

To: ITP Board
From: Alan Hartley
Date: July 28, 2008
Subject: FY 2009 PROPOSED BUDGET – EXECUTIVE SUMMARY

Attached for your review and consideration is the Fiscal Year 2009 Proposed Budget. The budget totals \$57,858,916. The budget consists of two components, operating and grants. The operating portion totals \$34,002,513. The grants portion totals \$23,856,403. Operating expenses that are funded by grants, such as 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 2008.

On May 28, 2008, the ITP Board adopted budget formulation guidelines to be followed during budget preparation. A copy of those guidelines follows this letter. In order to comply with all of the guidelines, two significant proposals are being put forth.

Due to the unprecedented rise in the cost of diesel fuel, a fare increase is being proposed to be effective on October 1, 2008. The last fare increase was implemented in April 2003 when cash fare was increased from \$1.25 to \$1.30. In 2003, the cost of diesel fuel was approximately \$0.90 per gallon. The FY 2009 Proposed Budget contemplates diesel fuel at \$4.10 per gallon. The proposed increases follow:

	<u>Current</u>	<u>Proposed</u>
Cash Fare	\$1.30	\$1.50
Senior/Disabled Cash Fare	\$0.65	\$0.75
Adult One-Ride Ticket	\$1.30	\$1.50
Adult Ten-Ride Card	\$10.0	\$11.50
Senior/Disabled Ten-Ride Card	\$6.50	\$7.50
Student Ten-Ride Card	\$8.00	\$9.00
Adult 31 Day Pass	\$35.00	\$40.00
Senior/Disabled 31 Day Pass	\$22.75	\$26.00
Four-Day Pass	\$10.00	\$11.50
One-Day Pass	\$4.00	\$4.60
Go! Bus Fare	\$2.60	\$3.00
PASS Fare	\$2.60	\$3.00

If approved, the fare increases are expected to generate an additional \$560,000 in revenue.

The second proposal is eliminating the Airport Shuttle program (Airporter). While the annual cost to provide the service is not significant (\$168,000), compared to the total budget, the service as currently configured is neither cost effective nor efficient. Furthermore, ridership has been trending downward, falling by more than half compared to FY 2006 and FY 2007. If operated, as currently configured, the program would need to be subsidized with nearly \$95,000 of property tax revenue in FY 2009. Staff will be exploring alternatives for providing the service. If an appropriate alternative is found, staff will bring a proposal back to the Board.

The following are the services being purchased by the Board, for the community, in FY 2009:

- A projected 8.6 million rides on The Rapid's fixed route system. This figure includes an estimated 2.5 million rides provided through our contracts for service (GVSU, DASH, and Davenport College). In addition, fixed route buses will be in operation an estimated 400,000 hours and travel in excess of 5.2 million miles.
- A projected 200,000 ADA demand response trips on The Rapid's Go! Bus system.
- A projected 170,000 demand response trips provided to clients of Kent County Community Mental Health (Network 180).
- A projected 15,000 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 178 pieces of rolling stock (119 buses, three (3) PASS vehicles, ten (10) DASH buses, thirty (30) service vehicles, and sixteen (16) miscellaneous vehicles/equipment (front-end loader, fork lift etc.). These services include as needed repairs and an estimated 860,6,000 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 78 passenger shelters system wide.

Operating Budget

Operating revenues in FY 2009 are increasing 6.02% from the FY 2008 amended budget and 6.39% over FY 2008 projected actuals. Property taxes, State Operating Assistance, and passenger fares (if fare increase is approved) are predominantly driving the increase. Revenue projections are conservative and realistic. Operating revenue highlights:

- MDOT has run a preliminary calculation on the State Operating Assistance reimbursement percentage for FY 2009. They have projected that the percentage will drop from 30.62% currently to 29.61%. I have budgeted 29.5%. I believe there is a chance that the actual reimbursement percentage may fall below 29.5% due to diesel fuel prices dramatically escalating since transit systems submitted their preliminary budgets to the State back in January 2008.
- Our partnership with Grand Valley State University continues to prove beneficial. GVSU has requested additional service hours on both the Campus Connector and Off-Campus Shuttle in FY 2009.
- Property taxes are projected to increase 4.0%.

Operating expenses in FY 2009 are increasing 7.04% from the FY 2008 amended budget and 7.57% over FY 2008 projected actuals. Expense projections are conservative and realistic. Operating expense highlights:

- Driver wage expenses increase 17.42% primarily due to COA Phase II improvements to be implemented August 25, 2008. COA Phase II improvements increase annual operating hours by approximately 14.0 %.
- There are no new administrative or mechanic positions proposed in the FY 2009 budget.
- Health and dental insurance premiums will increase dramatically in FY 2009. Priority Health premiums are increasing approximately 10.5%, Blue Care Network approximately 18.0%, while Grand Valley Health Plan premiums are showing a slight decrease (approximately 1.5%) after posting double-digit increases the past two (2) years. Contract negotiations are currently underway with ATU Local 836. Controlling health insurance costs will certainly be a key issue.

- The high range contribution has been budgeted to the administrative defined benefit pension plan (\$299,212).
- **Diesel fuel is budgeted at \$4.10 per gallon** with expected consumption of nearly 1.2 million gallons. During FY 2008 we have seen the average price of diesel fuel increase from \$2.55 in October 2007 to \$3.92 in July 2008.
- **\$1,299,776 in Section 5307 funding has been utilized to balance the budget.** This number is just below the \$1.3 million authorized in the FY 2009 Budget Formulation Guidelines. If the Board decided not to increase fares nor eliminate the airport shuttle, \$2,067,725 in operating expenses would need to be capitalized to balance the budget.

Budget Projection FY 2010 – FY 2014

Section 5307 funds necessary to balance the budget immediately surpass the current Board authorized level of \$1.3 million in FY 2010 (\$1.6 million). FY 2014 shows the Authority utilizing nearly \$2.4 million of capitalized operating to balance the budget. The increased reliance on capitalized operating through the five year period is primarily the result of the uncertainty in the price of diesel fuel and the projected, continued erosion of funding from the State of Michigan.

In order to maintain a viable capital program, the Board should consider limiting the use of capitalized operating to the current authorized level of \$1.3 million. This would create a “hole” in the budget that would need to be filled with either \$2.5 million in enhanced revenue or use of unrestricted retained earnings or expenditure reductions totaling \$3.4 million over the five (5) year period or some combination of the two.

We will review this projection in some detail at the budget meeting and explore different mechanisms to balance the budget over time if trends continue. Staff will continue to make every effort to control costs and enhance revenues when possible.

Grant Budget

The FY 2009 Grant Budget includes many notable investments:

- \$12.9 million has been budgeted for the purchase of forty (40) linehaul buses, \$1.172 for the purchase of sixteen (16) Go! Bus vehicles and \$216,000 for the purchase of nine (9) vanpool vans.
- \$1.05 million has been budgeted for the acquisition of the recycling center property from Kent County. If acquired, all property necessary to

accommodate the expansion of the Wealthy Operations Center will be in place.

- \$1.7 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.
- \$1.1 million is budgeted for trips (38,000) on the County Connection program.

Conclusion

Staff is dedicated to quality customer care and providing efficient and cost-effective services to the community. We should all be proud, Board and staff, of our many accomplishments. We do, however, have significant challenges ahead. Unprecedented and uncertain diesel fuel prices are consuming more and more of our resources. In FY 2009, fuel and lubricant expenditures comprise 14.3% of the total operating budget, compared to 10.3% in FY 2008, 7.8% in FY 2007, and 8.0% in FY 2006.

The continued erosion of State Operating Assistance is an ongoing concern. If State funding continues to decline, local agencies will be forced to either bear more of the funding burden or be forced to make difficult decisions regarding levels of service. We look forward to working with the Board as we face the challenges ahead.

All Board members have received a full copy of the budget. All Board members are invited to the budget work session scheduled on Wednesday, August 6th 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.

INTERURBAN TRANSIT PARTNERSHIP BOARD

RESOLUTION NO. _____

Fiscal Year 2008

GENERAL APPROPRIATIONS ACT FOR FY 2009

Moved and supported to adopt the following resolution:

Whereas, the Interurban Transit Partnership, formed under Public Act 196, will levy 1.1200 mills of ad valorem property taxes for the purpose of providing public transportation services during FY 2009; and

Whereas, total expenditures do not exceed total revenues; and

Whereas, estimated revenues (by source) to be collected in the Operating Budget and Grant Budget are contained in the budget document presented to the ITP Board;

THEREFORE BE IT RESOLVED that the Interurban Transit Partnership Board hereby adopts the FY 2009 Operating and Grant Budgets as presented to the ITP Board on August 27, 2008.

BE IT FURTHER RESOLVED that the Interurban Transit Partnership Board has reviewed and hereby approves the FY 2009 Marketing and Communications Plan and authorizes the CEO to implement the provisions of the Plan.

BE IT FURTHER RESOLVED that the CEO, or his designee, is authorized to execute contracts to maintain employee fringe benefit programs as outlined in the Budget.

BE IT FURTHER RESOLVED that the Interurban Transit Partnership Board has reviewed and hereby approves the Costing for Contracted Services as presented.

BE IT FURTHER RESOLVED that funds in the budget (\$34,002,513 Operating and \$23,856,403 Grant) are appropriated for those purposes described in the budget, as required under Section 21 of Act 196 (Public Act of 1986, as amended).

CERTIFICATE

The undersigned, duly qualified and acting secretary of the Interurban Transit Partnership Board, certifies that the foregoing is a true and correct copy of a resolution adopted at a legally convened meeting of the Interurban Transit Partnership Board.

Robin Crothers, ITP Board Secretary

Date