METROPOLITAN
TRANSPORTATION
COMMISSION

Joseph P. Bort MetroCenter
101 Eighth Street
Oakland, CA 94607-4700
TEL 510.817.5700
TDD/TTY 510.817.5769
FAX 510.817.5848
E-MAIL info@mtc.ca.gov
WEB www.mtc.ca.gov

Memorandum

TO: Commission DATE: June 20, 2007

FR: Deputy Executive Director, Policy W.I.: 1152

RE: MTC Agency Budget – FY 2007-08

Attached is the proposed MTC agency budget for the 2007-08 fiscal year. The $87.9 million operating budget, as proposed, projects a slight operating surplus. In addition, the budget includes $15.3 million in capital projects, of which $843,300 would come from reserves.

The final proposed 2007-08 budget is an increase of $2.8 million (3.3%) from the final FY 2006-07 budget. There is also one minor change to the June 5, 2007 draft FY 2007-08 MTC agency budget presented to the Administration Committee for $400,000 in project funding.

Revenue:
Net MTC operating revenue will increase slightly (3.3%) compared to the 2007 budget. A summary is as follows:

Revenue (in millions)	**2007**	**2008**	**% Change**
Federal Planning	$ 14.3	$ 11.3	(21%)
TDA	10.3	10.6	3%
Regional Planning	11.4	6.1	(46%)
Other Revenue	1.4	1.7	21%
Transfers	26.3	37.6	43%
Operating Revenue	**$ 63.7**	**$ 67.3**	**6.0%**
Less Passthrough Costs	($ 11.2)	($ 8.7)	(22%)
Project Revenue *	$ 32.6	$ 29.3	(10)%
Net Operating Revenue	**$ 85.1**	**$ 87.9**	**3.0%**

* Excludes prior year, carryover revenue of $15.1 million

Revenue highlights include :

- TDA revenue (Sales Tax) is expected to increase for the fifth straight year, up 3% for 2008, and is projected to be up 19% from the low point in 2003.

- Federal planning revenue will decrease compared to the prior year budget for two reasons. First, since the passage of SAFETEA, there have been a number of adjustments to reflect increases in planning funds to regional agencies, catching up to the statutorily mandated levels. The FY 2007 budget included a larger augmentation amount for prior years compared to what is expected for FY 2008. Second, a lower percentage of obligation authority—the amount the federal government can actually pay out in any given year, compared to what is actually authorized-- is available for the coming year.

- Regional planning revenue decreased due to STP Exchange funds provided in FY 2006-07 for a suicide barrier study on the Golden Gate Bridge.

- Transfers are up, largely due to an $8.4 million increase in State Transit Assistance (STA) funds that underwrite MTC administered transit coordination programs, reflecting a ramp up of activities in those areas. There is also a $2.3 million increase in BATA transfers for reimbursement of Regional Measure 2 (RM 2) expenses.

- Project revenue will decrease in FY 2007-08 mainly as a result of moving CMAQ funds from FY 2007-08 to FY 2006-07 for the Spare the Air programs.

Expenditures:
Expenses will also increase an equivalent amount in 2008. The expenditures are summarized as follows:

	2007	2008		% Change
Staff				
MTC	122	125	*	2%
BATA	32	35		9%
SAFE	6	6		-
Total Staff	160	166		4%
Expense (in millions)				
Salary/Benefit	$ 16.9	$ 17.8		5%
Contractual	63.2	65.0		3%
Other Operating Costs	3.6	3.9		8%
Other Post Employment Benefits (OPEB)	1.1	1.1		0%
Total Operating Expense	**$ 84.8**	**$ 87.8**		**3.5%**

* Two converted from full-time temporary to full-time regular employees

The recommended staffing for MTC includes the conversion of two existing full time temporary positions and one new position. The conversion of staff from temporary to regular reflects the higher, sustained staffing resources required for Public Information and Geographic Information System (GIS) services. The new position is to provide technical support and contract management in the growing federal transit and RM 2 programs administered by MTC. The increase in BATA positions is related to our new role in administering and upgrading the automated toll accounting system.

Including the position conversions and new positions, overall salary and benefit costs will increase by 6% for FY 2007-08. In addition to converted and new positions, other cost factors include a 4% salary increase for contract/MOU provisions, as well as a 10% projected increase in medical costs.

Contractual costs are budgeted to increase by 3%. Major contract services for FY 2007-08 include several major MTC project initiatives outlined in the following table:

Program	Budget Change
TransLink Operations	$ 4.1 million
Freeway Performance Initiative	$ 4.5 million
Regional Transit Connectivity Project	$10.4 million
Arterial Operations Coordination	$ 2.3 million

Finally, we note that new accounting standards require MTC to budget, record and expense the actuarially determined value of future, Other Post Retirement Employee Benefits (OPEB). To address this requirement, the budget includes funding the full amount of the annual OPEB cost attributable to MTC ($1.1 million). We soon expect to join an established trust, such as the CalPERS plan, to administer the program. A trust reserve will be used to hold funds as we begin to build the reserve necessary to meet over $30 million dollars in under funded post retirement costs.

The current status of the agency reserves, including estimated actuals for FY 2006-07 and budgeted amounts for FY 2007-08, is included in the table below.

Description	Actual FY 2006	Estimated FY 2007	Projected FY 2008
Benefits Reserve	$ 6,555,497	$ 7,414,560	$ 7,814,560
Building Reserve	1,000,000	1,000,000	1,000,000
Liability Reserve	468,500	1,200,000	1,200,000
Fixed Asset	500,000	500,000	500,000
Encumbrance Reserve	2,729,122	2,358,864	2,358,864
Other Restricted	3,932,853	1,592,295	1,192,295
Unrestricted	6,562,593	8,066,516	7,229,585
Total Reserves	$ 21,748,565	$ 22,132,235	$ 21,295,304

The projected unrestricted balance for fiscal year 2007-08 reflects the current capital budget deficit of $786,834, which includes $500,000 in additional funding for the higher estimated cost of the MetroCenter seismic retrofit. The projected "unrestricted" reserve represents 8.4% of annual operating expenditures and 16% of the adopted goal of an unrestricted reserve equal to six month's expenditures.

Staff recommends approval of Resolution No. 3818 and the FY 2007-08 budget for approval.

Therese W. McMillan

TWM/BM/cj
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