County Connection

INTER OFFICE MEMO

To: Board of Directors | Date: March 16, 2017

From: Erick Cheung, Director of Finance | Reviewed by:

SUBJECT: Fiscal Year 2018 Draft Budget and Ten Year Forecast

SUMMARY:

The Administration and Finance Committee (Committee) was given the first draft of County Connection's Fiscal Year (FY) 2018 Budget and Forecast. Based on the information provided by staff, the Committee thought it was important to share some of the key issues in the budget and forecast. As a reminder, the FY 2018 Budget and Forecast will be provided to the Board in April. The Board of Directors will be asked to approve the draft budget at the April meeting so that a timely Transportation Development Act (TDA) claim can be filed with the Metropolitan Transportation Commission (MTC). TDA law requires that each county's auditor estimate TDA revenue; the claim will be based on that estimate.

The FY2018 Budget proposes $39.1 million in expenses with proposed revenues to offset these costs. County Connection's main revenue source is TDA 4.0 funds from MTC. The proposed budget uses $19.3 million of TDA 4.0 funds, which is $3.3 million more than MTC estimates we will receive next fiscal year. Therefore, we would be reducing our TDA reserves and have a balance of $6.8 million by the end of the fiscal year. *By FY 2020, the reserve balance will drop to $212 thousand assuming there are no improvements in revenue or reduction in costs*. This is a very different picture than the forecast in FY 2017 Budget which showed reserves of $923 thousand in FY 2025. There are several changes in the forecast from the prior year from decreasing revenues and increasing expenses which are summarized in this report.

The FY 2018 Proposed Budget and Forecast reflects the operations as it currently exists. This also adjusts for information received in mid-February in regards to recent updates on TDA and CalPERS. Staff has only preliminarily begun looking at options to enhance revenues and/or reduce costs. Any options will be brought back to the A&F Committee and the Board for final approval.

<u>Forecast</u>

As mentioned earlier, the FY 2018 Budget and Forecast currently shows that by FY 2020 our reserves will drop to $212 thousand compared to the prior year forecast which showed reserves of $923 thousand in FY 2025. The main causes are decreasing fare revenue, lower sales tax revenue, and LCTOP funds. At the same time, we have insurance and pension expense growing faster than expected. Below is a summary of the two forecasts and the main drivers that have changed since last fiscal year:

		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
		($ in thousands)							
FY 2017 FORECAST									
	Estimated TDA 4.0 Allocation/Revenue (a)	$ 18,112	$ 18,656	$ 19,216	$ 19,792	$ 20,386	$ 20,997	$ 21,627	$ 22,276
	TDA 4.0 Proposed/Forecast Expense	(18,899)	(19,433)	(20,003)	(19,918)	(21,042)	(22,081)	(24,862)	(22,630)
	TDA Expense in Excess of Revenue	$ (787)	$ (777)	$ (787)	$ (126)	$ (656)	$ (1,084)	$ (3,235)	$ (354)
FY 2018 FORECAST									
	Estimated TDA 4.0 Allocation/Revenue (a)	$ 17,335	$ 17,855	$ 18,391	$ 18,942	$ 19,510	$ 20,096	$ 20,699	$ 21,320
	TDA 4.0 Proposed/Forecast Expense	(20,616)	(21,018)	(21,838)	(22,619)	(23,982)	(25,353)	(28,622)	(26,576)
	TDA Expense in Excess of Revenue	$ (3,281)	$ (3,163)	$ (3,447)	$ (3,677)	$ (4,472)	$ (5,257)	$ (7,923)	$ (5,256)
	TDA DIFFERENCE BETWEEN FORECASTS	**$ (2,494)**	**$ (2,386)**	**$ (2,660)**	**$ (3,551)**	**$ (3,816)**	**$ (4,174)**	**$ (4,688)**	**$ (4,902)**
MAJOR DIFFERENCES BETWEEN FORECAST									
		FY 2018	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**
	Revenues Lower than FY2017 Forecast:								
	Fare Revenue	$ (689)	$ (760)	$ (833)	$ (1,275)	$ (1,357)	$ (1,441)	$ (1,957)	$ (2,053)
	TDA Revenue	(777)	(801)	(825)	(850)	(876)	(901)	(928)	(956)
	LCTOP	(305)	(318)	(330)	(344)	(358)	(372)	(388)	(403)
	Total Revenues Lower than FY2017 Forecast	(1,771)	(1,879)	(1,988)	(2,469)	(2,591)	(2,714)	(3,273)	(3,412)
	Expenses Higher than FY2017 Forecast:								
	PERS	79	(122)	(310)	(632)	(806)	(998)	(997)	(996)
	Insurance	(294)	(301)	(309)	(318)	(328)	(338)	(348)	(358)
	Contingency (only budgeted annually)	(500)	-	-	-	-	-	-	-
	Total Expenses Higher than FY2017 Forecast	(715)	(423)	(619)	(950)	(1,134)	(1,336)	(1,345)	(1,354)
	TOTAL MAJOR DIFFERENCES BETWEEN FORECAST	**$ (2,486)**	**$ (2,302)**	**$ (2,607)**	**$ (3,419)**	**$ (3,725)**	**$ (4,050)**	**$ (4,618)**	**$ (4,766)**
	% Due to Revenue	71%	82%	76%	72%	70%	67%	71%	72%
	% Due to Expense	29%	18%	24%	28%	30%	33%	29%	28%
	(a) Both Forecasts have assumed 3% annual growth.								

Revenues

Fare Revenues

Fare Revenues are coming in lower than the FY 2017 Budget and Forecast due to lower ridership and fare revenue being collected. In the past, we would assume a 2% increase in fare revenue due to ridership, but revenues peaked in FY 2013 at $3.6 million. Fare revenue has steadily decline to an estimated $2.8 million for FY 2017. Also, the prior Budget Forecasts assumed fixed route fare increases of 12% every three years (consistent with the Short Range Transit Plan), but County Connection has not raised fares since FY 2009. Based on these facts, the current budget and forecast assumes neither growth in fare revenue nor any fare increases at this time.

Fixed Route Fare Revenues	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Based upon 2017 Adopted Budget	actual	actual	actual	estimate	budget	forecast
	$ 3,580	$ 3,315	$ 3,206	$ 3,100	$ 3,162	$ 3,541
Based upon 2018 Proposed Budget	actual	actual	actual	actual	estimate	budget
	$ 3,580	$ 3,315	$ 3,206	$ 3,000	$ 2,852	$ 2,852
$ Change between FY 2017 Budget and FY 2018 Budget				$ (100)	$ (310)	$ (689)
$ Change between FY 2017 Budget and FY 2018 Budget				-3.2%	-9.8%	-19.5%

TDA Revenues

TDA revenues are based on estimates provided by the Contra Costa Auditors' Office (Auditors' Office) and must be submitted to MTC by February 1st. County Connection receives this information from MTC in mid-February, which provides a short turn around period in producing the first draft budget in March. TDA revenues from FY 2011 to FY 2016 have increased on average by 5.4% and have grown from $13.1 million in FY 2011 to $16.7 million in FY 2016. TDA revenues continue to grow, but lower than the original MTC estimates for the last 3 years as shown in the table below. For FY 2017, the growth was originally estimated to grow by 3% but based on the Auditors' Office is now only expected to grow 1% which is a decrease of $695 thousand from the original estimate. The revised growth rates are not consistent throughout the Bay Area. For example, four counties are expecting a reduction with Marin County and San Francisco City/County decreasing 3% and 1.8%, respectively. The other five counties saw increases averaging 3% which include Alameda County, Napa County, and San Mateo County.

TDA 4.0	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Original Estimate TDA 4.0 (Provided in Feb) (a)	$ 16,161	$ 16,441	$ 17,055	$ 17,585	$ 18,113
% Change Original Estimate	13%	2%	4%	3%	3%
Actual TDA 4.0 Revenue Received by MTC (Provided after FY is over)	$ 15,568	$ 16,144	$ 16,702	$ 16,890	$ 17,335
% Change in Actual Revenue	4%	4%	3%	1%	3%
Difference Between MTC Estimate and Actual	$ (593)	$ (297)	$ (353)	$ (695)	$ (778)

(a) For FY 2018, the $18.113 million is the forecast amount in FY 2017 Budget based on 3% grwoth of FY 2017 original estimate.

Low Carbon Transit Operations Program (LCTOP)

LCTOP funds have a high level of volatility. Originally, MTC estimated County Connection would receive $20 million over 25 years. The funds appear to be coming in lower for as the State's auctions are performing poorly. In the most recent auction, the State received $34.5 million in proceeds, which is less than half of the projected amount it was expecting. The projection has been revised downward since County Connection's allocation for FY 2018 is $285 thousand which is a 53% reduction than the current year. The other issue is that the current rules (State requirement) to spend these funds in our service area are difficult to meet, since there are strict limitations on use.

Expenses

PERS

PERS costs in the current forecast reflect the changes approved by the PERS Board reducing the discount rate from 7.5% to 7.0% last December and will phase in over an eight year period. PERS provided a table in mid-February to help agencies estimate costs which has been incorporated in the budget and forecast. The decrease in the discount rate means that the employer contribution rate will increase from 7.5% to 9.5% by FY 2021, which is a 26% increase. The costs continue to grow as we phase in the lower discount rate and increase our pension costs by nearly $1 million in FY 2023.

Insurance

County Connection is a member of CalTIP for General Liability which included Employment Practices Liability (EPL) coverage. County Connection's premiums could increase significantly due to multiple claims losses by various transit agencies that exceed $1.25 million. The insurance provider that covers most this layer could exercise their option to not renew CalTIP, but has stated they will not cancel our coverage. CalTIP should be notified of the premium increase and changes later this month and will notify the Board in April. Also, CalTIP Board decided in December of 2015 to stop providing EPL coverage effective June 30, 2017. In December 2016, the Board approved to join Employment Risk Management Authority (ERMA), which is a joint powers authority for EPL Insurance but individual members are not required to join ERMA. Staff has submitted an application with ERMA and asked its own insurance broker for quotes to provide the coverage. The proposed budget assumes an increase from $372 thousand in FY 2017 to $675 thousand for FY 2018 for premium increase and EPL insurance.

Other Revenues

STA Revenue

STA revenue is finally expected to increase 12% or $261 thousand in FY 2018 to $2.4 million. This is still $725 thousand or 23.5% less than what was received in FY 2015. The following is a summary table of STA revenue:

MTC - STA	2018 Budget (a)	2017 Estimate	2016 Actual	2015 Actual
STA Population	$ 1,612,760	$ 1,456,880	$ 1,597,874	$ 2,117,857
STA Regional Paratransit (b)	$ 270,946	$ 233,000	$ 255,592	$ 338,732
STA Revenue Based	$ 482,118	$ 415,000	$ 484,822	$ 634,239
STA Total	**$ 2,365,824**	**$ 2,104,880**	**$ 2,338,288**	**$ 3,090,828**
$ Difference compared to Prior Year	**$ 260,944**	**$ (233,408)**	**$ (752,540)**	**$ (160,262)**
% Difference compared to Prior Year	**12%**	**-10%**	**-24%**	**-5%**

(a) Based upon preliminary amounts from MTC as of February 2017.

Federal Revenue

FTA 5307 revenue is estimated on a continuing basis for $1.2 million annually based on the last grant received. County Connection still has grant funds remaining from the previous year and budgeted for $1.37 million for FY 2018. Federal funds have doubled since FY 2013 when we received approximately $670 thousand annually. The budget assumes that the federal government continues to fund transit at its current level.

Lifeline Revenue

Lifeline Funds for FY 2018 is $500 thousand, but this is the final year of a 3 year grant. MTC states that Lifeline funds will be available in the future, but no estimates of funding or timeline. Currently assumes $500 thousand will continue in the future.