

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
12	02/22/16	Open	Information	02/15/16

Subject: 2016 Mid-Year Financial Update

## ISSUE

To receive information on RT's Fiscal Year 2016 Financial Position at mid-year and future projections for the remaining 6 months.

## 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, explain significant budget to actual variances, and to alert the Board to areas of future financial uncertainty.

Additionally, as discussed in Section III of the Comprehensive Reserve Policy, staff is required to inform the Board when there is a potential need to utilize Operating Reserves within a reasonable timeframe. Therefore, staff has provided a forecast for the remaining 6 months of FY 2016, which at this point indicates that without any additional revenues, the use of the Operating Reserve will be necessary to balance the FY 2016 Operating Budget.

### **FY 2016 Mid-Year Budget Update as of December 31, 2015**

On June 22, 2015, the Board adopted the FY 2016 Operating Budget of \$155.5 million in revenues and \$155.5 million in expenses. The adopted budget incorporated all known revenues and estimates of expenses at that time.

The FY 2016 adopted budget projected that RT would end the first 6 months with a surplus of \$589,000. However, the FY 2016 mid-year results show a net operating deficit of approximately \$38,000. This is a negative variance of \$627,000. This negative variance is attributed to total revenues coming in below budget by \$1.08 million, and total operating costs coming in under budget by \$456,000.

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Approved:

Presented:

Final 02/17/16

General Manager/CEO

Acting Chief Financial Officer

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Table 1 below shows a summarized version of the Statement of Revenues (Income) and Expenses. The information below is also provided to the public on a monthly basis through RT's website.

**Table 1  
Sacramento Regional Transit  
Revenue (Income) and Expenses as of December 31, 2015**

In thousands Categories	FY 2016 July - December		
	Actual	Budget*	Variance
<b>Income</b>			
Fare Revenue	\$ 13,883	\$ 14,971	\$ (1,088)
Contracted Services	3,226	3,222	4
Other Income	1,590	1,589	1
State & Local Revenue	41,484	41,484	-
Federal Revenue	16,016	16,016	-
<b>Total</b>	<b>76,199</b>	<b>77,282</b>	<b>(1,083)</b>
<b>Expenses</b>			
Salaries & Benefits	49,510	48,316	(1,194)
Services	13,722	14,092	370
Supplies	3,791	5,010	1,219
Utilities	3,284	3,360	76
Insurance/Liability	4,876	4,889	13
Other Expenses	1,054	1,026	(28)
<b>Total</b>	<b>\$ 76,237</b>	<b>\$ 76,693</b>	<b>\$ 456</b>
<b>Net Operating Surplus (Deficit)</b>	<b>(38)</b>	<b>589</b>	<b>(627)</b>

\*Seasonally adjusted budget

## Significant Mid-Year Budget Variances

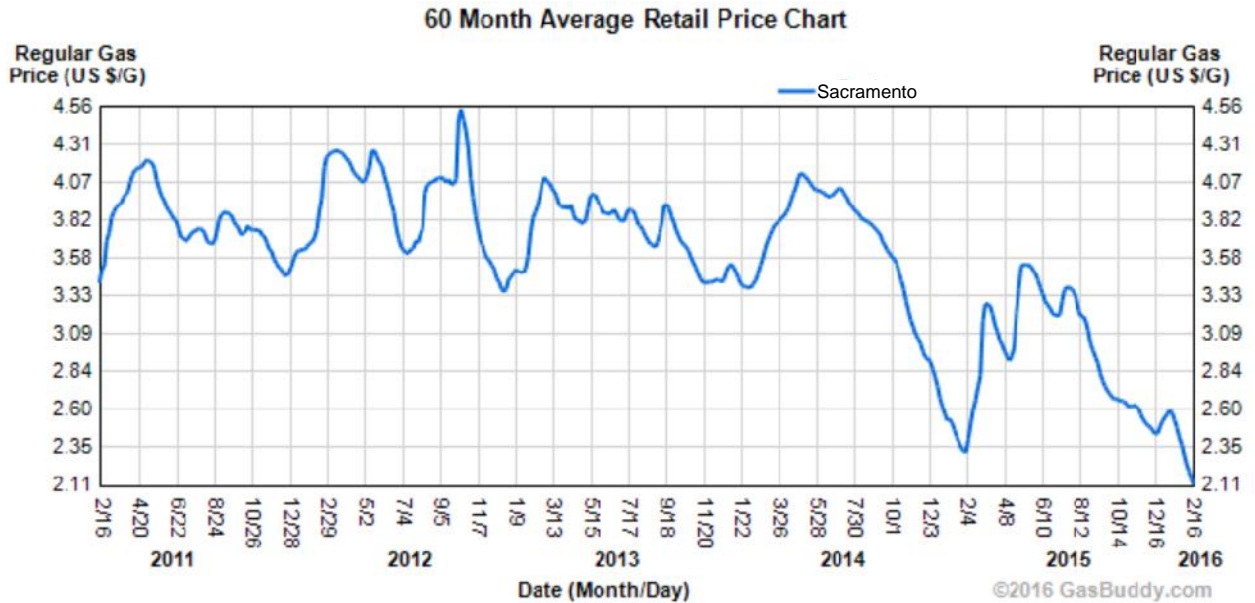
**Total Operating Revenue (Income)** is below budget by \$1.08 million.

- **Fare Revenue** is trending at 7.3% below the budgeted estimate, which is a variance of \$1.09 million. This decrease is due to lower than anticipated gas prices, decreases in ridership, and decreases in prepaid sales. This amount is a decrease of 2.8% from the same period in FY 2015 (July to December).

Gas prices in Sacramento are approaching their lowest levels in the last five-year period, as shown in the graph below. As a result, RT's ridership is trending at 7.0% below the established FY 2016 goal, and is 5.1% below the prior 6 month period of January 1, 2015 to June 30, 2015.

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- **State & Local Subsidy Revenue**

*Measure A and Local Transportation Funds (LTF)* – Although there are no significant mid-year variances shown under the category of State and Local Revenues, staff is anticipating that actual Measure A and LTF fall short of the yearly estimate. Staff anticipates that either a mid-year apportionment adjustment will be forthcoming or there will be fewer cash receipts by the end of the fiscal year. The accounting practice that RT has adopted for recording sales tax based revenues is to post these revenues based on the 1/12 of the annual apportionment schedule that is provided by the Sacramento Area Council of Governments (SACOG) and Sacramento Transportation Authority (STA). For forecasting purposes, staff tracks actual sales tax receipts collected on the State Board of Equalization web site. For the first six months of FY 2016, actual sales tax receipts are trending at 3.2% growth over the prior year actuals for Measure A, and at 4.0% growth for LTF, which is 2.3% lower than RT’s current Measure A assumption, and 0.6% lower than budget assumption for LTF. The sales tax reports run two months behind the actual sale transactions. The next posting that will occur in March will represent January sales and will cover the holiday season through December 2015.

*State Transit Assistance (STA)* – STA funds for the entire State of California are estimated to be \$388 million in FY 2016 based on projected tax receipts. RT’s FY 2016 Operating Budget includes \$9.5 million in STA funds. With low diesel prices, this amount could come lower than anticipated, however it is too soon to determine the impact.

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**Total Operating Expenses** are below budget by \$460,000.

- **Salaries and Benefits** are \$1.2 million over budget. District-wide straight time is over budget by \$303,000, overtime is over budget by \$379,000, fringe benefits are over budget by \$949,000, and capital recovery is showing a positive variance of \$646,000.

The majority of the \$949,000 variance in fringe benefits is due to increases in the cost of Other Post-Retirement Benefits (OPEB). During FY 2016, staff received information from its actuary that RT’s annual OPEB costs would be increasing due to changes in actuarial standards. The change required RT to record an additional expense and corresponding liability due to the adoption of an “implicit rate subsidy.” An implicit rate subsidy exists because retirees tend to have a higher utilization of health care benefits than active employees while paying the same premiums. This essentially creates a financial obligation for RT. Although the implicit rate subsidy has always existed, Accounting Standards have previously allowed for an exception to the rule for public agencies. Upon the adoption of the Actuarial Standards of Practice Number 6, this exception was eliminated.

As mentioned above, RT experienced a positive variance of \$646,000 in Capital Recovery. Capital Recovery is important because it allows staff to charge when applicable their working time to capital projects, which reduces the operating labor costs. Much of this variance can be attributed to employees charging time to the South Line project.

The remaining variances in Salaries and Benefits are due to increases in costs related to Personal Service Contracts, temporary employee salaries, and variances in other accounts.

- **Professional Services** are \$400,000 under budget. Police Services are under budget by \$158,000; Purchased Transportation is under budget by \$119,000; and Risk and Legal are under budget by \$90,000 and \$53,000, respectively. Variances in other accounts make up the remaining difference.

Although the Police Services budget has a positive variance for the first 6 months of FY 2016, the accumulated savings is slotted to pay for the relocation of RT’s Security Operations Center to the Real Time Crime Center in City’s facility located at 300 Richards Boulevard. While Purchased Transportation (Paratransit) is currently under budget, the mid-year and year-end supplemental bills have not been received, but are anticipated to result in this category being over budget by year-end. These adjustments are the result of higher than anticipated demand for Americans with Disabilities (ADA) service and supplemental ADA trips provided.

- **Supplies** are \$1.2 million under budget. Compressed Natural Gas (CNG) cost is \$251,000 under budget, bus parts are \$429,000 under budget, and light rail parts are \$181,000 under budget. Fare vending machine parts and Wayside parts are under budget by about \$35,000 each. Variances in other accounts make up the remaining difference.

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## Forecast for the Remainder of FY 2016

The forecasted year-end FY 2016 revenues are trending below the initial budgeted amounts. Significant positive and negative variances are anticipated to occur within the following categories:

- **Fare Revenues** are anticipated to have a negative variance of approximately \$1.4 million. This is due to an estimated increase of approximately \$600,000 in revenues from the recently renegotiated Los Rios agreement, as well as an estimated decrease of \$2 million in budgeted fare revenues as a result of decreased ridership.
- **State and Local Subsidies** are estimated to be approximately \$720,000 below budget. This is primarily due to lower than anticipated sales tax revenues. Sales tax related revenue sources are trending around 4.04%, which is well below the budgeted 5.5% growth forecast.
- **Federal Revenues** are anticipated to increase by a net \$640,000. The two main drivers are an increase of approximately \$1,280,000 in Section 5337 State of Good Repair allocations and a decrease of \$640,000 in Section 5307 Urbanized Area funds.

The year-end FY 2016 projected expenses are trending higher than the budgeted amounts. The significant positive and negative variances are in the following categories:

- **Salaries and Benefits** are expected to exceed the budgeted amount by approximately \$2.9 million. This is primarily due to approximately \$1.8 million in increased OPEB costs, and \$700,000 related to projected increases in overtime. To meet the goal of increasing fare inspection rates and improving cleanliness of the system, RT will be hiring more transit agents and part-time station cleaners, which will add additional unbudgeted labor costs. In addition, approximately 10 more Light Rail Operators are anticipated to be hired in FY 2016. Since many of these new hirings could occur during the latter part of the fiscal year, the impact to FY 2016 is not anticipated to be significant. However, these additions will have a much larger impact in FY 2017. The objective is to find a revenue source to cover many of these costs, and the remaining costs will be covered through savings in other areas.
- **Materials and Supplies** are expected to be under budget by approximately \$1.1 million due to favorable pricing conditions on the following: CNG, gasoline, consumables, and a reduction in the use of spare bus and rail parts.

The net result of these positive and negative variances is an estimated shortfall of approximately \$3.25 million.

This shortfall could potentially be offset by the use of the prior year CNG rebate of approximately \$650,000. Additionally, because RT is self-insured, at a minimum, RT is required annually to complete an evaluation study to estimate the required reserve levels for the Liability Program (LP) and Worker's Compensation. At mid-year, as a result of the decrease in exposure in forecasted passenger miles, the actuary has projected a \$1.5 million reduction to RT's Insurance and Liability cost. Assuming that these trends continue for the remainder of Fiscal Year 2016, the current

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estimated net Operating shortfall could be reduced to a deficit of \$1,100,000, thus requiring the use of approximately \$1,100,000 of the \$3.1 million remaining in the Operating Reserve. Although use of the reserves has been mentioned, RT is continuing to review costs and look at additional opportunities to find reductions to expenses through labor savings such as delayed hiring of non-critical positions and overtime restrictions for non-operator positions.

Staff will bring the FY 2016 mid-year budget revision to the Board on March 28<sup>th</sup> with recommendations to re-balance FY 2016. Staff's goal is to balance the FY 2016 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.

PROPOSED SCHEDULE OF FINANCIAL UPDATES AND ACTIVITY

- March 28, 2016**      FY 2015 Operating and Capital Budget Revisions
- April 25, 2016**      Call for Public Hearing and Release FY 2016 Preliminary Operating and Capital Budgets for 60 Day Review
- May 9, 2016**      Open Public Hearing on FY 2016 Preliminary Operating and Capital Budgets
- June 13, 2016**      Board Budget discussions
- June 27, 2016**      Close Public Hearing and Adopt FY 2016 Operating and Capital Budgets