

To: Board of Directors

Date: June 15, 2017

From: Erick Cheung, Director of Finance

Reviewed by:

SUBJECT: Ten Year Forecast Preliminary Options

SUMMARY:

In March, staff notified the Committee and the Board that there were issues in the forecast due to lower than expected sales tax growth in the coming year and changes by CalPERS assumptions that would raise expenses in the long term. The Fiscal Year (FY) 2018 Draft Budget uses \$3.2 million more than Metropolitan Transportation Commission (MTC) estimates we will receive next fiscal year in Transportation Development Act (TDA) 4.0 funds. This will reduce our TDA reserves to \$7.0 million by the end of the fiscal year. If our current trend were to continue, expenses are estimated to grow at 3.5% a year, while revenues are only growing 2.6% from FY 2019 to FY 2026. *By FY 2020, the reserve balance will drop to \$472 thousand assuming there are no improvements in revenue or reduction in costs.* As discussed in the previous meetings, this is not sustainable and needs to be corrected for financial stability in the short and long term.

In April & May, staff prepared some strategies to balance the budget from increasing fares to reducing the service. Using some of those strategies, staff has prepared a preliminary framework for discussion and direction from the Committee and the Board. The following are the assumptions:

1. Maintain a 12% Reserve in FY 2023 which is approximately \$5 million. The purpose of the reserve is to account for any unexpected expenses or dips in revenue, and for cash flow purposes.
2. Assumes no additional revenue from California Senate Bill 1 (SB1). SB1 was signed by the Governor on April 28th and will collect additional tax revenues from fuel, vehicle licensing fee, and zero emission vehicle fee. MTC staff is currently reviewing the impacts of SB1 revenue and how it will allocate those revenues. The preliminary estimate of this information is sometime in the Fall. At the same time, there is currently an initiative to repeal SB1 by placing the matter on the ballot in 2018. Based on these facts, the General Manager wants to be conservative and reflect no revenue in the forecast at this time. This assumption can be reevaluated as new information becomes available.
3. Assumes forecasted revenues and expenses are reasonable, except for changes noted in items 4 - 6 below.

4. Fare Increases:

- a. Assumes fare increases from \$2.00 to \$2.25 in FY 2019 and \$2.50 in FY 2021. Assumes similar percentage increase in pass revenue of 12.5% in and 11.1% in the respective fiscal years. This will provide an additional \$203 thousand in FY 2019 and \$194 thousand in FY 2021.
- b. Assumes Midday Free for Seniors goes to \$1 in FY 2019. This will provide an additional \$96 thousand in FY 2019.

	Budget	Estimate				
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Fare Revenue Increase	\$2.00	\$2.25	\$2.25	\$2.50	\$2.50	\$2.50
Net Fare Revenue Increase (a)	-	\$203,212	\$0	\$193,503	\$0	\$0
Cumulative Fare Revenue Increase (1)	-	\$203,212	\$203,212	\$396,715	\$396,715	\$396,715
Senior Midday Fare	\$0.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Net Fare Revenue Increase (b)	-	\$96,927	\$0	\$0	\$0	\$0
Cumulative Fare Revenue Increase (2)	-	\$96,927	\$96,927	\$96,927	\$96,927	\$96,927
Total Fare Revenue (FY 2018) + (1) + (2)	\$2,852,100	\$3,152,239	\$3,152,239	\$3,345,742	\$3,345,742	\$3,345,742
	(a) Based on Pham & Linsalata Fare Elasticity 1991 PP.7, for every 1% increase in fares, -0.43% in ridership					
	(b) Based on FY2014 DC Circulator TCD Update PP.4, from fares to free is 60%.					

- 5. Defers all capital for FY 2019 to FY 2023. Staff is still reviewing if this is reasonable based on fixed assets that will need to be replaced.

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Total
Capital Deferral	\$568,444	\$408,675	\$56,666	\$369,743	\$699,984	\$2,103,512

- 6. Reduce supplies and services \$50 thousand beginning in FY 2019. Staff is still reviewing what expenses would be reduced.

Service Reduction:

Based on the assumptions noted above, the following is the estimated service reduction assuming marginal costs of \$54 per hour and pending on how many years to spread the loss and required to maintain a 12% reserve in FY 2023 (see attachments for Forecasts based on assumptions below). In February, the Director of Planning and Marketing provided a productivity report and County Connection’s total hours were approximately 258,000:

- a. In One Year – Reduce \$2.8 million and 52,000 hours
- b. Over Two years – Reduce \$3.1 million and 58,000 hours (\$1.55 million and 29,000 hours each year)
- c. Over Three years – Reduce \$3.5 million and 63,000 hours (\$1.16 million and 21,000 hours each year)
- d. Over Four years – Reduce \$4.0 million and 72,000 hours (\$1.000 million and 18,000 hours each year)

RECOMMENDATION:

Staff requests that the Board provide comments and direction.

County Connection
CENTRAL CONTRA COSTA TRANSIT AUTHORITY
TDA RESERVE \$ In Thousands

	FY2016	FY2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
45 Beginning Balance	\$ 11,899	\$ 11,282	\$ 10,234	\$ 7,041	\$ 7,626	\$ 7,730	\$ 7,427	\$ 6,641	\$ 5,399	\$ 783	\$ (1,176)
46 Estimated TDA 4.0 Allocation	\$ 16,856 4.41%	\$ 16,890 0.20%	\$ 17,335 2.63%	\$ 17,855 3.00%	\$ 18,391 3.00%	\$ 18,942 3.00%	\$ 19,510 3.00%	\$ 20,096 3.00%	\$ 20,699 3.00%	\$ 21,320 3.00%	\$ 21,959 3.00%
TDA 4.0 Needed for Operations and Capital:											
47 Used for Fixed route operations	(14,884)	(17,092)	(19,148)	(19,299)	(20,256)	(21,156)	(22,136)	(23,105)	(23,905)	(24,829)	(25,675)
48 Used for Paratransit operations	-	(698)	(729)	(761)	(821)	(879)	(950)	(1,023)	(1,100)	(1,176)	(1,235)
SERVICE REDUCTION											
49 TDA Used for Operations	(14,884)	(17,790)	(19,877)	(17,270)	(18,287)	(19,245)	(20,296)	(21,338)	(22,215)	(23,215)	(24,120)
50 Used for Capital Program	(2,589)	(148)	(651)	-	-	-	-	-	(3,100)	(64)	(3,892)
51 Ending TDA Reserve	\$ 11,282	\$ 10,234	\$ 7,041	\$ 7,626	\$ 7,730	\$ 7,427	\$ 6,641	\$ 5,399	\$ 783	\$ (1,176)	\$ (7,229)
52 Number Of Months of Operating Expenses in Reserve	4.1	3.4	2.2	2.4	2.3	2.1	1.8	1.4	0.2	(0.3)	(1.8)
53 Percentage of operating budget	34.6%	28.7%	18.5%	19.6%	19.2%	17.7%	15.3%	12.0%	1.7%	-2.5%	-14.7%
54 Reserve Percentage of:	FY2016	FY2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
12%	\$ 3,916	\$ 4,283	\$ 4,573	\$ 4,666	\$ 4,835	\$ 5,024	\$ 5,204	\$ 5,384	\$ 5,545	\$ 5,711	\$ 5,882
55 Amount Above/(Below) Reserve Level	\$ 7,366	\$ 5,951	\$ 2,468	\$ 2,960	\$ 2,895	\$ 2,403	\$ 1,437	\$ 15	\$ (4,762)	\$ (6,887)	\$ (13,111)

County Connection
CENTRAL CONTRA COSTA TRANSIT AUTHORITY
TDA RESERVE \$ In Thousands

	FY2016	FY2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
45 Beginning Balance	\$ 11,899	\$ 11,282	\$ 10,234	\$ 7,041	\$ 6,386	\$ 6,800	\$ 6,807	\$ 6,331	\$ 5,399	\$ 1,093	\$ (556)
46 Estimated TDA 4.0 Allocation	\$ 16,856 4.41%	\$ 16,890 0.20%	\$ 17,335 2.63%	\$ 17,855 3.00%	\$ 18,391 3.00%	\$ 18,942 3.00%	\$ 19,510 3.00%	\$ 20,096 3.00%	\$ 20,699 3.00%	\$ 21,320 3.00%	\$ 21,959 3.00%
TDA 4.0 Needed for Operations and Capital:											
47 Used for Fixed route operations	(14,884)	(17,092)	(19,148)	(19,299)	(20,256)	(21,156)	(22,136)	(23,105)	(23,905)	(24,829)	(25,675)
48 Used for Paratransit operations	-	(698)	(729)	(761)	(821)	(879)	(950)	(1,023)	(1,100)	(1,176)	(1,235)
SERVICE REDUCTION											
49 TDA Used for Operations	(14,884)	(17,790)	(19,877)	(18,510)	(17,977)	(18,935)	(19,986)	(21,028)	(21,905)	(22,905)	(23,810)
50 Used for Capital Program	(2,589)	(148)	(651)	-	-	-	-	-	(3,100)	(64)	(3,892)
51 Ending TDA Reserve	\$ 11,282	\$ 10,234	\$ 7,041	\$ 6,386	\$ 6,800	\$ 6,807	\$ 6,331	\$ 5,399	\$ 1,093	\$ (556)	\$ (6,299)
52 Number Of Months of Operating Expenses in Reserve	4.1	3.4	2.2	2.0	2.0	2.0	1.8	1.4	0.3	(0.1)	(1.5)
53 Percentage of operating budget	34.6%	28.7%	18.5%	16.4%	16.9%	16.3%	14.6%	12.0%	2.4%	-1.2%	-12.9%
Reserve Percentage of:											
54 12%	\$ 3,916	\$ 4,283	\$ 4,573	\$ 4,666	\$ 4,835	\$ 5,024	\$ 5,204	\$ 5,384	\$ 5,545	\$ 5,711	\$ 5,882
55 Amount Above/(Below) Reserve Level	\$ 7,366	\$ 5,951	\$ 2,468	\$ 1,720	\$ 1,965	\$ 1,783	\$ 1,127	\$ 15	\$ (4,452)	\$ (6,267)	\$ (12,181)

County Connection
CENTRAL CONTRA COSTA TRANSIT AUTHORITY
TDA RESERVE \$ In Thousands

	FY2016	FY2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
45 Beginning Balance	\$ 11,899	\$ 11,282	\$ 10,234	\$ 7,041	\$ 5,996	\$ 5,630	\$ 6,017	\$ 5,921	\$ 5,369	\$ 1,443	\$ 174
46 Estimated TDA 4.0 Allocation	\$ 16,856 4.41%	\$ 16,890 0.20%	\$ 17,335 2.63%	\$ 17,855 3.00%	\$ 18,391 3.00%	\$ 18,942 3.00%	\$ 19,510 3.00%	\$ 20,096 3.00%	\$ 20,699 3.00%	\$ 21,320 3.00%	\$ 21,959 3.00%
TDA 4.0 Needed for Operations and Capital:											
47 Used for Fixed route operations	(14,884)	(17,092)	(19,148)	(19,299)	(20,256)	(21,156)	(22,136)	(23,105)	(23,905)	(24,829)	(25,675)
48 Used for Paratransit operations	-	(698)	(729)	(761)	(821)	(879)	(950)	(1,023)	(1,100)	(1,176)	(1,235)
SERVICE REDUCTION											
49 TDA Used for Operations	(14,884)	(17,790)	(19,877)	(18,900)	(18,757)	(18,555)	(19,606)	(20,648)	(21,525)	(22,525)	(23,430)
50 Used for Capital Program	(2,589)	(148)	(651)	-	-	-	-	-	(3,100)	(64)	(3,892)
51 Ending TDA Reserve	\$ 11,282	\$ 10,234	\$ 7,041	\$ 5,996	\$ 5,630	\$ 6,017	\$ 5,921	\$ 5,369	\$ 1,443	\$ 174	\$ (5,189)
52 Number Of Months of Operating Expenses in Reserve	4.1	3.4	2.2	1.9	1.7	1.7	1.6	1.4	0.4	0.0	(1.3)
53 Percentage of operating budget	34.6%	28.7%	18.5%	15.4%	14.0%	14.4%	13.7%	12.0%	3.1%	0.4%	-10.6%
Reserve Percentage of:											
54 12%	\$ 3,916	\$ 4,283	\$ 4,573	\$ 4,666	\$ 4,835	\$ 5,024	\$ 5,204	\$ 5,384	\$ 5,545	\$ 5,711	\$ 5,882
55 Amount Above/(Below) Reserve Level	\$ 7,366	\$ 5,951	\$ 2,468	\$ 1,330	\$ 795	\$ 993	\$ 717	\$ (15)	\$ (4,102)	\$ (5,537)	\$ (11,071)

County Connection
CENTRAL CONTRA COSTA TRANSIT AUTHORITY
TDA RESERVE \$ In Thousands

	FY2016	FY2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
45 Beginning Balance	\$ 11,899	\$ 11,282	\$ 10,234	\$ 7,041	\$ 5,831	\$ 5,135	\$ 5,027	\$ 5,431	\$ 5,379	\$ 1,953	\$ 1,184
46 Estimated TDA 4.0 Allocation	\$ 16,856 4.41%	\$ 16,890 0.20%	\$ 17,335 2.63%	\$ 17,855 3.00%	\$ 18,391 3.00%	\$ 18,942 3.00%	\$ 19,510 3.00%	\$ 20,096 3.00%	\$ 20,699 3.00%	\$ 21,320 3.00%	\$ 21,959 3.00%
TDA 4.0 Needed for Operations and Capital:											
47 Used for Fixed route operations	(14,884)	(17,092)	(19,148)	(19,299)	(20,256)	(21,156)	(22,136)	(23,105)	(23,905)	(24,829)	(25,675)
48 Used for Paratransit operations	-	(698)	(729)	(761)	(821)	(879)	(950)	(1,023)	(1,100)	(1,176)	(1,235)
SERVICE REDUCTION											
49 TDA Used for Operations	(14,884)	(17,790)	(19,877)	(19,065)	(19,087)	(19,050)	(19,106)	(20,148)	(21,025)	(22,025)	(22,930)
50 Used for Capital Program	(2,589)	(148)	(651)	-	-	-	-	-	(3,100)	(64)	(3,892)
51 Ending TDA Reserve	\$ 11,282	\$ 10,234	\$ 7,041	\$ 5,831	\$ 5,135	\$ 5,027	\$ 5,431	\$ 5,379	\$ 1,953	\$ 1,184	\$ (3,679)
52 Number Of Months of Operating Expenses in Reserve	4.1	3.4	2.2	1.8	1.5	1.4	1.5	1.4	0.5	0.3	(0.9)
53 Percentage of operating budget	34.6%	28.7%	18.5%	15.0%	12.7%	12.0%	12.5%	12.0%	4.2%	2.5%	-7.5%
Reserve Percentage of:											
54 12%	\$ 3,916	\$ 4,283	\$ 4,573	\$ 4,666	\$ 4,835	\$ 5,024	\$ 5,204	\$ 5,384	\$ 5,545	\$ 5,711	\$ 5,882
55 Amount Above/(Below) Reserve Level	\$ 7,366	\$ 5,951	\$ 2,468	\$ 1,165	\$ 300	\$ 3	\$ 227	\$ (5)	\$ (3,592)	\$ (4,527)	\$ (9,561)