

RIVERSIDE TRANSIT AGENCY
1825 Third Street
Riverside, CA 92507

November 17, 2005

TO: BOARD OF DIRECTORS

THRU: Larry Rubio, Chief Executive Officer *J.R.*

FROM: Chris Gallanes, Chief Financial Officer *C.G.*

SUBJECT: Fiscal Year 2006 Midyear Budget Update/Request for Short Range Transit Plan (SRTP) and Budget Amendment

Summary: In May 2005, the Agency Board of Directors adopted the fiscal year 2006 operating budget, capital budget, and SRTP. These budgets supported the Agency goals of increased ridership, reduction of job related injuries, excellent customer service, and cost reduction through improved efficiencies. They reflected a strategy for conservative service growth and future bus service planning, while being sensitive to forecasted fiscal constraints.

The fiscal year 2006 operating budget provided resources to support a 5 percent increase in revenue service hours and a 6 percent increase in revenue service miles from fiscal year 2005 projections. A major feature was a planned implementation of Route 1 limited, part of the Infrastructure Improvement Project (IIP) phase of the Agency's Bus Rapid Transit initiative. Other service increases were planned for connections on feeder routes. Implementation of these service changes was contingent upon the sustainability of service in future fiscal years. Sustainability was based in part on increased farebox revenues that were projected as a result of a fare modification implemented in April 2005. Another sustainability component involved consistency in Local Transportation Fund (LTF) revenues based on Riverside County sales tax projections.

System-wide ridership at the Agency has decreased at a greater than anticipated rate. The Agency implemented a fare modification in April 2005. A ridership fare price elasticity of -2.0 was modeled for the fare modification. Based in this factor, a 25 percent fare increase would result in a 5 percent decrease in ridership. The actual decrease in ridership has been 10 percent. This 10 percent decrease has been consistent with industry-wide statistics. This

has adversely impacted previous staff farebox revenue projections. The Riverside County Transportation Commission (RCTC) has presented data to its Board of Commissioners indicating that increasing operating expenses could outpace future LTF projections. Fuel prices have increased at greater than planned rates. Given the above events, staff has prepared a midyear budget amendment that reflects an adjusted service profile that postpones the implementation of Route 1 Limited and other service changes and maintains the level of service that is currently in place. It also reflects an adjustment to operating expenditures for changes in pricing. A proposed service change profile will be discussed, followed by an analysis of budget adjustments by cost element. The analysis will conclude with a profile of the revenues necessary to fund the midyear budget, as well as impact to Productivity Improvement Plan (PIP) performance indicators and the farebox recovery ratio.

Service Profile

A comparative schedule of proposed service is shown below:

	FY2005 Actual	FY2006 Adopted	FY2006 Midyear	Change Incr.+(/Decr.)
Revenue Service Hours	605,420	638,250	615,787	(22,463)
Revenue Service Miles	9,787,847	10,252,295	9,918,965	(333,330)
Passengers	7,357,581	7,922,935	7,381,949	(540,986)

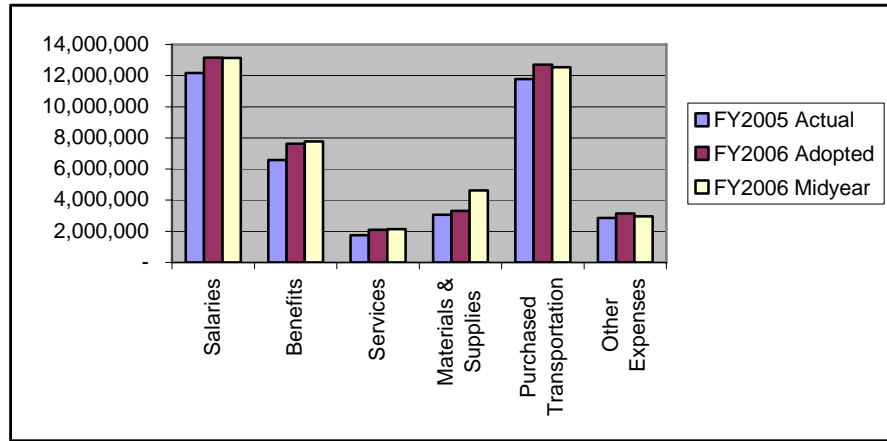
Staff has monitored service statistics to measure the effect of the fare modification, inclement weather, and transit-related incidents that have occurred in recent months. Ridership has decreased at a greater than projected rate. Fare elasticity projections reflected a 5 percent decrease in ridership; the actual decrease has been at a 10 percent rate. Current forecasts anticipate increased ridership in the remaining fiscal year period, and by fiscal year end, ridership is projected to be 7,381,949. This is consistent with fiscal year 2005 actual ridership and revenue service hours. Projected ridership based on current revenue service hour projections reflect a decrease of 540,986 passengers from the adopted budget.

The midyear service profile assumes nominal schedule improvements to current service. Changes include additional trips on route 23 and 24 to service Murrieta and Temecula Valley High School. Revenue service hours are projected at 615,787. This represents a 1.7 percent increase in actual fiscal year 2005 revenue service hours. It represents a 22,463 decrease from adopted revenue service hours. Postponed route changes include Route 1 Limited and service improvements on route 10, 13, 15, 49,

74, and 79, as well other enhancements on route 23 and 24 other than the additions stated above. The recalculation of revenue service miles based on 615,787 revenue service hours show a decrease of 333,330 from the adopted budget.

Operating Budget Adjustments

An operating budget profile is shown below. The profile shows the change in cost element from the fiscal year 2005 actual, 2006 adopted budget, and 2006 proposed midyear budget. The specific dollar amount of the change between the fiscal year 2006 adopted and midyear budgets are shown in the table below the graph.



	FY2005 Actual	FY2006 Adopted	FY2006 Midyear	Change Incr.+(Decr.)
Salaries	\$ 12,160,076	\$ 13,159,530	\$ 13,126,855	\$ (32,675)
Benefits	6,580,983	7,635,264	7,773,340	138,076
Subtotal	18,741,059	20,794,794	20,900,195	105,401
Services	1,749,258	2,103,649	2,147,199	43,550
Materials & Supplies	3,063,272	3,305,837	4,621,726	1,315,889
Purchased Transportation	11,776,101	12,714,237	12,535,506	(178,731)
Other Expenses	2,857,964	3,154,572	2,963,137	(191,435)
Subtotal	19,446,595	21,278,295	22,267,568	989,273
Total Operating Expenses	\$ 38,187,654	\$ 42,073,089	\$ 43,167,763	\$ 1,094,674

The fiscal year 2006 adopted operating budget totals \$42,073,089. This budget supported a planned implementation of Route 1 Limited, as well as other feeder route changes. Current operating expense forecasts of fuel and other resources to provide the level of service provided in fiscal year 2005 totals \$43,167,763, an increase of \$1,094,674. Budget that is earmarked for service enhancements must be used to offset projected increases in operating expenditures. Specific changes by cost element will be discussed below.

Salaries and Benefits

Staff analyzed the current organization structure and staffing levels to determine optimal support to Agency operations. A contract operations department was reinstated to insure consistent monitoring of Agency contracted bus operations. Additional operations supervision will provide increased street operational oversight. Specific position changes are as follows:

	<u># of Positions *</u>
FY2005 Adopted Budget	<u>372</u>
<u>Midyear Adjustments</u>	
Additional Operations Supervisor	1
Additional Contracted Operations Field Administrator	1
Additional Contracted Operations Analyst	<u>1</u>
Subtotal	<u>3</u>
FY2006 Midyear Proposed	<u>375</u>
<u>Position Reclassifications & Title Changes (No Change in Headcount)</u>	
Reclassification of Training Manager	1
Operations Manager to Contracted Services Operations Manager	1
QC Analyst to Stops & Zones Supervisor	1
Operations Specialist to Contracted Operations Specialist	1
Coach Operator (P/T to F/T)	5
Facilities Project Manager to Facilities Engineer	1
Admin. Svcs. Mgr. To Performance Analysis Director	1
* Excludes on-call Customer Information Clerks	

Seven (7) full-time Coach Operators were budgeted to support the Route 1 Limited implementation. Because of operator attrition trends and executive staff deployment strategies, these 7 positions were filled at the beginning of fiscal year 2006. Staff proposes that the current Coach Operator headcount of two hundred twenty-five (225) be maintained. Five (5) Part-Time Coach Operators budgeted in the adopted budget were reclassified to Full-Time Coach Operators as part of the deployment strategy.

Implementation of the above position changes and a reforecast of operator pay hours for directly operated service resulted in an overall decrease of \$32,675 in salaries. Benefits increased by \$138,076. This is attributed to the Part-Time Coach Operator reclassification stated above, as well as benefits for the additional contracted operations positions. The total increase in salaries and benefits totals \$105,401.

Services

Estimated expenditures in the cost element of Services increased by \$43,550. This is the net result of a reclassification of a planned Comprehensive Operational Analysis (COA) from the capital

budget to the operating budget, greater than planned expenditures for an Oracle Hosting contract, and contracted services for service quality control, offset by savings associated with less than planned scheduling scenarios associated with Wage Order Number 9. Federal Section 5307 funding was received in fiscal year 2005 for the COA, and will be reprogrammed to the fiscal year 2006 operating budget.

Materials and Supplies

Estimated expenditures in materials and supplies have increased by \$1,315,889. This is attributed to greater than planned price fluctuation in the cost elements of Compressed Natural Gas (CNG) and Unleaded Fuel. Staff estimates that the rate per therm for CNG will increase from \$0.80 in April 2005 to \$1.42 by June 2006. The adopted budget for CNG fuel is \$1,757,794, based on a rate per therm of \$0.91. Based on this current price forecast, CNG fuel expenditures will be \$3,056,423. This is \$1,298,629 higher than previously planned in the adopted budget. Staff estimates that unleaded fuel will increase from a rate per gallon of \$2.26 in April 2005 to \$3.21 by June 2006. The adopted budget for unleaded fuel is \$145,760, based on a rate per gallon of \$2.50. Based on this current price forecast, unleaded fuel expenditures will be \$163,020. This is \$17,260 higher than previously planned in the adopted budget.

Purchased Transportation

Total estimated purchased transportation expenditures have changed from \$12,714,237 in the adopted budget to \$12,535,506, a decrease of \$178,731. Cost avoidance (expenditure decreases) associated with not implementing full service changes on route 23, 24, 74, and 79 is offset by estimated increases in Agency Dial-A-Ride (DAR) service. The Agency is currently in the process of re-bidding this service. The current schedule is for a new vendor to begin providing DAR service in the fourth quarter of fiscal year 2006. The increases are attributed to probable increases in contractor rates. Again, net purchased transportation expenditures are estimated to lower than the adopted budget.

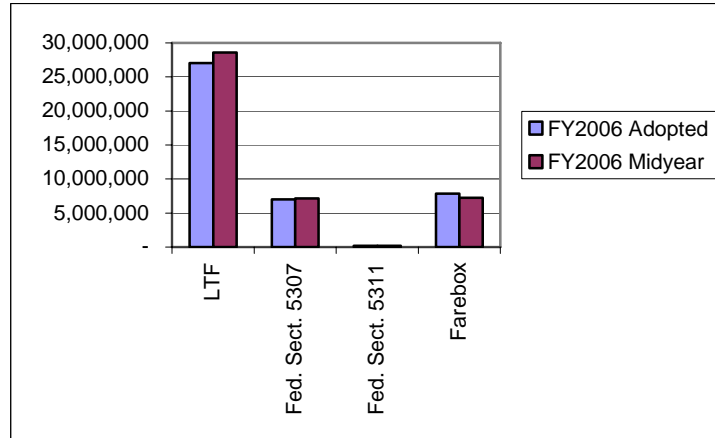
Other Expenses

Other expenses encompass the cost elements of Utilities, Insurance, Taxes, Advertising, Dues/Subscriptions, Training, and Miscellaneous other expenses. This element reflects a net decrease of \$191,435 from the fiscal year 2006 adopted budget.

This is the result of increases in street operations staff training offset by expenditure savings associated with implementation of Wage Order Number 9.

Operating Revenues

An operating revenue profile is shown below. The profile shows the change in revenue sources from the fiscal year 2006 adopted budget to the midyear budget. The specific dollar amount of the changes is shown in the table below the graph.



	LTF	Federal Section 5307	Federal Section 5311	Farebox	Total
Adopted Budget	\$ 27,018,462	\$ 6,989,385	\$ 189,419	\$ 7,875,823	\$ 42,073,089
Change (Incr./Decr.)	1,584,931	165,115	-	(655,372)	1,094,674
Midyear Budget	\$ 28,603,393	\$ 7,154,500	\$ 189,419	\$ 7,220,451	\$ 43,167,763

An additional \$1,094,674 is needed to fully fund the midyear budget. Current farebox revenue projections that are based on the midyear revenue service hour profile reflect \$7,220,451. This is \$655,372 down from the farebox revenue projections developed during the fiscal year 2006 budget process. Federal Section 5307 grant funding that was awarded to the Agency in fiscal year 2005 will be used to fund the COA. To offset the decrease in farebox revenues and increased expenditures forecasted in the midyear budget, additional LTF funds of \$1,584,931 is needed.

In January 2005, the RCTC Board of Commissioners adopted a reserve policy that allocated \$3,066,713 of LTF to be held for Agency use in the case of unforeseen revenue shortfalls or increases in operating costs. If approved by the board, staff will request that \$1,584,931 be drawn down from these reserves.

PIP Impact

The schedule below illustrates the impact of the midyear budget on the PIP:

	FY2005 Actual	FY2006 Adopted	FY2006 Midyear	Low End Target	High End Target
Operating Cost Per Revenue Hour	\$ 63.08	\$ 65.92	\$ 70.10	N/A	\$ 65.60
Farebox Recovery Ratio	20.01%	17.73%	17.82%	N/A	17.73%
Subsidy Per Passenger	\$ 4.29	\$ 4.32	\$ 4.87	\$ 3.62	\$ 4.90
Subsidy Per Passenger Mile	\$ 0.64	\$ 0.73	\$ 0.73	\$ 0.61	\$ 0.83
Subsidy Per Revenue Hour	\$ 52.13	\$ 53.58	\$ 58.38	\$ 44.60	\$ 60.34
Subsidy Per Revenue Mile	\$ 3.22	\$ 3.34	\$ 3.62	\$ 2.69	\$ 3.65
Passengers Per Revenue Hour	12.15	12.41	11.99	10.46	14.16
Passengers Per Revenue Mile	0.75	0.77	0.74	0.63	0.85

The Agency meets all fiscal year 2006 PIP performance indicator targets except Operating Cost Per Revenue Hour. The cost increased from \$65.92 to \$70.10, an increase of \$4.18. The midyear forecast of a 540,986 reduction in passengers and a \$655,372 decrease in the farebox revenue projection, coupled with a \$1,094,674 increase in expenditures result in a \$0.55 increase in Subsidy Per Passenger, a \$4.80 increase in Subsidy Per Revenue Hour, and a \$0.28 increase in Subsidy Per Revenue Mile. Passengers Per Revenue Hour and Passengers Per Revenue Mile both decreased by 3 percent.

Farebox Recovery Ratio

A predetermined farebox ratio target was developed by Agency staff and approved by both the RCTC and CalTrans. The target is 17.73 percent. Once the target is established, it cannot be revised. The fiscal year 2006 midyear farebox ratio projection is shown below:

	FY2006 Midyear
Revenues	
Projected Farebox Revenues	\$ 7,220,451
Other Local Revenues	337,369
Exempt Routes	<u>(380,011)</u>
Subtotal Revenues	\$ <u>7,177,809</u>
Expenses	
Operating Expenses	43,167,763
Exempt Routes	<u>(2,885,037)</u>
Subtotal Expenses	<u>40,282,726</u>
Farebox Ratio	<u>17.82%</u>

Given current revenue and expense forecasts, the Agency will realize a 17.82 percent farebox recovery ratio. This exceeds the 17.73 percent farebox ratio target.

Fiscal Impact:

The fiscal year 2006 adopted budget totals \$42,073,089. Staff currently projects year-end expenditures to be \$43,167,763. This reflects an increase of \$1,094,674. Current year-end farebox revenues are projected to be \$655,372 less than initial projections. Federal grant funds of \$165,115 that were awarded to the Agency during fiscal year 2004 will be used for a COA. Additional funding of \$1,584,931 will be needed to support the continuation of current service schedules. If the Agency board approves this midyear budget request, staff will work with RCTC staff to prepare the necessary SRTP amendment documents to obtain approval from the RCTC Board of Commissioners.

Committee Recommendation:

This item was discussed at the Board Budget and Finance Committee meeting of November 9th. The Committee members unanimously approved recommending this item to the full Board of Directors for their consideration.

Recommendation:

- Adopt the proposed fiscal year 2006 midyear budget update
- Request additional LTF funding of \$1,584,931 from LTF reserves of \$3,066,713 on hand at the RCTC
- Direct staff to prepare the necessary documentation for an SRTP amendment to reflect these actions