) reserves; (2) service restoration; (3) improvement of internal services such as weed abatement, graffiti removal, etc.; (4) investment in personnel; and (5) capital funding. In the past four discussions, almost every Board member expressed that the first priority is 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). 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.

Internal planning for the FY 2016 Operating and Capital Budgets has been underway since early February 2015. With this report, staff seeks confirmation of the Board's funding priorities as we move through the process to finalize a proposed budget for consideration.

## FY 2016 Financial Outlook

While the preliminary budget is still in development, it is evident that under the current revenue estimate scenarios with which we are working, an addition to reserves at the end of FY 2016 will not be possible, and reducing expenses to meet our revenue projection for FY 2016 is going to be

Approved:

Presented:

Final 03/03/15

General Manager/CEO

Chief Financial Officer, Acting

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challenging. Our assumptions will also include a projected increase in fare revenues effective January 1, 2016, which may include fare increases, fare restructuring or potential fare discounts with new riders, or some other way of increasing RT's average fare to increase fare revenue. This fare revenue increase has been in RT's long term financial projections and Financial Forecasting model for a number of years.

### Key Budgeting Priorities

Below 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. They 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.

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 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.

Building reserves has been the number one priority of the Board based on the budget development priority setting discussions. RT's reserve at the end of June 2013 was \$7.9 million. In FY 2014, the final audited actual expenses exceeded revenues by \$3.3 million and the final year end reserves for June 2014 were reduced to \$4.6 million.

Barring a need to use reserves to re-balance the FY 2015 Operating Budget, this is the amount that staff expects to carry into FY 2016.

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## 2. Service Restoration

On June 20, 2010, RT implemented service reductions amounting to 20.2 percent of all bus service and 15.4 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 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 lay off staff.

The FFM 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. In January 2014, under the General Manager’s authorization, an additional 1% of service changes were implemented as minor adjustments to TransitRenewal Phase 1. These changes brought the service restoration to 9.3% of the 20.2% cut in 2010.

Upcoming changes include extension of bus service to the Rancho Cordova Public Library in April 2015 and introduction of bus service on the Power Inn Road corridor in September 2015; however, these changes are not expected to have a net impact on vehicle revenue hours.

## 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 little more than that. 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 2014 priority setting discussion. As a result, more resources were allocated in FY 2014 to improve service quality and those levels were continued in FY 2015. In addition, security services were also increased which had a positive impact on reducing vandalism and crime at the stations.

This area has received more interest/focus in recent months with the creation of the Ad Hoc Committee on system improvement, as well as discussions regarding the new Entertainment and

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Sports Complex (ESC) in downtown Sacramento and the importance of this item for the riders of RT at the ESC events as well as throughout the system.

#### 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 restoration of funding, such as:

1. training;
2. changes to compensation programs that would keep benefits and pay ranges competitive;
3. the addition of staff to work on economic development (ED) opportunities (RT cutbacks in 2010 included the elimination of the Real Estate Department, which included ED); and
4. shoring up staffing levels throughout the District where the cuts have been deep, leaving staffing levels too thin in some functional areas.

In the recent years, some positions have been restored to reflect the increased service level. More positions are to be added in the next year for the South Line Phase 2 opening. Staff has been participating in a management training program that is designed to provide leaders at all levels within the organization with the tools necessary to perform in a manner that is professional, cohesive, communicative, and aligned with RT’s Goals and Values.

#### 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 would be made available for local match, 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, but for the requirement to provide anywhere from 11% to 50% 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 Sacramento Transportation Authority (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 2016 Operating and Capital Budgets. Both budgets will be presented to the Board in early April and issued for a sixty-day review period. At least one public hearing will follow before final presentation and adoption in June 2015. RT is statutorily required to adopt a budget by July 1 for the next fiscal year.