

To: ITP Board

From: Alan Hartley

Date: July 29, 2009

Re: FY 2010 Proposed Budget – Executive Summary

Attached for your review and consideration is the Fiscal Year 2010 Proposed Budget. The budget totals \$52,027,644. The budget consists of two components, operating and grants. The operating portion totals \$32,922,383. The grants portion totals \$19,105,261. Operating expenses that are funded by grants, such as preventive maintenance and the County Connection program, have been extracted from the operating budget and placed in the grants budget. The Board can expect monthly reporting on both components in substantially the same format as is currently being presented in FY 2009.

On May 27, 2009, the ITP Board adopted budget formulation guidelines to be followed during budget preparation. A copy of those guidelines follows this letter. The guidelines anticipated budgeting State Operating Assistance at 29.5%. Staff subsequently learned that the percentage could fall to 28.6%. The Board was informed that the budget would be crafted using 28.5%. With that exception, I am pleased to report that compliance with all budget formulation guidelines has been achieved.

The following are the services being purchased by the Board, for the community, in FY 2010:

- In excess of 10 million rides on The Rapid's fixed route system. This figure includes an estimated 3 million rides provided through our contracts for service (GVSU and DASH). In addition, fixed route buses will be in operation an estimated 400,000 hours and travel in excess of 5 million miles.
- A projected 225,000 ADA demand response trips on The Rapid's Go! Bus system.
- A projected 178,000 demand response trips provided to clients of Kent County Community Mental Health (Network 180).
- A projected 15,500 demand response trips provided through The Rapid's Passenger Adaptive Suburban Service (PASS).
- A projected 38,000 trips through The Rapid's County Connection Program.

- Maintenance services on 165 pieces of rolling stock (119 buses, six (6) DASH buses, twenty-four (24) service vehicles, and sixteen (16) miscellaneous vehicles/equipment (front-end loader, fork lift etc.). These services include as needed repairs and an estimated 850, 6,000 mile preventive maintenance checks (FTA requirement).
- Maintenance services on three (3) facilities (Rapid Central Station, Wealthy Operations Center, and the Ellsworth Administrative Headquarters) totaling nearly 200,000 square feet. In addition, maintenance services will be provided to approximately 1,700 bus stops and 74 passenger shelters system wide.

### **Operating Budget**

Overall operating revenues in FY 2010 are increasing only .013% (\$4,416) when compared to FY 2009 projected actuals. Revenue projections are conservative and realistic. Operating revenue highlights:

- State Operating Assistance is currently 30.16% of eligible expenses. The reimbursement percentage for FY 2010 is budgeted at 28.5%. This decrease results in a loss of revenue totaling \$546,511 (based on FY 2010 eligible expenses).
- Fixed route and demand response fares are expected to increase 5% over FY 2009 projected actual. No fare increases are being proposed.
- Property tax collections are expected to decrease 0.33% (\$40,758) from current year projections. Taxable values in the six city area have decreased 0.04% since July 2008. ITP staff conferred with staff from the Cities of Grand Rapids, Wyoming, and Kentwood in formulating this projection.
- Miscellaneous revenue increases due to the anticipated sale of 32 buses and 40 paratransit vehicles which are currently in the process of being replaced.
- Revenue related to the sale of services is declining (\$230,000) due to Davenport University requesting the elimination of service (Route 49) effective August 31, 2009.

Operating expenses in FY 2010 are decreasing 3.28% when compared to the FY 2009 budget. Expense projections are conservative and realistic. Operating expense highlights:

- In total, expenses related to employee wages are projected to increase 2.54%.
- There are no new positions proposed in the FY 2010 budget.

- Health insurance premiums remain virtually flat when compared to FY 2009. This is a direct result of all ITP employees contributing more to the cost of their care.
- The high range contribution has been budgeted to the administrative defined benefit pension plan (\$341,366).
- **Diesel fuel is budgeted at an average cost of \$2.375 per gallon.** Consumption is expected to be 1.127 million gallons. In FY 2009, to date, the average price of diesel fuel has been \$1.69 per gallon.
- Costs related to the provision of GO! Bus service is expected to increase 5%. This is in response to recent ridership trends.
- ITP's deposit premium to the Michigan Transit Pool is increasing from \$633,780 to \$681,624. This equates to a 7.5% increase. ITP has grown to be the largest member of the Pool (22.08%) thus absorbing a proportional share of the costs. Staff has explored obtaining this coverage on the commercial market and it appears that we could potentially save approximately \$100,000. Staff is now analyzing the long term ramifications of the change compared to the short term cost savings.
- Several other cost saving measures proposed include reducing employee travel, eliminating the annual awards banquet, employee appreciation day, and safety awareness day. The total value of these reductions is \$47,500.
- **\$1.3 in Section 5307 funding has been utilized to balance the budget.** This is the maximum amount allowable under the FY 2010 Budget Formulation Guidelines.

### **Budget Projection FY 2011 – FY 2015**

In FY 2011, Section 5307 funds necessary to balance the budget equals \$2.049 million surpassing the current Board authorized level of \$1.3 million. FY 2015 shows the Authority utilizing \$4.02 million of capitalized operating to balance the budget. The increased reliance on capitalized operating through the five year period is primarily the result of sluggish property tax collections and the projected, continued erosion of funding from the State of Michigan.

ITP's capital program, **if projections hold true**, will not be able to singlehandedly offset revenue shortfalls past FY 2010. Revenue enhancements and/or the use of unrestricted retained earnings, along with capitalizing a portion of operating expenses, will be necessary to maintain current service levels. Critically examining current levels of service and other operating expenses will also be a part of the equation. Staff will be monitoring this situation on an ongoing basis to provide the Board with adequate information and thoughtful recommendations as we move into the future.

## **Grant Budget**

The FY 2010 Grant Budget includes many notable investments:

- \$700,749 for the purchase of nine (9) Go! Bus vehicles. No fixed route buses are scheduled to be replaced in FY 2010.
- \$9.7 million has been budgeted for the completion of Phases 1 and 2 of the Wealthy Operations Center Expansion Project. Construction is scheduled to begin in December 2009.
- \$1.56 million has been budgeted for the implementation of Bundle II Intelligent Transportation Systems (ITS) technologies. Bundle II improvements include electronic payment systems on fare boxes, upgraded in-vehicle cameras, in-vehicle internet on select routes, and “real-time” information in buses and in bus shelters.
- \$1.3 million has been budgeted for trips on the County Connection program. Funding for this program will soon be coming to an end. Funding should be depleted some time during FY 2011.
- \$500,000 has been budgeted for the completion of an updated long range transit plan – “Mobile Metro 2030”. This project was included in the FY 2010 Unified Planning Work Program and approved by the Board on June 24, 2009.

## **Conclusion**

Staff is dedicated to quality customer care and providing efficient and cost-effective services to the community. It is clear to me, however, that significant challenges lay ahead. Expenses related to providing current levels of service are projected to outpace revenues. Property tax collections will begin to grow, but slowly. It is safe to assume that State Operating Assistance will continue to decline. Our goal will be to maintain current levels of service as we move forward. To that end, ITP’s Management Team will begin immediately to critically examine every aspect of our operation in an effort to reduce costs within our control and increase revenue.

Another consideration will be to increase the amount of capitalized operating utilized to balance the budget. As we explore this option, we must protect our critical capital needs such as the Wealthy Operations Center Expansion and the replacement of buses.

A final consideration will be to use a portion of unrestricted net assets to balance future year budgets. Since the formation of ITP we have added nearly \$3 million to unrestricted net assets as a result of “good” budget years. I am not advocating “raiding” the savings account in a significant way. It would not be unreasonable, however, to use a portion of these funds to assist during “bad” budget years.

All Board members have received a copy of the budget. All Board members are invited to the budget work session scheduled on Wednesday, August 5<sup>th</sup> at 3:00 p.m. If you have any questions or comments regarding the budget, please feel free to contact me directly at (616) 774-1150 or at [ahartley@ridetherapid.org](mailto:ahartley@ridetherapid.org).