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COMMISSION

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Memorandum

TO: MTC Administration Committee

DATE: June 3, 2009

FR: Executive Director

W. I. 1152

RE: Proposed MTC Agency Budget FY 2009-10, Resolution No. 3907

Attached is the proposed MTC Agency Budget for FY2009-10. The proposed agency budget for FY2009-10 is balanced as presented. However, the combination of declining revenue, funding the Other Post Employment Benefits (OPEB) liability and significant litigation expenses are expected to draw our unrestricted reserve down to $2.7 million, its lowest level since 2003.

Revenue

Not surprisingly, the current economic situation has a significant impact on projected revenue as shown below. Sales tax revenue from TDA is expected to be down while the State has shifted all of the discretionary State Transit Assistance (STA) funds to its General Fund. Finally, the unprecedented low interest rate level established by the Federal Reserve has our earnings rate below 0.50%.

	2007 Actual	**2008 Actual**	**2009 Estimate**	**2010 Budget**
TDA	$ 10,626,162	$ 10,799,418	$ 10,200,000	$ 9,840,000
STA (Population-Based)	12,172,367	11,719,490	9,298,452	934,184
Interest	1,352,414	790,306	400,000	250,000
	$ 24,150,943	$ 23,309,214	$ 19,898,452	$ 11,024,184

Operating Expenses

As proposed, operating expenses, excluding contractual services, are down 10% although this is somewhat misleading, given the changes in project-funded staff to meet our reduced general fund revenue level. The proposed budget assumes:

- No change in total staffing – 166 full time; 4 project based
- Transfer of salaries and benefits for eight employees from general funding to project funding
- Pension costs down 0.04%
- Medical costs up 6.0%
- OPEB (Retirement medical) cost of $600,000

Total salary and benefits will decrease by approximately $2.2 million. The balance of non-contract spending is down approximately 4.4% due primarily to a reduction in printing, travel and general operations.

The most significant change in the budget is the shift of the equivalent of eight project- based staff from general funding to project funding in the following areas: TransLink® and the Urban Partnership Program. While these project-based staff costs have always been eligible for grant funding, as a general rule, MTC has paid the staffing costs related to managing grant funded projects out of general operating revenue. However, given the significant continuing reduction in agency general revenues, and most recently the legislative diversion of population-based STA funds, MTC no longer has the resources to cover these project expenses from general resources. The shift relieves approximately $1.8 million in MTC general fund responsibilities.

Capital Projects

The proposed budget for capital projects will be up for FY 2009-10 by 214%. MTC maintains three principal capital projects:

	2009	**2010**
TransLink®	$ 3,182,000	$ 41,004,044
Capital Expenditures	365,000	592,519
Hub Signage	9,655,000	-0-
	$ 13,202,000	$ 41,596,563

The TransLink® budget increases are the result of the shift in staffing costs and includes the SFMTA fare gate replacement project added since the draft budget and approved by the Commission last month in the cubic assignment agreement. The signage program (Proposition 1B funds) has been fully encumbered in FY 2008-09 so no additional funding is required in FY 2009-10.

Looking Ahead

As we stated at the outset, the unrestricted reserve is projected to be at $2.7 million at the end of FY 2009-10, its lowest level since 2003. While we have some discretion in the designation of funds to be reserved, the unrestricted reserve will be equivalent to only 16 days of operating costs based on the 2010 budget. Given the nature of MTC's operation which depends heavily on reimbursement of upfront payments, the level of the reserve is critical to our operating effectiveness.

The changes proposed in the FY 2009-10 budget maintain the reserve level, but will do little to rebuild it toward the goal of 6 months operating reserve. There are, however, reasons to be optimistic as we look to the future:

- The decline in TDA revenue should be temporary and will rebuild slowly as the economy recovers.
- Interest rates are at record low levels and should also adjust as the economy recovers.

- Federal authorization could increase our federal planning funds.

- If a toll increase takes effect as expected in 2010, MTC stands to gain funding from the BATA 1% administration fee.

These more optimistic factors may be offset by major concerns over health care and pension cost increases. As such, as revenue resources recover we should focus on restoring the operating reserve levels necessary, not only for operating efficiency, but to protect against the next economic downturn. Our current and projected reserve position is shown in the table below.

Description	**Actual 2008**	**Estimated FY 2009**	**Projected FY 2010**
Benefits Reserve	$ 2,202		
Liability Reserve	746,451	$ 4,000,000	$ 4,000,000
Compensated Leave	2,945,186	3,000,000	3,000,000
Encumbrances	7,314,961	5,358,864	5,358,864
Building Reserve		500,000	500,000
Unrestricted	8,252,707	2,702,614	2,715,332
Total Reserves	$ 19,261,507	$ 15,561,478	$ 15,574,196

MTC staff recommends this committee forward Resolution No. 3907 to the Commission for approval of the MTC Agency Budget for FY 2009-2010.

Steve Heminger

SH/BM/cj

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