2015 TRANSMITTAL LETTER

To: George F. Dixon III, President, and Members, Board of Trustees

Date: November 18, 2014

From: Joseph A. Calabrese, CEO, General Manager / Secretary-Treasurer

Subject: 2015 Transmittal Letter

EXECUTIVE SUMMARY

I am pleased to report that 2014 was yet another successful year at the GCRTA. Once again the Authority was highly recognized on a national and international level for its best-in-class accomplishments. In 2014 we took the rare opportunity to kick-back and re-evaluate our mission and vision and have a solid and well thought out path ahead to assure we remain on the right track.

As RTA continues to manage our significant state-of-good-repair infrastructure program, we were joined by Acting FTA Administrator Therese McMillian for the ribbon-cutting of the award winning Cedar/University Red Line Station. We also announced our second major "naming-rights" sponsorship which was for the Clifton Blvd. "Cleveland State Line" which will be completed and serving customers by year end. Work continued on the much anticipated Little Italy/University Circle Red Line Station and a ground breaking held for the Lee/Van Aken Blue Line Station.

Now six years after its inaugural journey, the Euclid Corridor HealthLine is still considered the international gold standard. In 2014, we continued to share our success with dozens of transit systems and municipal leaders from around the globe. Nationally recognized publications, such as the *New York Times*, *CNN* and the *Washington Post,* continue to tout the fact that our $200 million project has leveraged billions of dollars of public and private investment.

RTA was instrumental in the attraction and success of game-changing major special events, such as the Gay Games (GG9), and played a major supportive role in attracting the Republican National Convention for 2016.

During 2014, RTA:

- Was a proud benefactor of the Cleveland Foundation in their sponsorship of a free-day on RTA that saw a 25% increase in ridership.
- Initiated a U-Pass Program with Tri-C and extended the U-Pass program with CSU with an impressive 93% vote of approval by the students
- Identified as driving the urban vision,
- Hosted Vice President Biden at the RTA Rail District to discuss infrastructure needs
- Recognized employers of distinction with the first ever "Smart Commute Awards"
- Launched the "Ohio City Connector"
- Continued on our journey towards the Baldrige Award of Excellence.

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We entered 2014 with optimism as the general understanding of the important and critical role that public transit plays in the health and vitality of a community.

During the past six years, GCRTA has gone through three economic cycles: underperforming revenue, recession, and recovery. Sales Tax for 2014 dropped to 2.4% from the 4.6% increase in 2012. This may well portend the start of a fourth cycle. Between 2001 and 2008, Sales Tax was underperforming with 1% growth. To create even more financial stress, diesel fuel prices rose dramatically increasing annual costs by millions of dollars. Service was reduced, fares were increased, and capital projects were deferred. The Great Recession had a major impact on the 2009 operating and capital budgets. Sales Tax collections plummeted by 11%, nearly $19 million. Unemployment jumped up and ridership dropped by 13%, costing another $5 million in revenue. This $24 million revenue plunge required swift and decisive action. Additional service was cut, fares were again increased, positions were eliminated, and most vacant positions were not filled. Union employees received no pay increases while non-bargaining employees took a 3% salary cut. Revenue was augmented with new temporary grants, of which the American Recovery and Reinvestment Act (ARRA) provided $46 million, and reimbursed expenditures were maximized. GCRTA used some of these funds to support operations. The largest portion was used to fund badly needed capital infrastructure. GCRTA ended the year with an operating fund balance of less than $2.9 million, only about 3.5 days operating funds. The margin was slim but the Authority had survived this historic downturn.

In response to reduced revenues, in 2010 a 12% service cut was implemented, Harvard Garage was closed, 245 positions were eliminated and temporary fare increases were made permanent. The fuel hedging Energy Price Risk Management Program was implemented and diesel costs were reduced by $9.4 million. An Energy Management program was initiated to reduce electricity costs resulting in a savings of $1.6 million. The totality of actions reduced operating expenses by $30 million. Sales & Use Tax revenue began to recover. The end of the year, operating balance jumped to a 30-day operating reserve with a balance of about $20 million. In 2011, operating expenses were again under budget and finished the year less than the 2005 expenditures. Because action was taken in 2008, 2009 and 2010, fare increases and service cuts were not needed in 2011. The recovery of sales tax revenue continued and RTA reached 2008 collection levels by year end, a total of $173 million. Reimbursed expenditures were lowered, making more funds available for the Capital Budget and the year-end balance was $36.4 million.

Union negotiations were settled with an innovative contract that tied pay increases, up to 3%, to prior-year revenue increases for Passenger Fares and Sales & Use Tax. All personnel received a 3% wage increase in 2012. Service was increased to reduce overcrowding. Reimbursed expenditures were lowered to $17 million and capital expenditures were increased. Sales tax collections increased by 4.75% allowing the end of year operating balance to increase to $38.2 million. The trend continued in 2013 as Sales Tax increased by 4.6% to $189.6 million. Reimbursed preventive maintenance was lowered to $13.5 million and badly needed capital projects were funded and progress was made towards state of good repair. A 3% pay raise was again paid to all employees. Service was again increased slightly. Budget execution was strong and the original ending fund balance was increased from $17.2 million to $36.3 million.

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Through the first 3 quarters of 2014, Sales and Use Tax revenue has increased by only 2.4% and has been very inconsistent from month to month. Expenses are increasing more rapidly than can be sustained. While negotiations with ATU continue, the FOP has agreed to a new contract continuing to match future salary raises to revenue increases for Passenger Fares and Sales & Use Tax. While execution has been excellent and has doubled the budgeted year-end balance, the fund balance is going to drop by $8 million to $28.3 million. These results are negative for the budget and may indicate the possible start of the next cycle. These factors were considered in the formulation of the 2015 budget. Along with that, RTA has established a new Strategic Plan for 2015-2025 and has set aggressive goals. Actions to improve will continue but careful and cautious budgeting and execution will be needed to balance operations and service levels with capital requirements and state of good repair.

For more than a dozen years, RTA has been an exemplary benchmark for other transit systems. One factor is the demonstrated strategy of sound financial management as previously discussed. GCRTA has proven it can be fiscally agile in difficult times and in good times. TransitStat, the data-driven performance management initiative GCRTA implemented in 2007, has been a major factor in reducing costs over the past seven years. TransitStat is the means to evaluate processes and implement improvements. Since its inception six years ago, TransitStat projects have reduced costs by more than $55 million by reducing the costs of overtime, inventory, fuel, electricity, towing, accident claims, and workers compensation. Beyond that, operational enhancements improved service to customers. These actions helped the Authority survive one of the worst financial periods this community has experienced in the last fifty years and then transition to a sustainable enterprise. Action must now be taken to maintain a sustained position and then meet the next set of demands.

The Board of Trustees' first review of the 2015 Capital Budget took place on August 5 and the Capital Appropriation for 2015 was authorized on August 19, 2014 allowing the Authority's Capital Budget to be better aligned with the Federal fiscal calendar. The committee will deliberate issues on the Operating Budget at a meeting on November 18, 2014 and again on December 2, 2014. Public Hearings will be held on December 2, 2014 at 9:00 AM and on December 16, 2014 at 9:00 AM. At the Committee meeting on December 2, 2014, the Finance Committee is expected to make a recommendation to the full Board of Trustees to adopt the proposed 2015 Operating and Other Funds Budgets. Adoption will be considered at the December 16, 2014 Board Meeting.

The Operating Budget includes resources to fund rail, bus, and Paratransit services. The Capital Budget provides resources for rehabilitation and maintenance of equipment and facilities. In preparing the 2015 Operating Budget, staff developed Fund Balance Analysis statements for each major fund group, which summarize financial activity and ending balances. The Finance, Operations, and Planning and Development Committees will review major revenue and expenditure assumptions and trends, financial policy objectives, service and employment levels, and strategic initiatives. The capital projects included in the 2015 – 2019 Capital Improvement Plan (CIP) have already been reviewed and approved on August 19, 2014. If changes are required, the appropriation will be amended in the 2015 Budget.

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The 2015 appropriation for operating expenditures totals $255,115,882, a 3% increase compared to the $247,797,810 appropriated for 2014. Based on Sales Tax Revenue and Fare Revenue increases in 2014, a 2.4% wage increase has been calculated for 2015. The Budget includes $182.8 million for Personnel Services: providing salary, overtime, and fringe benefit resources needed to fund 2,344.5 positions. The authorized employment level for 2015 is a decrease of 4.0 positions from the 2,348.5 in the 2014 budget, although 5 positions that are added are temporary until the HRV Interior Overhaul is completed.

Personnel Services costs are $3.5 million higher than the 2014 budgeted amount. This is due to the 2.4% wage increase, step increases and increased fringe benefits. Other expenditures have increased by about $3.0 million compared to the 2014 Budget. This is due to increased costs for contract services. Operating expenses for 2014 are projected to finish the year at $242,011,806, about $5.8 million under budget while total expenditures are expected to be about $7.0 million under budget.

The establishment and execution of the Operating Budget has an impact on the Capital Budget. A strategic objective has been to keep reimbursed preventive maintenance under $20 million allowing GCRTA to establish the capital program needed to maintain the extensive infrastructure required for a public transportation entity of the size. Over the next five years nearly 200 buses need to be replaced to properly maintain the fleet at a cost of $100 million. About $100 million will also be needed for rail track maintenance and ADA Key Station reconstruction. This must be done to maintain the Authority's assets in a State of Good Repair (SOGR). The wise use of ARRA funds and the improved financial status of the Authority have improved its ability to execute strategic initiatives for both operating and capital programs. The Authority must continue to focus on state of good repair maintenance, rehabilitation and construction projects and the need to provide customers with safe and dependable service. That strategy will become increasingly difficult if Sales and Use Tax revenue establishes a new level of only 2% increases.

The actions taken over the last six years have greatly improved the financial position of RTA. These funds have helped protect the Authority from possible downturns in future revenue, however, these additional funds are being stressed as Sales Tax appears to be trending toward lower increases. Reimbursement for Capitalized Operating Assistance has been drastically lowered making more grant funds available for Capital Projects. Maintaining this strategy may become increasingly difficult.

RTA has used TransitStat as a tool to reduce costs and improve service. The authority intends to continue on the improvement journey and has now joined The Partnership for Excellence to further accentuate that goal and execute its newly established Strategic Plan. The strong financial position that has been achieved must now be maintained. If so, GCRTA will be prepared to meet the demands placed on a first class transit property for the City of Cleveland, now and into the future. Maintaining that position may once again mean difficult choices must be made.

A STRATEGIC APPROACH TO THE BUDGET

In developing the budget as well as developing the business strategy, the Authority derives its direction from the five Policy Goals identified by the Board of Trustees. These Goals, along with the Authority's Mission Statement, are shown below.

GCRTA MISSION

RTA provides safe, reliable, clean and courteous public transportation.

BOARD POLICY GOALS

I. CUSTOMER FOCUS: Provide safe, high-quality service to all customers and support our employees in that endeavor.

II. EXPAND AND REORGANIZE SERVICE: Expand and reorganize service to retain our current riders and attract new riders by providing service that meets customer and community needs.

III. PREPARE FOR THE FUTURE: Prepare for the future by forging new partnerships and strengthening existing ones with the public and private sectors to establish policies, funding, innovations, and technologies that support cost-effective public transportation.

IV. IMPROVE FINANCIAL HEALTH: Improve the agency's financial health through efficient use of resources and the pursuit of new and innovative revenue sources.

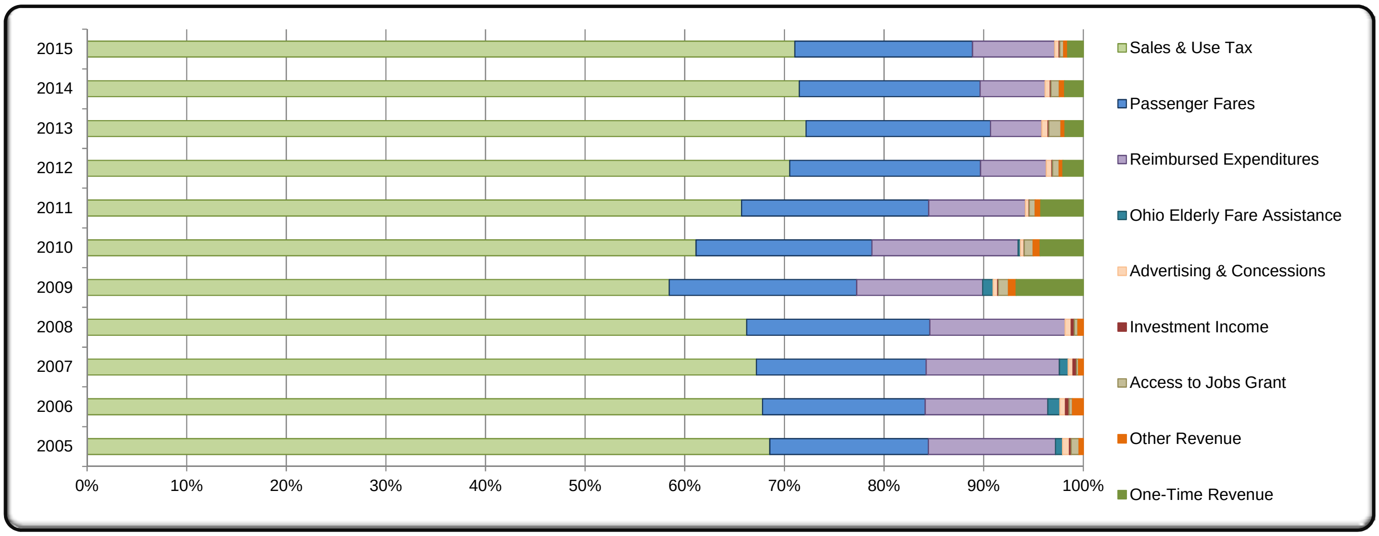
V. PROVIDE COMMUNITY BENEFITS: Provide social, economic, and environmental benefits to the community through system improvements and increase community awareness of these contributions.

From 2007 to 2011, the business planning efforts were forced to highlight only two of the five policy goals as most critical: **Customer Focus** and **Improve Financial Health**. After 2011, the improved financial status allowed GCRTA to focus on **Preparing for the Future** and **Providing Community Benefits.** In an effort to more effectively transition the strategic planning focus into the 2014 budgeting process, the evaluation of requests and the allocation of funding for 2014 initiatives were linked to the business plan and most directly to these four policy goals. **Expansion** cannot be a priority at this time. Maintaining and reorganizing service to retain the base and attract new customers is certainly an objective.

In addition, RTA conducted a strategic planning initiative this past summer with SWOT exercises and analyses conducted with ten groups totaling over 120 people, including the

Board of Trustees and the Citizens Advisory Board. A two-day planning retreat was held with the Executive Management Team and Board participation. That retreat resulted in a new and updated Strategic Plan with ten Vital Few Objectives and ten Change Initiatives for execution over the next 18 months. A new Mission, Vision, and Values have been adopted and are now in deployment. This will encourage greater internal communication and ensure that all RTA employees know what RTA stands for and what its vision is for the upcoming years.

GENERAL FUND



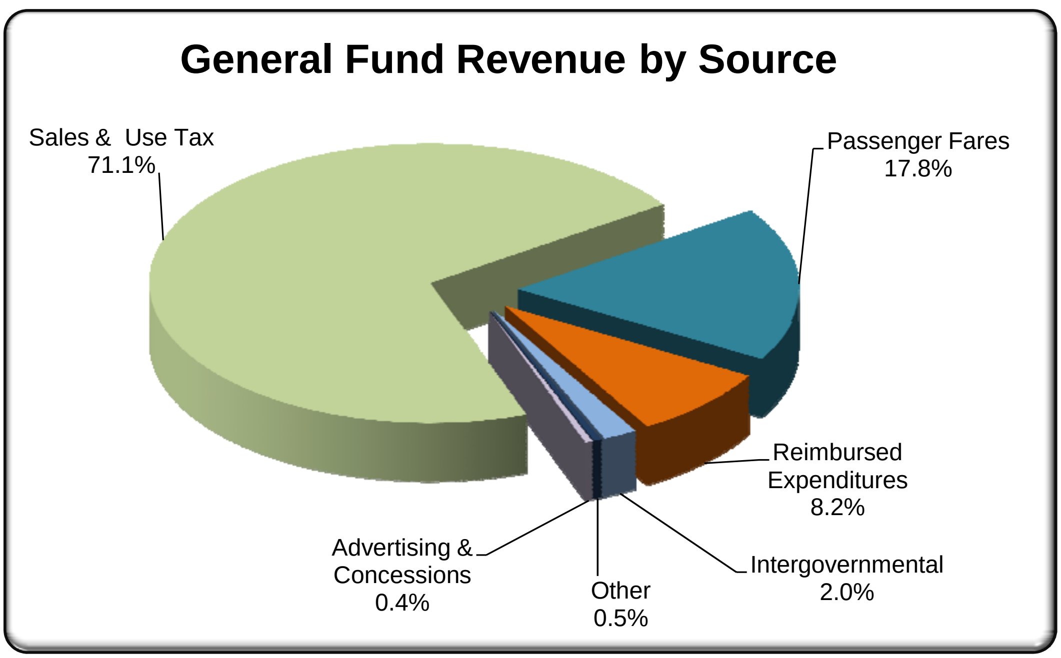
Revenue

The current 2014 estimate projects $271.9 million in General Fund revenue and total resources of $308.2 million. This is a $6.9 million increase in total resources compared to the 2014 budget. This increase is a result of an additional $5.9 million in carryover available balance at the end of 2013 and an increase of $1.0 million in various revenue streams.

The chart above shows the percentage of each revenue stream from 2005 through 2015. In 2005, Sales & Use Tax was about 70% of the Authority's revenue but was slowly declining as Passenger Fares and Reimbursed Expenditures increased. In 2009, the Sales & Use Tax plummeted due to the Great Recession and became less than 60% of the total revenue. One-time grants, sent by the State and Federal Government helped to lessen the effects of the service reduction. Without these funds, the Authority would have seen more drastic reductions in service. Managed Care was added to the Sales & Use Tax base in late 2009. In 2010, the Sales & Use Tax rebounded by 5.6%, and the one-time grants lessened. The Sales & Use Tax and Passenger Fare Revenues both grew in 2011 and 2012, and reimbursed expenditures were reduced to cover needed capital projects. Recoveries from the recessions in 2001 and again in 2009 have been extremely slow in the Cleveland region. With the Sales & Use Tax increasing from 2010 through 2013, this enabled RTA to become less reliant upon one-time funding and reimbursed expenditures. In 2014 and 2015, the percentage growth of Sales & Use Tax has been declining, from 2.5% in 2014 and an anticipated 2.2% in 2015. Receipts received in 2014 have been inconsistent not only by month, but also by the categories that make up the total. This is concerning because Reimbursed expenditures has had to increase slowly, pulling needed funding away from capital projects.

The chart below shows the percentage of each revenue stream for 2015. Sales & Use Tax has remained above 70% of total revenue, at 71.1%, although decreasing from prior years; 71.8% in 2013 and 71.5% in 2014. Passenger Fares is 17.8% of total revenue and has been slowly decreasing over the past few years as well; from 18.4% in 2013 and 18.1% in 2014. Reimbursed expenditures slowly increased over the past few years, from 5.8% in 2013 and 6.5% in 2014 to 8.2% in 2015. Total revenue for 2015 will increase to $279.7 million. The increase comes from projected increases in Sales Tax and Reimbursed Expenditures. Total Resources will increase to $308.0 million including the projected carry forward from 2014 of $28.3 million.

The key to any budget is a realistic estimate of revenues that will be available to support operations. This is particularly true of a public entity such as a transportation authority, which can only provide the level of service that revenues will support. The General Fund Balance Analysis included as Attachment A, presents the 2015 Operating Budget in summary. The specific assumptions and calculations for the revenues included there are as follows:



<u>Passenger Fares</u> **$49.9 Million**

Rationale:

Ridership through September 2014 was 0.9% below the same period in 2013. Weather was a factor in the first quarter of 2014, where 62.6 inches of snowfall was recorded. This is up from 2013, where 35.9 inches was recorded during the same time.

In January and February alone, 40 out of 59 days recorded highs under 32 degrees and 50 out of 59 days recorded lows under 32 degrees. Many schools surpassed the allocated amount of snow days, while parents had to find alternative care for their children. Ridership during the first quarter was down 5.6% compared to 2013. In the second quarter, ridership increased by 1.8%, compared to 2013 levels. By the end of the second quarter, overall ridership was down by 1.9%, compared to 2013; and by the end of the third quarter, ridership was down by only 0.9%.

Paratransit ridership continues to grow steadily. Through the third quarter 2014, Paratransit ridership has increased 7.7%, compared to the same period in 2013, an increase of over 40,200 passengers. In the three months of the third quarter, Bus and HealthLine ridership increased by 3.2% above 2013 levels. During the third quarter, Cleveland hosted the Gay Games. These events helped to increase ridership, as RTA, Akron Metro, and LakeTran all provided ridership to the athletes, coaches, and spectators.

The Cleveland Metropolitan School District (CMSD) received service at the beginning of the school year. The new agreement was approved by the Board in October 2013 and $3.8 million in revenue was expected in 2013 to cover costs remaining from 2012-2013 and for passes and tickets for the 2013-2014 school year. A payment from CMSD for 2013 was actually received in January 2014. For the 2014-2015 school year, RTA received a $2.9 million payment in September and another $1.5 million is to be received by December 1, 2014.

For 2015, Passenger Fare revenue is budgeted at 1.2% increase, to $49.9 million. This revenue stream is expected to increase by 1.2% in 2016 and 2017, at $50.5 million and $51.1 million, respectively.

Sales & Use Tax Revenue — $198.7 Million

Rationale:

The economic crisis in late 2008 and 2009 had unparalleled effects on Sales & Use Tax revenue and across the entire U.S. GCRTA experienced an historic decline from $173.6 million in 2008 to $154.6 million in 2009. Late in 2009 the State Legislature added Managed Care to the Sales Tax base. For 2010 collections jumped to $163.2 million, $5 million of which were from the added Managed Care and $3.6 million was due to an improved economy. For 2011, collections continued to be above expectation, ending the year at $173.2 million. The pace continued in 2012 and collections increased by $8 million to $181.2 million. The budget for 2013 was $185.3 million and collections for 2013 were near budget for the first six months of the year but then increased markedly in the second half of the year. The total collection for 2013 was $189.2 million, a 4.6% increase.

The budget for 2014 was $194.1 million and collections have been inconsistent; down one month and up the next, see the chart on the next page. The projection at the end of the third quarter is $194.4 million, a 2.4% increase. This inconsistent pattern does not instill confidence in likely collections for 2015. RTA is projecting a 2.2% increase to $198.7 million.

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
SALES AND USE TAXES
ACTUAL RECEIPTS

Month Received	2013 Actual	2014 Budget	2014 Actual	2014 vs. 2013 Month % Change	2014 Month Actual vs 2014 Month Budget	2013 YTD Actual	2014 YTD Budget	2014 YTD Actual	2014 vs 2013 YTD % Change	2014 YTD % EST Variance
January	$15,066,994	$15,420,796	$14,987,634	(0.53%)	(2.81%)	$15,066,994	$15,420,796	$14,987,634	(0.53%)	(2.81%)
February	$14,435,414	$14,774,385	$15,953,485	10.52%	7.98%	$29,502,408	$30,195,181	$30,941,119	4.88%	2.47%
March	$19,098,370	$19,546,836	$18,755,924	(1.79%)	(4.05%)	$48,600,778	$49,742,017	$49,697,043	2.26%	(0.09%)
April	$13,478,691	$13,795,197	$14,296,188	6.07%	3.63%	$62,079,469	$63,537,214	$63,993,231	3.08%	0.72%
May	$13,474,700	$13,791,112	$14,740,102	9.39%	6.88%	$75,554,169	$77,328,326	$78,733,333	4.21%	1.82%
June	$17,463,306	$17,873,378	$16,637,176	(4.73%)	(6.92%)	$93,017,475	$95,201,704	$95,370,509	2.53%	0.18%
July	$15,753,604	$16,123,529	$15,869,902	0.74%	(1.57%)	$108,771,080	$111,325,232	$111,240,411	2.27%	(0.08%)
August	$16,139,261	$16,518,243	$16,689,971	3.41%	1.04%	$124,910,341	$127,843,475	$127,930,382	2.42%	0.07%
September	$17,626,259	$18,040,157	$19,061,428	8.14%	5.66%	$142,536,600	$145,883,633	$146,991,810	3.13%	0.76%
October	$15,859,555	$16,231,968	$15,827,787	(0.20%)	(2.49%)	$158,396,155	$162,115,600	$162,819,597	2.79%	0.43%
November	$15,858,745	$16,231,139				$174,254,900	$178,346,739			
December	$15,375,745	$15,736,797				**$189,630,645**	**$194,083,536**			
TOTAL	**$189,630,645**	**$194,083,536**	**$162,819,597**							

Advertising & Concessions — $1.2 Million

Advertising Contract	**$1,075K**
HealthLine and Cleveland State Lines	**$145K**
Total	**$1.2M**

Rationale:

The Advertising and Concessions Category consists of two subcategories. The first is the current advertising contract. As the fleet size reduced due to the service reductions in 2008, 2009, and 2010, the advertising contract's annual guarantee shrunk from $1,000,000 to $525,000. In 2012, a new advertising contract was established and the contract's annual guarantee rose to nearly $900,000. The receipts received from the advertising contract have slowly increased over the past few years. For 2015, the advertising contract is budgeted at $1.1 million. The second subcategory is the naming rights for the HealthLine and the new Cleveland State Line contracts that will net the Authority $145,000 in 2015. Advertising revenue received through the third quarter 2014 totaled $1.2 million and revenue is expected to reach $1.4 million by year end. The 2015 Budget for this category is slightly over $1.2 million and estimated at $1.2 million in the out years.

Intergovernmental — $ 5.5 Million

Federal & State Funding	**$4.4M**
Elderly and Disabled Fare Assistance	**$0.0M**
Access to Jobs Revenue (JARC)	**$1.1M**
Total	**$5.5M**

Rationale:

Temporary State funding helped eliminate the $24 million gap during the 2008-2009 recession and the financial difficulties in 2010. Expenses were reduced but without the temporary funding from the State of Ohio, the service reductions would have been more severe. That funding has expired. CMAQ funding for the C-Line, L-Line and 9-12 Trolleys will bring in about $950,000 in 2014 and again in 2015. Operating assistance for our Paratransit operations is expected to total $4.1 million in 2014 and $3.1 million in 2015 through assistance from NOACA. NOACA funding for Paratransit Operations was requested and budgeted for 2016 and 2017 at $2.1 million each year.

In 2009, the Authority received about $2.8 million from the State of Ohio for elderly and disabled fare assistance for 2008 and 2009. The last disbursement RTA received was for a partial year, totaling $619,057, through August. In 2011, the State halted all funding in this category for the eight largest agencies and allocated these funds to the small rural authorities. The State has no plans to reinstate the funding for the eight largest agencies.

Job Access and Reverse Commute (JARC) helps GCRTA provide vanpool and reverse commute services consistent with Welfare to Work initiatives. The funds from this source have been very sporadic over the past few years. In 2013, revenue for this category was budgeted at $2.1 million, drawing receipts through May and a new grant was found for the remainder of the year. In the third quarter 2013, a decision was made to continue drawing receipts through November, increasing the revenue projection to $3.2 million. The remainder of the receipts will be drawn in 2014, $2.3 million, and in 2015, $1.1 million. Federal funding for the JARC program was eliminated in the new Transportation Bill, MAP-21, and no alternate funding was created. Funding to continue the JARC program through the remainder of the year is being sought, however, if no additional funding can be identified, the JARC program will need to end.

<u>Other Revenue</u> **$1.1 Million**

These other sources of revenue include contractor and hospitalization claim reimbursements, rent, salvage sales, and identification card proceeds, among other miscellaneous receipts. The amounts received from these sources have fluctuated over the years, mainly due to one-time settlements and reimbursements. In 2012, nearly $1.0 million was collected and in 2013, the receipts rose to $1.2 million. At the end of the third quarter 2014, the projection for this category rose from a budget of $1.0 million to $1.4 million. For 2015, the revenue projection is $1.1 million and remains the same in the out-years.

<u>Investment Income</u> **$225 Thousand**

The available 2012 General Fund cash balances have been improved. The Fed has kept interest rates at all-time lows in an attempt to spur the economy. Income from this source was $201,267 in 2012 and $200,188 in 2013. Through the third quarter 2014, Investment Income earned totaled $156,264.

This is 117.4% higher than the second quarter and 139.0% higher than the first quarter 2014. The Authority is only receiving 0.46% interest on investments. The Fed has demonstrated it intends to keep interest rates low for at least the next ten years. As a result, the projection for this revenue stream for 2015 is $225,000 and for 2016 and 2017 is $250,000 and $275,000, respectively.

Reimbursed Expenditures **$23.1 Million**

Preventive Maintenance Reimbursements	**$20.1M**
Fuel Tax Reimbursement	**$ 1.3M**
Reimbursed Labor & Material	**$ 1.7M**
Total	**$23.1M**

Rationale:

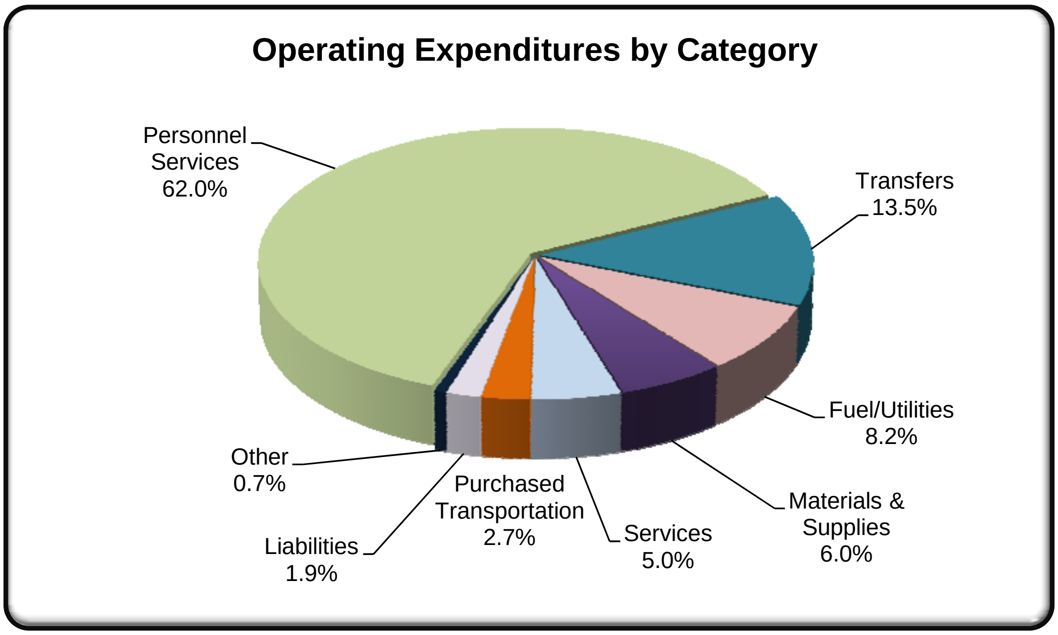
This category is primarily composed of preventive maintenance reimbursements, fuel tax reimbursements, grant funded labor costs, and material reimbursements. In 2009, this category was $33.5 million, and in 2010 it totaled $39.2 million due to the inclusion of force account labor from the ARRA projects. Dollars that were needed for capital projects had to be used to sustain operations. For eight years it had been a goal to reduce this reimbursement to less than $20 million. Underperforming Sales Tax collections from 2001 to 2008 and then the Great Recession in 2009 had made that goal unachievable.

The improved financial position of the Authority in 2011 and 2012 enabled funding from reimbursed expenditures to be reduced. This revenue category was reduced in 2011 to $25.6 million and in 2012 to $16.9 million. The improved financial situation means that the Authority does not need to draw as much preventive reimbursement to operate the General Fund. Reimbursed expenditures were $15.2 million for 2013. For 2014, Reimbursed Expenditures were budgeted for $18 million and are expected to end the year at $17.8 million. This means that more funds from formula grants will continue to be available for capital projects. With the implementation of MAP-21 and a reduction in the formula grant amount, this is particularly important.

For 2015, Reimbursed Expenditures were originally budgeted at $17.5 million for preventive maintenance (PM) reimbursements. An additional $2.6 million was added to PM reimbursements to get an acceptable budget with the best level of service possible. For 2016 and 2017, $20.0 million is budgeted for PM reimbursements. Reimbursements for Fuel Tax and Labor & Material remain steady from 2015 through 2017 at $1.3 million and $1.7 million, respectively. This category was used to help balance the budget in the past and pressure will be mounting to follow that strategy again as fund balances begin to fall from the levels attained from 2010 to 2014. Raising PM Reimbursement will lower capital funding and will make it difficult to maintain state of good repair.

Expenditures

The Operating Expenditures for the 2015 budget include the appropriation and expenditure changes as described below. As with revenues, expenditures are estimated not only for the 2015 Budget Year, but also for the two subsequent out years. The General Fund Balance Analysis projections include those out-years to demonstrate the longer-term impacts of various items contained in the 2015 Budget (collective bargaining agreements, service changes, requirements of the Capital Improvement Plan, etc.).



The chart on page 18 summarizes the budgeted increases and reductions in expenditures for 2015. The chart highlights the ardent effort made by management to align the Authority's expenditures with the projected revenue. As a result of the efforts made in 2009 through 2013 to control and reduce expenditures and the improvement in Sales Tax collections, the Authority was able to avoid a service reduction in 2011 through 2014. RTA will not be able to continue the current level of service and a service reduction may need to be implemented in 2015 or 2016 unless additional sources of long-term revenue can be found.

Compensation Issues include the wage and fringe benefit payments consistent with current collective bargaining agreements with the ATU and FOP, vacancy replenishments, as well as expected cost increases associated with health care and the Ohio Public Employee Retirement System (OPERS). The plunge in revenue from the Great Recession of 2008-2009 and Passenger Fare revenue due to high unemployment caused by the recession, meant RTA had to secure wage concessions or become a smaller organization.

For 28 months GCRTA attempted to negotiate contract agreements with the unions. The contracts for ATU 268 and FOP expired. No concessions were achieved and no wage increases were paid for 2010. An innovative approach for wage increases was approved in the FOP negotiations that tied wage increases for the current year to the increase in revenue for Passenger Fares and Sales Tax from the prior year. Under that contract, wages were tied to these revenues but could be no less than 0% and no more than 3%. On the basis of 2011 revenue, FOP and Non-Bargaining employees received a 3% wage increase in 2012. ATU 268 agreed to this contract concept in March of 2012. They received a $1,000 payment and a 3% wage increase in 2012. For 2012 and 2013, all personnel received the 3% maximum wage increases. In 2014, Sales & Use Tax is projected to increase by 2.5% and Passenger Fare Revenue is expected to end the year at 1.3%, above the 2013 level. The combined total will increase by 2.4% and all personnel are budgeted to receive a 2.4% increase in 2015. Both contracts ended in early 2014. The FOP has agreed to a new contract continuing to match wage raises to revenue increases. Negotiations with ATU continue. For 2015, 2016 and 2017, Sales Tax and Passenger Fare Revenues are projected to increase by 2.2% and 1.5%, respectively, and the wage increases are calculated to match.

The Health Care contribution increased in 2011 from 12% to 14%. Non-smoking employees received a 1% credit and employees who complete an annual physical also received a 1% credit. Those employees who completed both received a 2% credit on their health care contribution. This credit has also been available from 2012 through 2014 and again in 2015.

In 2012, TranSystems was asked to conduct an assessment of the existing system environment and organizational structure of the Authority. The intent of this assessment was to provide recommendations for improvement and optimization of the technology systems. A business plan was created to include policies, procedures, governance, and support for the recommended improvements.

In September 2012, TranSystems proposed several recommendations, including:

- Creating a new department focusing on ITS (Intelligent Transportation Systems) applications
- Documenting workflows and defining responsibilities to identify gaps and determine system interdependencies
- Upgrade systems and subsystems to the latest version
- Enhancing training opportunities for current systems and applications
- Improving processes to plan, procure, implement, and support ITS technologies
- Validating accuracy and reliability of data generated in the systems
- Developing a business intelligence strategy for information
- Implementing strategies to enhance system utilization
- Developing an enterprise architecture for the ITS environment

During the budget process for 2014, the IT (Information Technology) Department, in the Finance & Administration Division, was moved under the Executive Division. These changes were postponed until the new CIO/Executive Director was hired. The new CIO was hired in mid-2014 and some of the new positions have been filled.

Since then, the CIO has started the implementation and reorganization of the department. The enhancement of this operation will continue in 2015.

Fuel costs were very volatile in 2008. Fuel is GCRTA's second highest cost area. RTA implemented a better process to purchase fuel to stabilize fuel costs. For much of 2008, RTA worked to establish this new methodology. To get that accomplished, State law had to be changed, which was finalized in September 2008. In January of 2009, the Board of Trustees approved the implementation of an Energy Price Risk Management Program. RTA is now authorized to purchase futures contracts out to a maximum maturity of 36 months up to a maximum of 90% of projected use.

In early 2009, RTA purchased future contracts on 88% of its 2010 fuel requirements and about 25% of the 2011 requirement. As opportunities to purchase at advantageous prices materialized, more fuel futures were purchased. The budget for 2010 was $9.39 million versus the $17.4 million paid in 2009. The year ended with costs under $8 million, $1.39 million under budget and $9.4 million below 2009. The net cost/gallon was $1.76. For 2011, the budget for diesel was $10.972 million. The actual cost was $9.954 million. The budgeted cost for fuel for 2012 was $12.803 million. Actual cost was $12.114 million.

The Authority buys fuel when prices present a good opportunity. Prices in 2012 started at $2.90/gallon. By March prices had risen to $3.54/gallon. In May and June prices dropped significantly to $2.70/gallon. GCRTA purchased 3.7 million gallons of diesel and filled the remaining hedge requirements for 2012, 80% of 2013 and 55% of 2014. In March of 2013, prices dropped dramatically again and GCRTA bought 2.1 million gallons of fuel. Since then, prices have been very steady but at a higher $3.00-$3.10/gallon amount. In August prices dropped to $2.80/gallon. Prices continued to drop to $2.48/gallon. RTA bought 5.5 million gallons of fuel hedges and RTA is now completely hedged for 2014 and 2015. Most of the hedges needed for 2016 have also been bought at very favorable prices and 15 contracts for 2017 have been purchased. RTA has locked natural gas prices for 2015, 2016 and the first half of 2017 for the new CNG buses. The combination of these two actions will lower fuel costs in 2015, 2016 and 2017.

Utility Cost Reduction Measures will continue to result in significant savings. The Authority closely reviews utility usage, completely auditing the electricity accounts. In 2009, the Authority went out on the open market and solicited bids for the electricity rate, which resulted in a lowered cost by 2 cents per kilowatt-hour (kWh) and savings of over $1.127 million. All electricity accounts were reconciled and the meters are read and reset regularly by CEI. These actions further reduced costs by $504,000. RTA applied for and received rate changes for rail substations that have reduced costs by another $324,000 annually. Electricity was again bid in May 2011, which again lowered the rate/kWh for three years at a very favorable rate. The TIGGER Energy Retrofit grant has reduced electricity usage at the facilities by more than $500,000 annually. Cumulative savings from 2009 to 2013 totaled $10.7 million. A new contract was bid in early 2014 and the provider switched to Direct Energy at about 5.1 cents/kWh. This was a slight increase from the last three years, but lower than the expected cost. Natural Gas for facilities was bid in July 2011, to a very favorable $4.10/mmbta and $4.60/mmbta with a basic rate of only $0.37.

These rates are locked up through 2017. The expanded use of natural gas for buses lowered costs again and was locked through 2017 at $3.72/mmbta to $4.10/mmbta and a bases rate of $0.03.

Transfer to the Insurance Fund

The Insurance Fund is used to account for resources to protect the Authority against future catastrophic or extraordinary losses. The Authority is self-insured in all areas except personal property and equipment. Expenditures in the Insurance Fund are used for extraordinary claims and insurance premiums over $100,000. Up through 1999, a $5 million balance was required for the fund balance. Between 2000 and 2003, the fund balance increased to $7.5 million, and in 2004 through current year, the required fund balance was reduced back to $5.0 million. In 2009, a transfer from the General Fund of $3.52 million was made, but due to large claims payments that year, the transfer was not enough to maintain the Insurance Fund at the established balance of $5.0 million. In 2010, an additional $3.2 million was transferred from the General Fund that restored the $5.0 million balance in the Insurance Fund. With the increase in safety measures, claims have declined significantly and the budgeted transfer of $2.7 million for 2012 was reduced to $1.0 million. In 2013, a transfer of $1.4 million was made and in 2014, a transfer of $2.1 million was budgeted but projected to be reduced to $1.4 million. For 2015, a transfer of $1.5 million is anticipated as premiums are expected to remain steady. In the out years of 2016 and 2017, transfers of $2.4 and $2.5 million are planned, respectively due to higher premiums and claim payments. Continued safety actions may allow these amounts to be lowered in the future.

Transfer to the Supplemental Pension Fund

The Supplemental Pension Fund was established for payments of benefits relating primarily to certain retired employees of the Authority and predecessor transit systems. Since 1986, the Pension Fund has also been used to account for funds on deposit with the Ohio Public Employees Deferred Compensation Board. The Authority has no control over these funds, but is required to account for them in a trust. As in previous budget years, the 2015 budget estimates that the Supplemental Pension Fund will need transfers of $100,000 for 2015 and in the following two years in order to maintain the necessary balance within this fund as identified in a bi-annual actuarial study.

Transfers to Capital

In past years this measure, calculated as a percentage of Sales & Use Tax revenue, has remained well above the Board goal of a maximum of 15% due to the significant decrease in Sales and Use Tax revenue that occurred in 2009 and the inclusion of a number of capital grants to reimburse Operating Expenses, which required a local match.

As Sales & Use Tax revenue recovered, this measure improved from 18.4% in 2011 to 17.1% in 2012 before falling back to 18.0% in 2013 as transfers to capital grew from $31.0 million to $34.1 million. In 2014, as local funds are transferred to the capital program for the multi-year bus replacement program and other state of good repair projects, projected transfers to Capital total $36.36 million and equaled 18.7% of the Sales & Use Tax revenue.

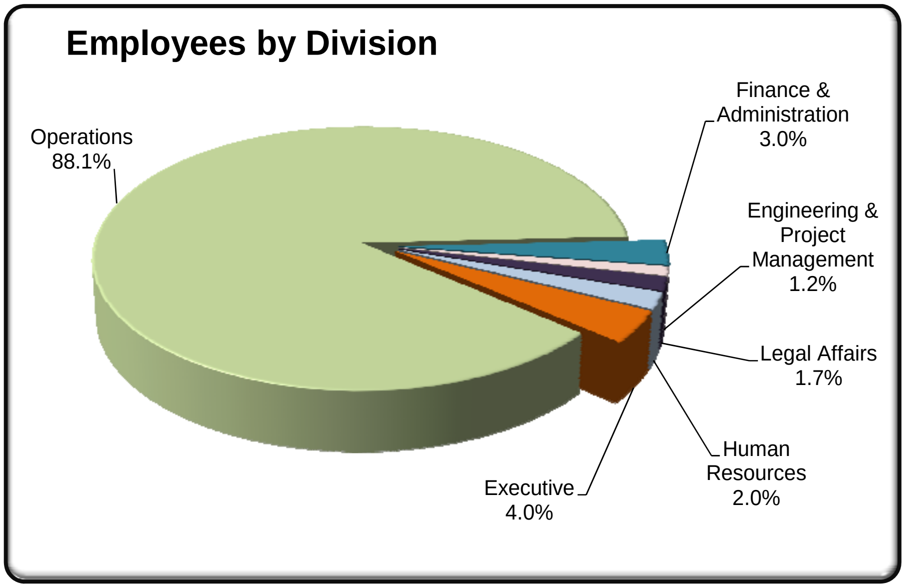
The projected 2014 transfer to capital includes $15.9 million for payment of 100% locally funded capital projects, to provide the local match portion of grant-funded projects, and $20.5 million to the Bond Retirement Fund for debt service payments associated with existing debt service.

In 2015, the transfer to capital will increase to $38.15 million, or 19.2%, as additional local funds are transferred to capital to meet the financial needs of the capital improvement program. In 2016, the transfer to Capital will slightly decrease to a $37.4 million, or 18.4%. These transfers will then further decline to $31.8 million, or 15.3%, in 2017 as debt service levels decrease, but this measure may be impacted if additional debt service is needed in the future. The high level of this measure continues to highlight the difficulty created by increased capital and debt service needs in times of constrained revenue.

Areas of Expenditure Growth
2015 Budget

2014 Projected Operating Expenses		**$242,011,806**	
Compensation Issues		**$ 5,096,576**	**2.85%**
Hourly & Salary Labor Increase	$ 3,974,631		
Fringe Benefits	$ 1,121,945		
Fuel / Utilities		**$ 378,984**	**1.59%**
Diesel Fuel	$ (1,064,860)		
Propulsion Power	$ (38,388)		
Natural Gas	$ 545,405		
Other Utilities	$ 936,827		
Service Opportunities		**$ 7,293,794**	**21.96%**
Purchased Transportation	$ 685,293		
Services	$ 4,154,661		
Materials & Supplies	$ 883,498		
Inventory	$ 1,427,549		
NAPA Contract	$ 142,793		
Administration Changes		**$ 334,722**	**5.18%**
10 Administrative Positions (Held)	$ (880,000)		
Liabilities	$ 530,795		
Other (Net)	$ 683,927		
Expenditure Growth		**$ 13,104,076**	**5.41%**
2014 Budgeted Operating Expenditures		**$255,115,881**	

Employment Level Analysis



The chart below summarizes changes in staffing from the 2014 original Budget to the level included in the 2015 Budget.

The 2015 Budget reflects staffing of 2,344.5, an overall decrease of 4 positions from the 2014 budget.

The pie chart demonstrates relative employment levels within each division.

In 2010, 10 administrative support positions and 235 operating positions were eliminated due to the April service reduction and closing of Harvard Garage. In 2012, Business Analysts and other key positions were added to the operating budget to increase the efficiencies within the departments and to increase service levels. Divisions were also realigned by moving the District General Managers (DGMs) from the Executive Department to the appropriate department within the division.

In 2013, with the completion of the HRV exterior overhaul, 15 of the 22 positions were eliminated. Employees who were in these positions were moved into vacant positions. Five support positions for operations were added to the budget and one administrative part-time position was changed to full-time. For 2014, a total of 46 positions were added to the budget. Additional operators were added to address overcrowding on some routes and increase efficiencies in the service plan. A new ITS (Intelligent Transportation Systems) Department was created, eliminating the current IT (Information Technology) Department.

2015 Budget		
2014 Original Budget		**2,348.5**
Operations		**-14**
Reduction of Bus Operators	-11	
Movement of Positions for IT/System Positions	-3	
Service / Support		**8**
Temporary Positions for HRV Interior Overhaul	5	
Systems Admin/Specialist Positions	3	
Administrative Staff		**2**
Marketing position PT to FT	0.5	
Temporary Safety Awareness Coordinator	0.5	
Wellness Coordinator	1	
2015 Budget		**2,344.5**
Net Increase (Decrease)		**(4.0)**

This created 6 new positions, including adding an ITS CIO/Executive Director, eliminating the IT Director, and moving 4 positions from other departments into ITS. Two Security Technicians were added to the Transit Police department to perform routine maintenance on security systems, eliminating the need for outside contracts, reducing the funding needed for the department's budget. Six electrical equipment mechanics were added to Fleet Management's budget to address the maintenance needed for increasing electrical and smart equipment. Plans were drawn to create a new work environment for the Electrical Equipment section, which will be completed in early 2015.

In 2014, the specialty positions for systems admin in Operations were to be moved from Operations to the new ITS Department. After much deliberation, these positions will remain in Operations in exchange for three other operating positions. As the HRV Interior Overhaul proceeds, it was decided in mid-2014 to assist with the overhaul process and five positions were loaned to the Rail District. For 2015, these loaned positions were budgeted in their respective departments and once the HRV Interior Overhaul has been completed, the five positions will be eliminated from the Rail Department. The funding for Job Access/Reverse Commute (JARC) program, which provides vanpool service for Welfare to Work initiatives, has been eliminated in the new Transportation Bill, MAP21, and no alternative funding was created. The current grant funds will run out in the first quarter of 2015. The two positions for this program are budgeted through the first quarter. If funding to extend this program can be identified, these positions will remain in the 2015 budget. If funding cannot be located, this program will end and these positions will be eliminated.

On the administrative side, a new Wellness Coordinator was added to the 2015 budget. This position would create a wellness strategic plan, oversee the wellness programs, and work with the healthcare vendors and employees to ensure that participants are utilizing the services available. The return on investment for this position is expected to be three times the cost of the position itself. A part-time Safety Awareness Coordinator is budgeted in 2015. This position was eliminated in the 2014 budget but has been budgeted after a grievance ruling. In order to cut costs, ten administrative positions will remain vacant during 2015. The position count for these ten positions will remain, but the funding has not been budgeted.

Total service hours and miles will be decreasing in the 2015 Operating Budget. As route efficiencies have been identified, 11 fewer operators will be needed to cover these routes. Five vehicle mechanics have been added to the 2015 Operating Budget to help with the HRV Interior Overhaul. The 2015 Operating Budget reflects a net decrease of 4 positions. Once the HRV Interior Overhaul has been completed and the part-time Safety Awareness Coordinator is vacant, these positions will be eliminated from the budget, leaving a total net decrease of 9.5 positions.

SERVICE LEVELS

The recession of 2008-2009 reduced revenues for the Authority and RTA was forced to reduce service levels by more than 20% between 2008 and 2010 in order to maintain a balanced budget. Service levels were not reduced in 2011. For 2012 through 2014, service was increased by just over 4%, 5%, and 3.4%, respectively.

Service Levels	2014	2015	% Change (2014-2013)
Service Hours	1,993,263	1,979,516	-0.7%
Service Miles	26,265,145	25,671,844	-2.3%

The financial position of the Authority improved markedly from 2010 to 2014. Consequently, some of the service cuts from 2008, 2009 and 2010 were restored. These changes include route enhancements for higher utilized bus routes traveling from suburban areas into downtown, as well as, some changes made on other routes to lessen crowding. The frequencies for rail services were adjusted in-peak and off-peak hours and service enhancements were implemented in 2012 and 2013.

In late 2012, annualized in 2013, three new Trolley routes were created: C-Line, L-Line, and Nine/Twelve Line. The C-Line connects the Convention Center, Medical Mart, Casino, Warehouse District, and Playhouse Square; the L-Line connects the Rock Hall of Fame, Great Lakes Science Center, Medical Mart, Convention Center; and the Nine/Twelve Line connects the Muni Lot to the Gateway District. In late 2014, the Cleveland State Line will be completed along Clifton Blvd.

For 2015, Service Miles for all modes, except Paratransit, decreased. Requests for Paratransit services continue to increase and RTA is committed to manage the ADA service and requirements.

2015 Budgeted Service Levels By Mode
Compared to 2014 Budgeted Service Levels by Mode

	Service Hours				Service Miles			
Service Mode	2014 Budget	2015 Budget	Variance	Percent Variance	2014 Budget	2015 Budget	Variance	Percent Variance
Rail								
Heavy Rail(Red)	123,300	130,800	7,500	6.1%	2,661,800	2,468,100	(193,700)	-7.3%
Light Rail(Blue/Green)	59,200	60,200	1,000	1.7%	880,400	880,600	200	0.0%
Total Rail	**182,500**	**191,000**	**8,500**	**4.7%**	**3,542,200**	**3,348,700**	**(193,500)**	**-5.5%**
Bus								
RTA	1,403,300	1,394,900	(8,400)	-0.6%	16,690,500	16,874,500	184,000	1.1%
Van Pool	29,000	0	(29,000)	-100.0%	640,000	0	(640,000)	-100.0%
Total Bus	**1,432,300**	**1,394,900**	**(37,400)**	**-2.6%**	**17,330,500**	**16,874,500**	**(456,000)**	**-2.6%**
Paratransit								
In-House	201,632	187,568	(14,064)	-7.0%	2,893,823	2,608,228	(285,595)	-9.9%
Contract	176,831	206,048	29,217	16.5%	2,498,622	2,840,416	341,794	13.7%
Total Paratransit	**378,463**	**393,616**	**15,153**	**4.0%**	**5,392,445**	**5,448,644**	**56,199**	**1.0%**
Grand Totals	**1,993,263**	**1,979,516**	**(13,747)**	**-0.7%**	**26,265,145**	**25,671,844**	**(593,301)**	**-2.3%**

POLICY COMPLIANCE

The discussion in this section focuses on the financial status of GCRTA as it relates to the Authority's basic adopted financial policy objectives. These objectives represent trends or indicators that should be analyzed as they relate to long-range financial implications for the organization. These financial policy objectives were amended in August 2011.

The financial policies or trends, as outlined in Attachment B, are applied to the following areas:

Operating Efficiency

An Operating Ratio of at least 25% is the policy goal. The 2015 Budget projects Operating Revenue (Passenger Fares, Advertising & Concessions, and Interest Income) will equal 20.2% of the total Operating Expenses. This ratio is under the **Operating Ratio** policy goal and less than the projected Operating Ratio for 2014 of 21.2%. The decrease of operating expenses in 2012 boosted the ratio to 23.0%. For 2013 and 2014, Operating Expenses rose at a higher rate than the Operating Revenue and the Operating Ratio declined to 22.0% and 21.2%, respectively. This ratio will not meet the objective for 2015, 2016, and 2017.

The goal that is most easily understood and tracked is the **One-Month Operating Reserve**. This objective requests the Authority should have an end of year balance equal to one month's operating costs (1.0). The Operating Reserve objective was met in 2010 for the first time since 1990 and has been met again in 2011 through 2014.

For 2015, a one-month operating reserve is equal to $21.1 million. With a budgeted ending balance of $13.1 million, a 0.6-month reserve, the Authority does not meet this measure. For the two out years, this policy goal is also not met at -0.1 month reserve for 2016 and -0.4 month reserve for 2017. This is due to operating expenses increasing at a faster rate than operating revenues.

Another measure of operating efficiency is the **Cost per Hour of Service.** The growth in cost of delivering an hour of service is to be held at or below the rate of inflation. In the latest report, the Cleveland Fed expects inflation rate to remain below 2% over the next decade. This goal has not been met in 2010 or 2011 because service cuts were decreasing more rapidly than expenses. This objective was met in 2012, with a rate of –7.7%, due to revenue hours increasing and operating expenses decreasing. For 2013, the Cost per Hour of Service ended the year at 4.7%. The increase in the Cost per Hour of Service was attributed to operating expenditures increasing by 3.6%, mainly in the personnel category. In 2014, the Cost per Hour of Service was budgeted at $123.6, slightly higher than 2012 ($123.3 per hour). Service hours are projected to increase at a greater rate than operating costs (5.5% vs. 4.3%, respectively). At the end of the third quarter, the Cost per Hour of Service for 2014 is projected at $120.7. This is 2.3% lower than budget and 6.5% lower than 2013. The budget for 2015 has service hours decreasing by 0.7% and operating expenses increasing by 5.4%, compared to 2014 third quarter estimates. At a projected rate of 4.4%, this measure will not be met.

Capital Efficiency

The goal for the **Debt Service Coverage** ratio is to be above 1.5. Due to the impact of the recent recession, this measure had declined to a low of 1.14 at the end of 2009. The ratio improved to 2.02 in 2010 as revenue from the Sales & Use Tax recovered and again increased in 2011, to 2.82 at the end of the year as Tax receipts continued to grow, the Authority stretched the use of its 2008 borrowing for four years, and pre-paid a State Infrastructure Bank loan in 2011.

Between 2012 and 2014, the debt service coverage continued to meet the Board Policy goal, though slowly declining in each year from 2.80 in 2012, to 2.63 in 2013, to a projected 2.44 at the end of 2014. At a projected 1.59 in 2015, it will barely meet the coverage measure and will continue to decline, to 0.95 in 2016 and to 0.55 in 2017, as projected total resources within the General Fund continue to fall in those years.

Another goal is to contribute a minimum of 10% and up to a maximum of 15% of Sales Tax revenue to capital. This indicator includes both the direct contributions to capital and the amount “set-aside” in the General Fund for debt service. The **Contribution to Capital** has been well above the maximum of 15% since FY 2009 as Sales Tax collections plummeted in that year losing 11% of revenue. The Authority initially cut capital expenditures but could not make cuts of that magnitude, meet its debt service requirements, and still support and maintain the service needs of the Authority.

These financial contributions to the capital programs support 100% locally funded capital projects, provide the local match for projects funded by grants, and funds the Authority's debt service requirements. The improvement in this ratio to 17.1% in 2012 was reversed in 2013 due to transfers of additional local funds into capital for the multi-year bus replacement program and to meet the financial needs of the Authority's capital programs. The contribution to capital will further increase to a projected 18.7% in 2014 and again in 2015 to 19.2% in 2015, before declining to 18.4% in 2016, and 15.3% in 2017 as existing debt service is retired, but it will continue to remain above the Board's maximum goal in the next three years.

The projected ratio of 93.5% in 2014 for **Capital Maintenance Outlay to Capital Expansion** is above the Board Policy goal of between 75% and 90% due to a large number of State of Good Repair (SOGR) capital maintenance projects including the bus improvement program, reconstruction of heavy and light rail stations, and track infrastructure projects. It will remain above the 90.0% maximum in 2015, at 92.5%, as the focus of the Authority's capital program remains on the maintenance, rehabilitation, and the replacement and/or upgrade of existing capital assets, rather than on expansion projects. This measure is expected to remain above the maximum of 90%, at 94.2% in 2016 and 91.3% in 2017, due to the focus of the 2015-19 Capital Improvement Plan on state of good repair projects throughout the Authority.

Three of the six financial objectives will be met in 2014. This is a significant improvement from the difficult 2009 fiscal year when none of the objectives were met. One of the six financial objectives will be met in the 2015 Budget: **Debt Service Coverage**. The Operating Ratio remains above 20.0% but not at the goal of 25%, due to the increase in the operating budget. The operating budget Growth per Year is expected to increase at 4.4%, above the rate of inflation, estimated to remain under 2.0% in 2015, by the Cleveland Fed. Sales Tax Contribution to Capital is expected to be at 19.2% in 2015 with the focus of capital projects on maintenance, rehabilitation, and replacement of current assets. In 2016 and 2017, out of the six financial policy goals, only the Growth per Year is expected to be met.

End of Year Reserve Funds

The Board also voted to add Reserve Funds for Fuel, Compensated Absences and Hospitalization. These reserve funds protect the Authority against the volatility associated with fuel costs, the significant increases that have been the recent norm for Hospitalization and will meet a suggested best practice for compensated absences. In 2014, the Reserve for Fuel is budgeted at $2.8 million, Hospitalization at $1.9 million, and Compensated Absences budgeted at $2.2 million. These funds will be utilized in FY 2015 as the ending balance drops from $28.3 million in 2014 to $13.1 million in 2015. This is due to revenue projections increasing by 2.9%, while operating expenditures are projected to increase by 5.4%, compared to 2014 third quarter estimates. Over the last three years, the General Fund balance has been over $30 million. RTA has made a calculated decision to reduce PM reimbursement and increase Capital expenditures. Transit is a capital-intensive business and the Authority addressed some of the capital needs to ensure a state of good repair. Operating costs are rising and the projected ending balance for 2014 is $28.3 million. If RTA is to remain financially sustainable, a 30-day operating reserve must be met. Maintaining PM reimbursement under $25.0 million is going to become increasingly difficult.

CAPITAL PROGRAM

The Capital Improvement Plan (CIP) for 2015-2019 has already been Board approved and appropriated. It provides for the purchase, maintenance, and improvement of the Authority's capital assets through a programmed allocation of available financial resources. The capital assets of the Authority are varied and include such items as buses, rail cars, rail right-of-way infrastructure, facilities, equipment, non-revenue vehicles, and other capital assets needed to support the on-going operations of the Authority. The life cycle of these capital assets extends over a period of years and effective capital improvement planning provides the framework for scheduling improvements based on the availability of resources, the condition of assets, and the priorities among submitted capital projects. The capital-intensive nature of public transportation makes long-term financial planning, as well as effective implementation and completion of programmed capital projects on a timely basis, indispensable.

For several years additional resources have been needed to meet the needs of maintaining the Authority's capital assets in a SOGR. Those resources were not available and projects were deferred due to a lack of funding. In recent budget years, due to the improved financial conditions of the Authority additional funding was supplied to the capital program by strategically reducing grant funded Preventive Maintenance (PM) reimbursements to the Operating Budget and directing more resources towards capital asset improvements. The upturn in the balance of the General Fund triggered a reduction in actual PM reimbursements from $21.6 million in 2011, to $11.8 million in 2012 to $9.6 million in 2013. This recent trend was reversed though in the current year as growth of the General Fund balance slowed and projected PM reimbursements has grown to $14.6 million. This amount will further increase to near $20 million in 2015 where it is expected to remain in the following two years.

The allocation of capital funds and budget authority in recent years targeted a significant number of SOGR projects throughout the Authority. Financial resources were allocated through a capital review process that prioritized both budgeted, unfunded capital projects as well as consideration of new capital projects. It continues to maintain the focus of the Authority's capital program on achieving and maintaining a State of Good Repair throughout the system as it continues to reflect existing and future financial and operational constraints facing the Authority. Part of the added needs of the program is the programmed replacement of up to 185 40-Ft and trolley buses over the next five years as well as the reconstruction of rail stations.

The Authority's capital projects are grouped in the proposed 2015 – 19 Capital Improvement Plan is shown below:

2015 - 2019 CAPITAL IMPROVEMENT PLAN
Combined Budget Authority

PROJECT CATEGORY	2015 Budget	2016 Plan	2017 Plan	2018 Plan	2019 Plan	2015-2019
Bus Garages	$0	$5,700,000	$0	$0	$0	$5,700,000
Bus Improvement Program	$15,746,353	$15,905,766	$24,339,759	$18,105,822	$16,855,822	$90,953,522
Equipment & Vehicles	$3,214,300	$1,749,000	$2,382,600	$3,296,551	$1,664,000	$12,306,451
Facilities Improvements	$5,130,119	$5,247,406	$2,299,511	$2,698,215	$15,487,064	$30,862,315
Other Projects	$2,692,560	$2,692,560	$2,695,060	$2,695,860	$2,697,360	$13,473,400
Preventive Maint./Oper. Reimb.	$20,805,000	$23,305,000	$23,305,000	$23,305,000	$23,305,000	$114,025,000
Rail Projects	$28,040,101	$19,166,668	$12,523,409	$15,264,072	$5,563,444	$80,557,694
Transit Centers	$288,783	$288,783	$288,783	$288,785	$285,115	$1,440,249
TOTALS	**$75,917,216**	**$74,055,183**	**$67,834,122**	**$65,654,305**	**$65,857,805**	**$349,318,631**

CONCLUSION

GCRTA has managed well over the past three years. As the growth in Sales & Use Tax slows, increasing operating costs are making it more difficult to end 2015 with a 30-day balance. Tough decisions will be required in 2015, 2016, and 2017 in order to maintain the 30-day balance. The challenge for 2015 is identifying additional long-term sources of revenue. RTA must continue to control costs and impact current budget numbers by at least $7 million in order to succeed. Work must begin in 2015 to prepare for what may be a difficult year in 2016.

ATTACHMENT A

General Fund Balance Analysis

Assumptions:						
Passenger Fare Annual Growth =	2.5%	-1.1%	1.3%	1.2%	1.2%	1.2%
Sales Tax Annual Growth =	4.6%	4.6%	2.5%	2.2%	2.2%	2.2%
Personnel & Fringe Cost Growth =	5.7%	3.2%	5.6%	2.4%	2.2%	1.6%
Non-Personnel Cost Growth =	6.7%	4.7%	2.6%	14.0%	-4.6%	-0.2%
Operating Expenses Growth =	6.0%	3.6%	4.8%	5.4%	0.3%	1.1%
Capital Contribution =	31,023,886	34,094,435	36,355,659	38,148,919	37,363,687	31,752,247
	17.1%	18.0%	18.7%	19.2%	18.4%	15.3%

	2012 Aud.Exp	2013 Aud. Exp	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Beginning Balance	**36,822,635**	**38,769,328**	**36,295,022**	**28,303,497**	**13,105,324**	**-1,145,186**
Revenue						
Passenger Fares	49,237,857	48,699,580	49,314,054	49,905,823	50,504,693	51,110,749
Advertising & Concessions	1,375,671	1,400,191	1,350,000	1,220,000	1,200,000	1,200,000
Sales & Use Tax	181,219,251	189,630,645	194,415,153	198,692,286	203,063,517	207,530,914
CMAQ Reimbursement - Healthline	2,128,337	0	0	0	0	0
Operating Assistance - Paratransit Operations	3,125,000	3,889,000	4,132,736	3,125,000	2,125,000	2,125,000
Paratransit Management	0	0	0	300,000	300,000	300,000
CMAQ Reimbursement - Trolley	0	950,000	950,000	950,000	0	0
Access to Jobs Program	1,712,976	2,927,754	2,292,733	1,098,518	0	0
Investment Income	201,267	200,188	225,000	225,000	250,000	275,000
Other Revenue	971,146	1,177,962	1,440,000	1,100,000	1,100,000	1,100,000
Reimbursed Expenditures	16,955,634	15,217,046	17,756,264	23,050,000	23,000,000	23,000,000
Total Revenue	**256,927,139**	**264,092,366**	**271,875,940**	**279,666,627**	**281,543,210**	**286,641,663**
Total Resources	**293,749,774**	**302,861,694**	**308,170,962**	**307,970,125**	**294,648,534**	**285,496,477**
Operating Expenditures						
Personnel Services	163,776,230	169,098,188	178,556,180	182,772,756	186,879,434	189,873,943
Diesel Fuel	12,632,036	13,956,183	14,504,860	13,440,000	10,880,000	10,080,000
Natural Gas	0	1,388,300	1,292,600	1,506,000	2,291,000	2,510,000
Other Expenditures	46,448,294	46,529,565	47,658,165	57,397,126	55,879,599	56,294,654
Total Operating Expenditures	222,856,560	230,972,236	242,011,806	255,115,882	255,930,033	258,758,597
Transfer to the Insurance Fund	1,000,000	1,400,000	1,400,000	1,500,000	2,400,000	2,500,000
Transfer to the Pension Fund	100,000	100,000	100,000	100,000	100,000	100,000
Transfers to Capital						
Bond Retirement Fund	19,386,891	18,324,392	20,480,914	22,615,956	22,515,007	17,131,593
Capital Improvement Fund	11,636,995	15,770,044	15,874,745	15,532,963	14,848,680	14,620,654
Total Transfers to Capital	31,023,886	34,094,435	36,355,659	38,148,919	37,363,687	31,752,247
Total Expenditures	**254,980,446**	**266,566,672**	**279,867,464**	**294,864,801**	**295,793,720**	**293,110,844**
Ending Balance	38,769,328	36,295,022	28,303,497	13,105,324	-1,145,186	-7,614,368
Brookpark Lightning Strike Reserve Funds	1,100,000	0	0	0	0	0
Rolling Stock Reserve Funds	7,000,000	0	0	0	0	0
Reserved Funds	6,840,000	6,900,000	6,900,000	0	0	0
Available Ending Balance	**23,829,328**	**29,395,022**	**21,403,497**	**13,105,323**	**-1,145,187**	**-7,614,369**

ATTACHMENT B

2015 Budget
Financial Policy Objectives

		Description	Goal	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Operating Efficiency	**Operating Ratio**	*Ratio that shows the efficiency of management by comparing operating expenses to operating revenues. Operating Revenues divided by Operating Expenses*	**> 25%**	23.0%	22.0%	21.2%	20.2%	20.4%	20.4%
	Cost/Hour of Service	*Measure of service efficiency. Total Operating Expenses divided by Total Service Hours*		$123.3	$129.1	$120.7	$126.0	$125.1	$125.3
	Growth per Year	*Growth in the cost of delivering a unit of service (Cost per Hour), compared to the prior year, to be kept at or below the rate of inflation.*	**< Rate of Inflation**	**-7.7%**	4.7%	**-6.5%**	4.4%	**-0.7%**	**0.1%**
	Operating Reserve (Months)	*Equal or above one month's operating expenses to cover unforseen or extraordinary fluctuations in revenues or expenses.*	**> 1 month**	**2.1**	**1.9**	**1.4**	0.6	-0.1	-0.4
Capital Efficiency	**Debt Service Coverage**	*The measure of the Authority's ability to meet annual interest and principal payments on outstanding debts.*	**> 1.5**	**2.80**	**2.63**	**2.44**	**1.59**	0.95	0.55
	Sales Tax Contribution to Capital	*Sales tax revenues to be allocated directly to the Capital Improvement Fund to support budgeted projects or to the Bond Retirement Fund to support debt service payments.*	**10% - 15%**	17.1%	18.0%	18.7%	19.2%	18.4%	15.3%
	Capital Maintenance to Expansion	*The capital program requires a critical balance between maintenance of exisiting assets and expansion efforts.*	**75% - 90%**	97.9%	**86.1%**	93.5%	92.5%	94.2%	91.3%
End of Year Reserved Funds	**Fuel Reserve Funds**	*A reserve designated to protect the Authority from a significant and continuing rise in fuel prices. (In Millions)*	**Fuel Budget less Annual Expenditures**	$2.65	$2.71	$2.71	$0.00	$0.00	$0.00
	Compensated Absences Reserve Funds	*Ensure payment of over $9 million in charges the Authority will need to pay to employees for vacation that has been earned. (In Millions)*	**< 25% of Accrued Liability**	$2.25	$2.25	$2.25	$0.00	$0.00	$0.00
	Hospitalization Reserve Funds	*Protect against substantial cost increases from unfunded mandates or out of the ordinary costs for catastrophic illnesses. (In Millions)*	**< 10% of Annual Hospitalization Costs**	$1.94	$1.94	$1.94	$0.00	$0.00	$0.00
	Rolling Stock Reserve Funds	*A reserve designated to protect the Authority from a significant and continuing rise in replacement of revenue vehicles (in Millions)*	**Savings in Operating Funds**	$7.00	$0.00	$0.00	$0.00	$0.00	$0.00

ATTACHMENT C

RTA Development Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Beginning Balance	**25,947,255**	**44,440,121**	**38,924,890**	**27,265,726**	**29,423,889**	**10,478,052**
Revenue						
Debt Service	25,000,000	0	0	25,000,000	0	20,000,000
Transfer from RTA Capital Fund	9,620,255	13,470,255	11,734,255	11,649,255	11,384,255	11,334,255
Investment Income	115,389	95,725	50,759	53,000	54,000	54,000
Federal Capital Grants	33,570,510	59,795,463	62,075,000	71,321,250	65,981,250	62,562,500
State Capital Grants	1,135,673	264,693	1,730,822	1,384,658	1,384,658	1,384,658
Other Revenue	3,424,859	0	0	0	0	0
Total Revenue	**72,866,686**	**73,626,136**	**75,590,836**	**109,408,163**	**78,804,163**	**95,335,413**
Total Resources	**98,813,941**	**118,066,257**	**114,515,726**	**136,673,889**	**108,228,052**	**105,813,465**
Expenditures						
Capital Outlay	54,373,820	79,141,367	87,250,000	107,250,000	97,750,000	87,500,000
Other Expenditures	0	0	0	0	0	0
Total Expenditures	**54,373,820**	**79,141,367**	**87,250,000**	**107,250,000**	**97,750,000**	**87,500,000**
Ending Balance	**44,440,121**	**38,924,890**	**27,265,726**	**29,423,889**	**10,478,052**	**18,313,465**

ATTACHMENT D

RTA Capital Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Beginning Balance	**2,096,600**	**2,286,108**	**1,731,677**	**1,785,367**	**1,578,575**	**1,600,250**
Revenue						
Transfer from General Fund	11,636,995	15,770,044	15,874,745	15,532,963	14,848,680	14,620,654
Investment Income	-7	5,200	13,200	9,500	7,250	7,500
Total Revenue	**11,636,988**	**15,775,244**	**15,887,945**	**15,542,463**	**14,855,930**	**14,628,154**
Total Resources	**13,733,588**	**18,061,352**	**17,619,622**	**17,327,830**	**16,434,505**	**16,228,404**
Expenditures						
Asset Maintenance	873,929	1,083,402	1,550,000	1,550,000	1,400,000	1,400,000
Routine Capital	953,296	1,776,018	2,550,000	2,550,000	2,050,000	1,950,000
Transfer to RTA Development Fund	9,620,255	13,470,255	11,734,255	11,649,255	11,384,255	11,334,255
Total Expenditures	**11,447,480**	**16,329,675**	**15,834,255**	**15,749,255**	**14,834,255**	**14,684,255**
Ending Balance	**2,286,108**	**1,731,677**	**1,785,367**	**1,578,575**	**1,600,250**	**1,544,149**

ATTACHMENT E

Bond Retirement Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Beginning Balance	**1,702,726**	**4,119,818**	**1,710,131**	**1,775,018**	**1,882,000**	**1,881,500**
Revenue						
Transfer from General Fund	19,386,891	18,324,392	20,480,914	22,615,956	22,515,007	17,131,593
Investment Income	23,086	12,502	1,945	2,500	2,500	2,500
Bond Premium Proceeds	3,779,561	0	0	0	0	0
Other Revenue	10	27	-445,748	0	0	0
Total Revenue	**23,189,548**	**18,336,921**	**20,037,111**	**22,618,456**	**22,517,507**	**17,134,093**
Reconciling Journal Entry	**0**	**0**	35,001	**0**	**0**	**0**
Total Resources	**24,892,274**	**22,456,739**	**21,782,243**	**24,393,474**	**24,399,507**	**19,015,593**
Expenditures						
Debt Service						
Principal	13,990,000	13,895,000	14,475,000	16,154,544	16,858,126	11,833,675
Interest	6,776,675	6,851,608	5,532,225	6,355,430	5,657,381	5,322,919
Other Expenditures	5,781	0	0	1,500	2,500	2,500
Total Expenditures	**20,772,456**	**20,746,608**	**20,007,225**	**22,511,474**	**22,518,007**	**17,159,094**
Ending Balance	**4,119,818**	**1,710,131**	**1,775,018**	**1,882,000**	**1,881,500**	**1,856,499**

ATTACHMENT F

Insurance Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Beginning Balance	**6,883,060**	**6,678,594**	**6,384,153**	**6,018,131**	**5,068,131**	**5,005,656**
Revenue						
Investment Income	34,928	39,881	28,978	45,000	45,000	45,000
Transfer from General Fund	1,000,000	1,400,000	1,400,000	1,500,000	2,400,000	2,500,000
Total Revenue	**1,034,928**	**1,439,881**	**1,428,978**	**1,545,000**	**2,445,000**	**2,545,000**
Total Resources	**7,917,988**	**8,118,475**	**7,813,131**	**7,563,131**	**7,513,131**	**7,550,656**
Expenditures						
Claims and Premium Outlay	1,231,929	1,734,322	1,795,000	2,495,000	2,507,475	2,520,012
Other Expenditures	7,465	0	0	0	0	0
Total Expenditures	**1,239,394**	**1,734,322**	**1,795,000**	**2,495,000**	**2,507,475**	**2,520,012**
Ending Balance	**6,678,594**	**6,384,153**	**6,018,131**	**5,068,131**	**5,005,656**	**5,030,644**

ATTACHMENT G

Supplemental Pension Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Beginning Balance	**1,161,820**	**1,195,091**	**1,228,490**	**1,223,682**	**1,259,682**	**1,297,432**
Revenue						
Investment Income	6,183	7,752	1,722	6,500	6,750	6,750
Transfer from General Fund	100,000	100,000	100,000	100,000	100,000	100,000
Total Revenue	**106,183**	**107,752**	**101,722**	**106,500**	**106,750**	**106,750**
Total Resources	**1,268,003**	**1,302,843**	**1,330,212**	**1,330,182**	**1,366,432**	**1,404,182**
Expenditures						
Benefit Payments	72,912	74,353	76,538	70,500	69,000	67,500
Other Expenditures	0	0	0	0	0	0
Total Expenditures	**72,912**	**74,353**	**76,538**	**70,500**	**69,000**	**67,500**
Reconciling Journal Entry	0	0	29,992	0	0	0
Ending Balance	**1,195,091**	**1,228,490**	**1,223,682**	**1,259,682**	**1,297,432**	**1,336,682**

ATTACHMENT H

Law Enforcement Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Beginning Balance	**298,091**	**184,341**	**406,607**	**341,089**	**311,214**	**301,339**
Revenue						
Investment Income	86	44	61	125	125	125
Other Revenue	56,000	292,445	71,921	55,000	55,000	55,000
Total Revenue	**56,086**	**292,489**	**71,982**	**55,125**	**55,125**	**55,125**
Total Resources	**354,177**	**476,830**	**478,589**	**396,214**	**366,339**	**356,464**
Expenditures						
Capital & Related Items	129,986	70,223	137,500	85,000	65,000	65,000
Total Expenditures	**129,986**	**70,223**	**137,500**	**85,000**	**65,000**	**65,000**
Reconciling Journal Entry	39,850	0	0	0	0	0
Ending Balance	**184,341**	**406,607**	**341,089**	**311,214**	**301,339**	**291,464**

ATTACHMENT I

All Funds Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Plan	2017 Plan
Beginning Balance	**74,912,187**	**97,673,401**	**86,680,970**	**66,712,510**	**52,628,814**	**19,419,042**
Revenue						
Passenger Fares	49,237,857	48,699,580	49,314,054	49,905,823	50,504,693	51,110,749
Sales & Use Tax	181,219,251	189,630,645	194,415,153	198,692,286	203,063,517	207,530,914
Federal	33,570,510	59,795,463	62,075,000	71,321,250	65,981,250	62,562,500
State	6,389,010	4,153,693	5,863,558	4,809,658	3,809,658	3,809,658
Investment Income	380,932	361,292	321,665	341,625	365,625	390,875
Other Revenue	28,275,857	21,965,425	23,450,171	27,473,518	25,355,000	25,355,000
General Obligation Debt Proceeds	25,000,000	0	0	25,000,000	0	20,000,000
Total Revenue	**324,073,417**	**324,606,098**	**335,439,601**	**377,544,160**	**349,079,743**	**370,759,696**
Total Resources	**398,985,604**	**422,279,499**	**422,120,570**	**444,256,670**	**401,708,557**	**390,178,738**
Expenditures						
Personnel Services	163,776,230	169,098,188	178,556,180	182,772,756	186,879,434	189,873,943
Diesel Fuel	12,632,036	13,956,183	14,504,860	13,440,000	10,880,000	10,080,000
Natural Gas	0	1,388,300	1,292,600	1,506,000	2,291,000	2,510,000
Other Expenditures	47,936,217	48,408,463	49,697,195	60,049,126	58,523,574	58,949,667
Capital Outlay	56,201,045	82,000,787	91,350,000	111,350,000	101,200,000	90,850,000
Debt Service	20,766,675	20,746,608	20,007,225	22,509,974	22,515,507	17,156,594
Total Expenditures	**301,312,203**	**335,598,529**	**355,408,061**	**391,627,856**	**382,289,515**	**369,420,204**
Available Ending Balance	**97,673,401**	**86,680,970**	**66,712,510**	**52,628,814**	**19,419,042**	**20,758,534**