

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.

ISSUE

Update on the Preliminary FY 2017 Operating Budget.

RECOMMENDED ACTION

None.

FISCAL IMPACT

None as a result of this report.

DISCUSSION

The proposed preliminary FY 2017 Operating Budget includes projections for revenues and expenditures based on existing information on current conditions and expectations, recognizing that several areas of uncertainty still remain. The FY 2017 preliminary Operating and Capital Budgets will be presented to the Board and will be released for 60 day review on April 25, 2016; they will be updated as conditions change until June 27, 2016, at which time the final Operating and Capital Budgets will be presented to the Board for adoption.

The primary areas of uncertainty remain: (1) whether or not regional sales and diesel tax projections will hold or exceed the projected levels; (2) the actual fare revenue impacts resulting from the recently adopted fare change; (3) negotiations with vendors for cost reimbursements related to anticipated arena service; and (4) potential savings from budgeted service reductions.

The proposed preliminary FY 2017 Budget is consistent with past year budgets; increases are relatively close to the rate of inflation, with additional funding to enhance the overall safety, security and quality of RT service. The proposed preliminary operating budget also assumes increases in fare inspection and continues RT’s focus on cleanliness and an overall positive rider experience. The proposed preliminary operating budget provides full funding for a full year of the new Blue Line service, and full funding for RT’s enhanced services to the Golden 1 Center beginning in October 2016.

Budget Process and History

The FY 2017 formal budget process began in February 2016. Staff thoroughly reviewed the FY 2016 year-to-date revenues and expenditures and developed preliminary FY 2017 projections based on prior year trends, third party information, and projected increases/decreases in significant revenue and expense accounts. Attachment 1 provides an overview of the budget process, strategic budget goals, factors that drive the budget, and an overview of the key revenue and expense categories.

Approved: _____ Presented: _____

Final 03/23/16
 General Manager/CEO

AGM, Administration
 J:\FIN\Issue Papers ALL\2016 Issue Papers\03-28-16 Fiscal Year 2017 Draft Operating Budget IP.docx

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.

FY 2017 Operating Revenues are projected to be \$163.4 million compared to the FY 2016 year-end estimate of \$155.7 million, which is an increase of 4.9% in total revenues. The majority of the anticipated revenue increase comes from the following categories: \$3.4 million in Fare Revenues, \$3.1 million in State and Local funding, and \$1.1 million in Federal revenues.

FY 2017 total Operating Expenses are projected to be \$163.4 million compared to the FY 2016 year-end estimate of \$155.5 million, which is an increase of 5.1% in total expenses.

Salaries and Benefits are expected to increase by \$4.3 million. Salary costs are projected to increase due to wage and step progressions, as well as the recently Board approved hiring of transit agents, operators, a superintendent, and supervisors. Benefits costs are anticipated to rise as the result of Pension and Medical rate increases. Capital Recovery amounts are expected to decline, which increases operating expenses; this is the result of fewer capital project related charges resulting from the completion of the Blue Line extension.

More details have been provided below in the section titled “Operating Expenses.”

This report provides in-depth information on FY 2017 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 2016 year-end estimates and the proposed preliminary FY 2017 Operating Budget:

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.

Table 1
Sacramento Regional Transit District
FY 2016-2017 Operating Revenue

Categories	FY 2016 Year-End Estimates	FY 2017 Preliminary Budget	% Change
Operating Revenue (Baseline)			
Fare Revenue	\$ 28,553,414	\$ 31,959,969	11.9%
Contracted Services	5,997,007	6,082,292	1.4%
Other	5,204,959	3,840,000	-26.2%
State & Local	83,307,389	86,404,589	3.7%
Federal	32,675,279	33,742,104	3.3%
Subtotal	\$ 155,738,048	\$ 162,028,954	4.0%
Operating Revenue (Supplemental Service)			
Potential Sponsorships		1,400,000	
Subtotal	\$ -	\$ 1,400,000	
Total Revenue	\$ 155,738,048	\$ 163,428,954	4.9%
Less Bond Payment	(3,049,385)	-	
Net of Revenue Bond Payment	\$ 152,688,663	\$ 163,428,954	

Fare Revenue

The proposed preliminary FY 2017 Budget proposes \$32.0 million in Fare Revenue, which represents an increase of approximately \$3.4 million (11.9%) from the FY 2016 year-end estimate of \$28.6 million. This increase can be attributed to the following: (1) the Board approved fare increase, which is anticipated to generate approximately \$2.2 million; (2) a \$650,000 increase for the annualized impact of the changes to the Los Rios College Pass Program; (3) a \$315,000 increase in California State University Sacramento (CSUS) Pass Program revenues due to ridership increases among students; and (4) a \$200,000 increase in revenues from a projected increase in the preliminary contractual agreement with the Department of Human Assistance.

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 Proposed FY 2017 Budget estimates \$6.1 million in Contracted Services revenue, which is an increase of \$0.1 million (2.0%) from the FY 2016 year-end estimate (\$6.0 million).

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.

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, parking revenue, Compressed Natural Gas (CNG) tax rebate, and miscellaneous revenue. This category also includes the sale of low carbon and Renewable Identification Numbers (RINs) credits.

The proposed preliminary FY 2017 Operating Budget estimates \$3.8 million in Other revenue, which is \$1.4 million less than the FY 2016 projections. The major revenue drivers are: \$0.7 million in CNG rebates, which represents only 6 months of the annual rebate due to the fact that RT received 18 months worth of rebates in FY 2016; \$1.0 million for the sale of Low Carbon Fuel Credits through the State Cap and Trade program; and \$200,000 for the sale of RINs credits.

State & Local Revenue

The revenue in this category represents funds derived from sales taxes collected within Sacramento County by the State of California and returned to the County for transit programs based on established formulas. This category includes RT's 34.5% 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. Also included in this category are the State of California Transportation Development Act (TDA), Local Transportation Funds (LTF), and State Transit Assistance (STA) allocations. Measure A and LTF are sales tax based revenues.

RT monitors sales tax receipts closely and tracks them in 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 (March 17, 2016), receipts are showing an average of 5.2% growth for LTF and 3.7% growth for Measure A over the prior year's sales tax receipts.

RT's estimated Measure A revenue for FY 2017 is projected to generate \$38.6 million, which is a 4.0% increase over the FY 2016 projected revenue. This is consistent with the information provided to RT by the Sacramento Transportation Authority.

RT's estimated LTF revenue for FY 2017 is projected to generate \$38.1 million, which is a 4.1% increase over the FY 2016 projected revenue and is consistent with the Sacramento Area Council of Governments (SACOG) Board of Directors adopted Findings of Apportionment for FY 2017.

STA funding is currently projected at \$315 million statewide for FY 2017, which matches the Governor's proposed FY 2017 State Draft Budget that was released in January 2016. This statewide funding level is projected to be 19% lower than FY 2016 budgeted revenue. RT is projecting to receive \$7.8 million of STA funding in FY 2017, which is \$0.2 million more than the FY 2016 projected revenue of \$7.6 million and is \$1.7 million less than the FY 2016 Adopted Budget of \$9.5 million. This may change as projections at the state level become more certain.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.

Staff is monitoring the state budget closely, along with projections of diesel fuel sales for FY 2016 and FY 2017.

In addition, historically a portion of STA revenues were programmed to pay the annual debt service for RT's 2012 Revenue Bond, however with the passage of Assembly Bill (AB 133), the debt is anticipated to be paid using Traffic Congestion Relief Program (TCRP) funds.

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 Federal Transit Administration (FTA) allocates those dollars to the region. The Transit Coordinating Committee (TCC) at SACOG then divides the funds into two categories, formula and discretionary shares. The formula share represents 88% of the total federal allocation which is distributed to all participating transit operators in the region based on an earned share formula. This amount can be used by RT for operating, planning, or capital purposes, subject to specific regulations. The remaining 12% is referred to as a discretionary share, which is awarded to the transit partners in the region on a competitive basis.

The proposed FY 2017 Operating Budget projects \$33.7 million in federal revenue, which represents an increase of \$1.1 million (3.3%) from the FY 2016 year-end estimate of \$32.7 million.

Federal revenue from the Section 5307 Urbanized Area Formula grant is projected at \$19.1 million for FY 2017 to cover both Preventive Maintenance and a portion of the Americans with Disabilities Act (ADA) costs in the Operating Budget. The current FY 2017 estimate is based on the SACOG TCC's recommended funding level for the Sacramento Urbanized Area for FY 2016, which includes \$24.9 million for the region, of which \$19.0 million is allocated to RT. The FY 2017 preliminary budget includes a 1% increase over the FY 2016 amount of \$19.0 million.

The Section 5337 Formula funds "State of Good Repair" program is projected at \$11.6 million in FY 2017 to cover Light Rail Preventive Maintenance costs in the Operating Budget, which is a 1% increase over the FY 2016 amount of \$11.5 million.

Job Access Reverse Commute (JARC) revenue is projected at \$1.0 million for FY 2017, which is an increase of \$0.4 million compared to the FY 2016 year-end projections. RT staff will be applying for 5307 formula "JARC type projects" for the FY 2017 year through SACOG's discretionary grant process, which staff expects will take place in late 2016. If RT's grant application is not approved and awarded, RT will need to reduce this Federal revenue source for FY 2017. Staff will monitor this closely.

Supplemental Service Revenue

The proposed FY 2017 Budget also includes an estimated \$1.4 million in potential sponsorships, which will be used to offset the \$1.4 million in estimated costs for the supplemental Golden 1 Center services.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.
--

Operating Expenses

Table 2 compares the FY 2016 year-end projected operating costs to the proposed FY 2017 Operating budget.

Table 2
Sacramento Regional Transit District
FY 2016 and FY 2017 Operating Expenses

Categories	FY 2016 Year-End Estimates	FY 2017 Preliminary Budget	% Change
Operating Expenses (Baseline)			
Salaries & Benefits	\$ 102,047,160	\$ 106,374,501	4.2%
Professional Services	28,357,398	28,196,227	-0.6%
Materials & Supplies	8,328,973	8,470,973	1.7%
Utilities	6,434,400	6,301,348	-2.1%
Casualty & Liability	8,367,082	9,240,812	10.4%
Other	1,940,810	2,074,410	6.9%
Subtotal	\$ 155,475,823	\$ 160,658,271	3.3%
Operating Expenses (Supplemental Service and Service Quality Enhancements)			
2 Months of Additional Blue Line Service		\$ 850,683	
Golden One Service		1,400,000	
Service Quality Enhancements		520,000	
Subtotal	\$ -	\$ 2,770,683	
Total Operating Expenses	\$ 155,475,823	\$ 163,428,954	5.1%

Salaries & Benefits

This category includes wages and benefits for all funded positions authorized by the Board. It accounts for wages, overtime, pension, dental, medical, FICA, vision, and all other RT-paid employee benefits.

The proposed preliminary FY 2017 Operating Budget includes \$106.4 million for salaries and benefits, which is an increase of \$4.3 million (4.2%) from the FY 2016 year-end estimate of \$102.0 million. Much of this increase can be attributed to the recently Board-approved decision to hire additional staff with the objective of improving service, security, and reliability of service. As compared to FY 2016, \$1.3 million of the estimated \$1.4 million increase in labor costs for FY 2017 can be attributed to the planned service enhancements for the Golden 1 Center; this is projected to increase service by an estimated 2,961 hours over the baseline from FY 2016 of 92,806 hours, which is an increase of approximately 3.2%.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.

The proposed FY 2017 Operating Budget includes 1,097 positions. Out of 1,097 positions, 1033 positions are fully funded, 7 positions are partially-funded and 57 positions are not funded. Three EMT level positions have been eliminated due to a recent reorganization. The proposed FY 2017 Operating Budget includes a full year of funding for up to 30 new Transit Agents, 10 new Light Rail Operators, 3 new Transportation Supervisors, and 1 new Transportation Superintendent – Security. 50 Event Attendants were added to the Personal Contract Employee list, with 22 funded positions; 22 Event Attendants will be needed for each major event.

The proposed preliminary FY 2017 Operating Budget includes contractual agreement wage increases. Medical costs are projected to increase by 8.5% effective January 1, 2017. Pension and Other Post Retirement Employee Benefits (OPEB) costs are budgeted based on the actuarial studies' recommendations.

Professional Services

This category includes Purchased Transportation (Paratransit) to comply with ADA, transit security, equipment maintenance, facilities maintenance, legal services, and services provided by outside consultants.

The proposed preliminary FY 2017 Budget includes \$28.2 million for Professional Services, a net decrease of \$161,000 (0.6%) from the FY 2016 year-end estimates of \$28.4 million. Although the total costs for this category have decreased, included in this category is the projected increase in Purchased Transportation cost of \$1.0 million based on a projected increase in demand for ADA service and an increase in cost per trip. This increase includes a \$300,000 reduction in net contract cost due to the projected fare increase. The Professional Services budget includes a \$1.0 million reduction in Security services due to replacing contracted security services with up to 30 new Transit Agents; this is a cost neutral approach that required RT to reduce the contracted security services cost in order to increase the Salaries and Benefits category by the same amount. The budget also includes \$100,000 in savings from changing RT's provider for federal lobbyist services.

Materials & Supplies

This category includes fuel, bus and light rail parts, small maintenance tools and equipment, cleaning supplies, printing materials, and general office supplies.

The Proposed FY 2017 Budget includes \$8.5 million for materials and supplies, an increase of \$142,000 (1.7%) from the FY 2016 year-end estimates of \$8.3 million.

Utilities

This category includes electricity, water, gas, refuse, and telephone for bus, light rail, and administrative facilities.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.

The proposed preliminary FY 2017 Budget includes \$6.3 million for Utilities, an increase of approximately \$133,000 (2.1%) from the FY 2016 year-end estimates (\$6.4 million). This includes increases in natural gas, water, and electricity to reflect the current trend.

Casualty & Liability

This category includes premiums, claims, and attorney fees related to personal liability insurance, property damage insurance, workers’ compensation claims, and commercial insurance for amounts in excess of self-insured amounts.

The proposed preliminary FY 2017 Budget includes \$9.2 million for casualty and liability insurance, an increase of \$874,000 (10.4%) from the FY 2016 year-end estimates (\$8.4 million). This reflects an increase in the projected claim reserves for Workers’ Compensation for FY 2017 per RT’s most recent actuary report completed in January 2016. This amount exceeds the FY 2016 year-end estimates by approximately \$0.5 million. This also reflects a \$343,000 increase in excess liability premiums due to the required increase in insurance coverage up to \$290 million.

Other

This category 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 proposed preliminary FY 2017 Budget includes \$2.1 million for other expenditures, an increase of approximately \$130,000 (6.9%) from the FY 2016 year-end estimate of \$2.0 million. This includes an increase in the General Manager’s (GM’s) Contingency fund, and an increase in Uniform budget.

Summary of Proposed FY 2017 Operating Budget

Table 3 provides a summary of the FY 2016 projected Revenues and Expenses and the proposed preliminary FY 2017 Operating Budget.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.
--

Table 3
 Sacramento Regional Transit District
 FY 2017 Preliminary Operating Revenues and Expense Summary

Categories	FY 2016 Year-End Estimates	FY 2017 Preliminary Budget	% Change
<u>Operating Revenue</u>			
Fare Revenue	\$ 28,553,414	\$ 31,959,969	11.9%
Contracted Services	5,997,007	6,082,292	1.4%
Other	5,204,959	5,240,000	0.7%
State & Local	83,307,389	86,404,589	3.7%
Federal	32,675,279	33,742,104	3.3%
Less Bond Payment*	(3,049,385)		
Total Operating Revenue	\$ 152,688,663	\$ 163,428,954	
<u>Operating Expenses</u>			
Salaries & Benefits	\$ 102,047,160	\$ 108,860,032	6.7%
Professional Services	28,357,398	28,196,227	-0.6%
Materials & Supplies	8,328,973	8,470,973	1.7%
Utilities	6,434,400	6,586,500	2.4%
Casualty & Liability	8,367,082	9,240,812	10.4%
Other	1,940,810	2,074,410	6.9%
Total Operating Expenses	\$ 155,475,823	\$ 163,428,954	
Operating Shortfall	\$ (2,787,160)	\$ -	

**The entire 2017 bond payment is anticipated to be paid using TCRP funds.*

RT's Operating Budget reserve was \$3.1 million at the end of FY 2015. The FY 2016 year-end estimates indicate that RT might use reserve funds in the amount of \$2.8 million at the end of FY 2016.

Staff will continue to fine tune expense projections and closely monitor all revenue sources over the next few months.

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

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
14	03/28/16	Open	Information	03/23/16

Subject: Update on the Preliminary FY 2017 Operating Budget.

this analysis and discussion; the projected service reduction impact is a saving of approximately \$1.0 million.

FY 2017 Budget Timeline

Staff will continue to work diligently to confirm and refine budget assumptions until the FY 2017 Operating Budget is adopted by the Board.

- 4/25/16 Release of a Preliminary FY 2017 Operating and Capital Budget for 60-day Public Review.
- 5/9/16 Public Hearing accepting Public Comment on Proposed FY 2017 Budgets and Continue Public Hearing to June 27, 2016.
- 6/27/16 Continue Public Hearing to accept Public Comment on the Proposed FY 2017 Operating and Capital Budgets, and Adopt the FY 2017 Operating and Capital Budgets.

FY 2017 Budget Schedule

March 28, 2016	FY2017 Preliminary Operating budget briefing to the Board of Directors.
April 25, 2016	Release of FY 2017 Operating and Capital budget, 60-Day Public Review begins.
May 9, 2016	Public Hearing.
June 27, 2016	FY 2017 Operating and Capital Budget for adoption by the Board of Directors.

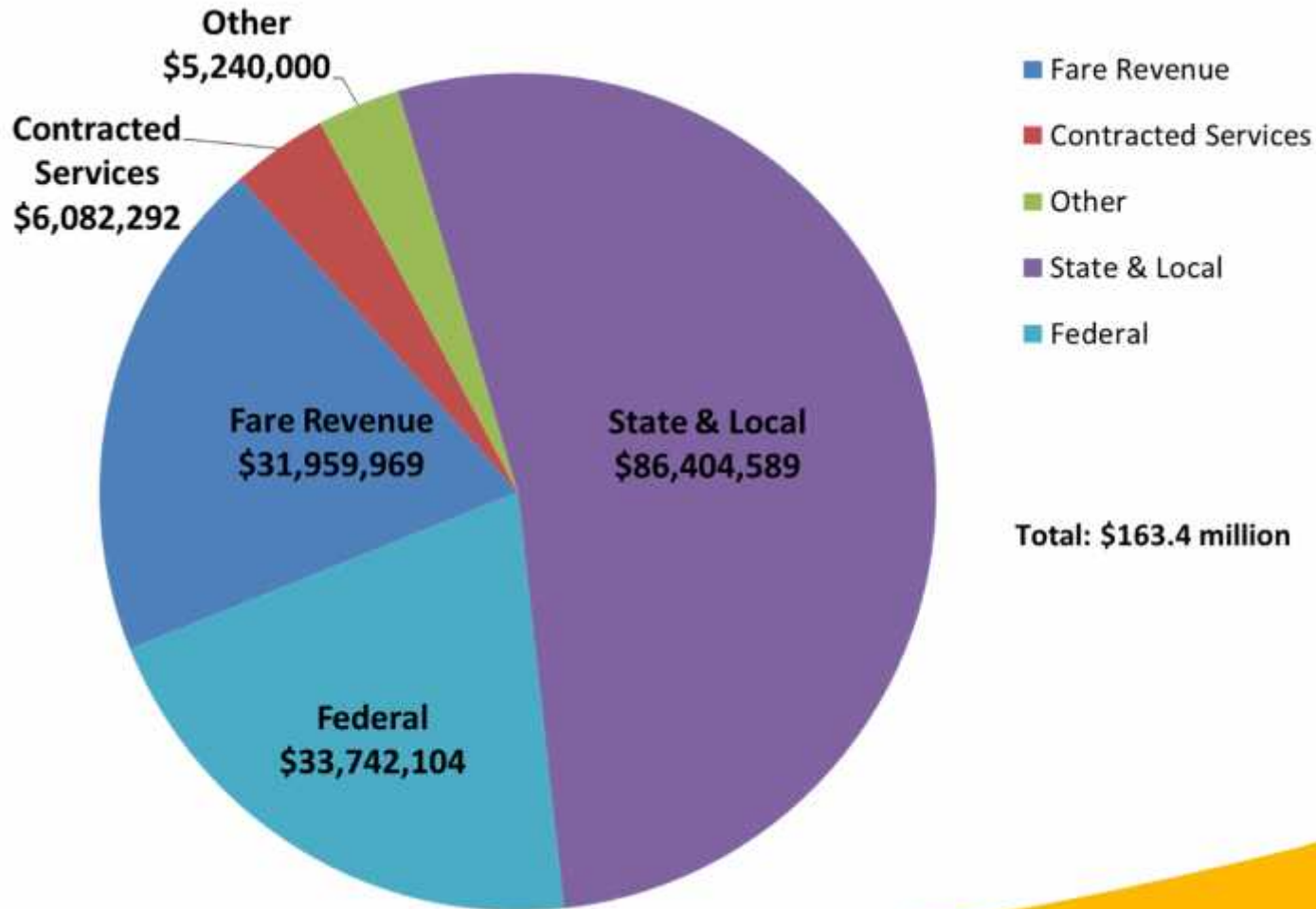
FY 2017 Strategic Budget Goals

- Provide transit services to the public at a fraction of the cost, and maximize funding by meeting state mandates for farebox recovery.
- Operate a full successful year of additional Blue Line service.
- Begin supplemental service to the Golden 1 Center in October 2016.
- Enhanced focus on safety, security, cleanliness and quality of service.
- Increase fare inspection and improve farebox recovery ratio.
- Continue to implement Systemwide Station Enhancements
- Continue to implement the new Fiscal Policies to ensure Fiscal Sustainability.
- Serve RT's Strategic Plan: Quality Service & Innovation; Customer Service; Respect & Professionalism; Fiscal Responsibility; Integrity & Accountability; Quality, Diverse & Positive Work Force; Regional Leadership & Coordination; Health & Safety; and Sustainability.

FY 2017 Proposed Budget Cost Drivers and Assumptions

- **Revenues**
 - Fares: Recent fare change, increase in contractual agreements.
 - State and Local: Based on local agencies' allocations.
 - Federal: Historical trends with minor increase.
 - Other: Additional revenues from potential sponsorships.
- **Expenses**
 - Salaries and Benefits: Growth from 59 new positions, contractual obligations, pension, and medical increases.
 - Other: Inflationary rises in materials, supplies and utilities. Insurance and liability cost increases due to actuarial changes and increased insurance coverage.

FY 2017 Operating Budget Proposed Revenue Allocation



FY 2017 Operating Budget Proposed Expense Allocation

