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Memorandum

TO: MTC Administration Committee

DATE: June 2, 2010

FR: Deputy Executive Director, Policy

W.I. 1152

RE: a. Revised MTC FY 2009-10 Operating Budget Resolution No. 3907
b. MTC FY 2010-11 Operating and Capital Budget Resolution No. 3954

This memo serves to recommend approval of the revised MTC operating budget for FY2009-10 and the proposed MTC agency operating and capital budget for FY2010-11.

A. Fiscal Year 2009-2010 Budget Amendment
Staff proposes to amend the MTC operating budget for FY2009-10 (Resolution No. 3907) to include a new grant for the Clipper capital and operating programs as well as an increase to an STP planning grant for $4,534,000. It is important to the grant to obtain the authority for the 2010 fiscal year rather than include the changes in the 2011 proposed budget.

B. Proposed Fiscal Year 2010-2011 Budget
The proposed agency budget for FY 2010-11 (Resolution No. 3954) shows a small operating surplus. The following changes in the proposed budget were not in the draft budget presented to this Committee in May:

1. An increase of $1.3 million and $900,000 from State Transit Assistance (STA) and Regional Marketing 2 (RM2) respectively for Clipper capital costs.
2. An increase of $1.1 million in marketing expenditures for various RM2 projects, including launching Clipper.

Because the changes in revenue and expense are equal the operating surplus remains the same at $123,000. The budget will continue to be a challenge with the anticipated continued decline in general fund revenue and increases in the cost of benefits including the Other Post Employment Benefits (OPEB) annual required contribution, medical and retirement costs.

FY 2010-11 Revenue
The proposed budget for FY 2010-11 includes overall revenue of $124 million which is approximately $9 million below the total year-end estimate for FY 2009-10. Discretionary revenue, which consists of Transportation Development Act (TDA) sales tax, the BATA 1% administrative fee and interest earnings, as shown in the table on top of Page 2, is actually expected to show a slight increase in FY 2010-11 when compared to the FY 2009-10 estimate. Staff estimates that the FY 2010-111 TDA revenue level will decline for the third straight year, down over 21% from the FY 2007-08 actual revenue level. The drop in TDA revenue will be offset by an increase in the BATA 1% administrative transfer which will increase when the toll increase goes into effect on July 1, 2010.

	2008 Actual	2009 Actual	2010 Estimate	2011 Budget
TDA	$10,799,418	$ 9,847,805	$ 8,840,000	$ 8,500,000
Interest/Other	1,222,749	624,236	500,000	500,000
BATA Admin Fee	5,945,179	5,250,642	5,031,907	5,888,700
Total Discretionary	17,967,346	15,722,683	14,371,907	14,888,700
Planning grants	16,632,681	14,284,957	51,387,444	18,432,748
Other grants	24,479,562	21,091,219	46,165,948	80,768,980
Transfers/other	15,152,556	14,515,394	22,109,751	9,495,542
Total Operating Revenue	$74,232,145	$65,614,253	$134,035,050	$123,585,970

STA funds and other federal grant revenue will help to cover a portion of MTC project staff expense previously funded with discretionary revenue. Given the current economic environment, the general fund revenue levels should begin to rebuild slowly as the economy recovers.

FY 2010-11 Operating Expenses

As proposed, operating expenses, excluding contractual services, will increase 2% due mainly to the increase in other post employment benefits (OPEB). The draft budget assumes:

- No change in total staffing – 166 fulltime; 4 project based
- Transfer of approximately $515,000 project-related salaries and benefits from discretionary funds to project based funding
- Pension costs up 0.05%
- Medical costs up 4.4%
- Retiree medical $600,000
- OPEB (retirement medical) annual required contribution will be up 175% due to investment losses at PERS and a projected lower earnings rate of return on the funds

Overall, MTC operating expenses, including grants and transfers, will decrease by $9 million (about 7%) for the FY 2010-11 when compared to the FY 2009-10 estimate as shown in the table below. Most of the decrease is in contractual services, that tend to vary from year to year.

	2008 Actual	2009 Actual	2010 Estimate	2011 Budget
Salaries/ Benefits	$ 15,740,510	$ 16,299,548	$ 15,710,947	$ 15,195,599
OPEB	944,135	347,481	544,926	1,499,538
Agency Temporaries	1,282,676	2,167,517	2,269,740	2,474,650
Other Expenses	3,000,147	2,909,747	3,477,013	3,600,821
Ops Subtotal	20,967,468	21,724,293	22,002,626	22,770,608
Contractual	47,865,621	43,983,594	111,588,388	100,692,533
Transfer Out	6,546,483	0	0	0
Total Expense	$ 75,379,572	$ 65,707,887	$ 133,591,014	$ 123,463,141

Total salaries (including paid leave) and benefits will increase by approximately $439,000. The increase is net of an OPEB increase of $954,000 and a decrease of $515,000 in salaries and benefits that were transferred to SAFE and Freeway performance initiative project funding. The balance of non-contract spending, including printing, travel and general operations, is up approximately 3%.

FY 2010-11 Capital Projects

The proposed budget for capital projects will be down for FY 2010-11. MTC maintains two principal capital projects and a capital expenditure program that covers computer equipment.

	2010 Budget	2011 Budget
Clipper	$ 36,154,044	$ 19,928,813
Capital Expenditures	592,519	500,000
Hub Signage	0	50,000
	$ 36,746,563	$ 20,478,813

The reduction in Clipper funding reflects expected completion of a $29 million Muni fare gate project funded in FY 2009-10.

Looking Ahead

The unrestricted reserve is projected to be at $6.0 million at the end of FY 2010-11. While we have some discretion in the designation of funds to be reserved, the unrestricted reserve will be equivalent to only 19 days of total operating costs and 115 days of salary and benefit expenditures based on the proposed FY 2010-11 budget. The total reserve (designated and unrestricted) only amounts to a 63 day reserve against total operating expenditures. Given the nature of MTC's operations, which depend heavily on reimbursement of upfront payments, the level of the reserve is critical to our operating effectiveness and is currently well below where it should be.

The proposed FY 2010-11 budget does not draw on the reserve. While the reserve level under the proposed budget will actually increase, the level of increase will do little to rebuild it toward the goal of 6 months operating reserve. There are still concerns about the general overall economy, as well as some potential bright signs, such as:

- The unemployment rate in the Bay Area is still over 10%.
- TDA revenue is expected to stabilize 18% below 2008.
- Retail sales from January through March rose by 4%.
- Interest rates and earnings are at record low levels but are projected to increase as the economy recovers.
- Federal authorization could increase MTC's federal planning funds.

There are also concerns over future health care and pension cost increases. Accordingly, as revenue sources 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 2009	Estimated F7Y 2010	Projected FY 2011
Benefits Reserve	$ 1,223,564	$ 1,013,476	$1,000,000
Liability Reserve	2,773,368	4,469,000	2,500,000
Compensated Leave	3,120,636	3,000,000	3,000,000
Encumbrances	7,518,230	5,758,864	6,900,000
Fixed Asset Replacement	-0-	500,000	500,000
Unrestricted	5,089,334	5,058,792	6,022,960
Total Reserves	$ 19,725,132	$ 19,800,132	$ 19,922,960

In response to Committee direction at the May meeting, staff is preparing background and comparative information about MTC's current employee benefits for review and discussion with interested Commissioners over the next several months.

MTC staff recommends this committee forward Resolution No. 3907 for approval of the revised MTC Agency Budget for FY2009-10, and Resolution No. 3954 to the Commission for approval of the MTC Operating and Capital Budgets for FY2010-11.

Ann Flemer

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