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RESOLUTION NO. 1992 - 129

A RESOLUTION ADOPTING THE TAX BUDGET OF THE GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY FOR THE FISCAL YEAR BEGINNING JANUARY 1, 1993 AND SUBMITTING THE SAME TO THE COUNTY AUDITOR

WHEREAS, a tax budget for the Greater Cleveland Regional Transit Authority for the fiscal year beginning January 1, 1993, for the purpose of said Authority during such year, and of revenues to be received for such fiscal year, including all general and special taxes, fees, rental, charges, and all other types of classes of revenues, also estimates of all expenditures or charges in or for the purposes of such fiscal year to be paid or met from the said revenues, and otherwise conforming with the requirements of law, has been prepared; and

WHEREAS, said budget has been made conveniently available for public inspection for at least ten (10) days by having at least two (2) copies thereof on file in the office of the Assistant General Manager - Finance and Administration of this Authority; and

WHEREAS, the Board of Trustees on this day has held a public hearing on said budget of which public notice was given by publication in the Plain Dealer on July 9, 1992.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Greater Cleveland Regional Transit Authority, Cuyahoga County, Ohio:

Section 1. That the budget of the Greater Cleveland Regional Transit Authority, for the fiscal year beginning January 1, 1993, heretofore prepared and submitted to this Board of Trustees, copies of which have been and are on file in the Office of the Assistant General Manager - Finance and Administration with the revisions to said tentative budget which are incorporated therein and which are hereby approved, is hereby adopted as the official Tax Budget of said Authority for the fiscal year beginning January 1, 1993.

Section 2. That the Assistant General Manager - Finance and Administration be and he is hereby authorized and directed to have certified a copy of said budget and a copy of this resolution and to transmit the same to the Auditor of Cuyahoga County, Ohio.

Section 3. That this resolution shall be effective immediately upon its adoption.

Attachments: 1993 Tax Budget and Assumptions

Adopted: July 21, 1992

President

Attest: Ronald J. Tober

General Manager/Secretary-Treasurer

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

1993 Tax Budget Assumptions

1993 Tax Budget
General Fund Balance Analysis

	1990 Actual	1991 Actual	1992 Estimate	1993 Tax Budget
Beginning Balance	19,858,671	21,600,407	11,969,378	2,740,606
Revenue				
Passenger Fares	38,341,541	40,213,168	40,700,000	41,734,000
Advertising & Concessions	937,213	657,622	620,900	1,150,000
Sales & Use Tax	99,721,371	98,551,334	101,500,000	104,500,000
Federal Operating Assistance	19,204,925	9,210,635	9,145,526	9,146,000
State Operating Assistance	7,252,585	6,568,279	6,592,764	6,593,000
Ohio Elderly Fare Assistance	625,614	310,846	853,100	630,000
Investment Income	2,161,916	1,646,729	850,000	850,000
Other Revenue	2,004,452	1,520,652	2,351,700	950,000
Reimbursed Expenditures	1,774,381	2,475,603	3,726,250	2,700,000
Transfer From Insurance Fund	0	0	1,100,000	0
Transfer From Pension Fund	0	0	200,000	0
Total Revenue	172,023,998	161,154,868	167,640,240	168,253,000
Total Resources	191,882,669	182,755,275	179,609,618	170,993,606
Operating Expenditures				
Personnel Services	105,783,851	109,236,547	112,159,735	110,032,000
Other Expenditures	43,677,349	47,483,821	46,120,242	47,504,000
Total Operating Expenditures	149,461,200	156,720,368	158,279,977	157,536,000
Transfers				
Bond Retirement Fund	7,648,925	7,410,391	6,797,000	4,799,000
Capital Improvement Funds	13,172,137	0	5,000,000	5,600,000
Total Transfers	20,821,062	7,410,391	11,797,000	10,399,000
Total Expenditures	170,282,262	164,130,759	170,076,977	167,935,000
Ending Balance	21,600,407	18,624,516	9,532,641	3,058,606
Capital Improvements Contribution	0	6,655,138	0	0
Cash Balance	21,600,407	11,969,378	9,532,641	3,058,606
Year-End Encumbrances		0	-6,792,035	
Available Ending Balance	21,600,407	11,969,378	2,740,606	3,058,606

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1993 Tax Budget
Financial Indicators

	1990 Actual	1991 Actual	1992 Estimate	1993 Tax Budget
Operating Ratio	27.9%	27.4%	27.0%	28.0%
Operating Reserve (Months)	1.7	0.4	0.2	0.2
Cost/Hour of Service	$65.86	$66.91	$71.58	$72.18
Growth per Year	3.7%	1.6%	7.0%	0.8%
Sales Tax Contribution to Capital	13.2%	6.8%	4.9% *	5.4%

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Definitions:

Operating Ratio = Operating Revenue (Fares + Advertising + Interest) / Total Operating Expenditures (Net Capitalized Expenditures)

Operating Reserve = Available Ending Balance / (Total Operating Expenditures/12)

Cost/Hour of Service = Total Operating Expenditures / Total Service Hours

Sales Tax Contribution to Capital = (Capital Improvements Contribution + Capital Improvement Transfers) / Sales & Use Tax Revenue

Notes:

* The total contribution to capital equals 14.8% in 1992 ($5 million General Fund contribution plus proceeds from a $10 million debt issue). The average contribution to capital in 1992 and 1993 represents an amount equal to 10% of sales tax proceeds.

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Greater Cleveland Regional Transit Authority

1993 TAX BUDGET ASSUMPTIONS

GENERAL FUND ASSUMPTIONS

Inflation

Assumption: ***3.0%***

Rationale:

According to Economic Trends published by the Federal Reserve Bank of Cleveland, recent surveys and various economic forecasts have consistently pegged the rate of consumer inflation to fall within the range of 3.25% to 3.75%. Inflation can usually be expected to decline during periods of economic recovery. Since the recovery is progressing at a slow pace, the low rate of inflation is expected to continue into 1993. The Blue Chip consensus forecast shows the consumer price index increasing at about a 3.5% annual rate during each of the next seven quarters.

However, for non-consumables, a 3% growth factor will be applied. This conservative approach is due more to resource constraints than to the overall economy. Until sales tax receipts and passenger fare collections rebound to the levels previously budgeted for 1992 and beyond, the Authority will have to closely contain its costs in order to maintain an acceptable operating reserve and a reasonable contribution to capital.

Interest Rates

Assumption: ***5-6%***

Rationale:

The Fed funds rate, currently targeted at 3.25%, is expected to move up early next year. Yields on two-year treasury notes, currently at about 4.5%, are expected to rise above 6% during the first quarter of 1993. It is unlikely that the Fed will aggressively tighten credit before the presidential election, and the relatively modest recovery and low rate of inflation should remove the economic incentive to do so. The specific rate used to calculate revenue projections will depend on the fund being examined and the terms of matching investment instruments. For example, the

General Fund is the most "liquid" fund. Therefore, its investments have the shortest maturities, and its earnings will skirt closer to 5% than 6%.

Encumbrances

These contract and purchase obligations, which restrict the amount of operating cash available, are subtracted from the projected 1992 ending cash balance to yield the available ending balance which carries into the 1993 Tax Budget. It is assumed that roughly $6.8 million will be restricted.

Beginning Balance

The beginning balance for each of the four years shown is intended to represent unrestricted cash and investments. This amount is typically less than the actual cash balance in our accounting records by a figure equal to reserves for Worker's Compensation, payroll withholdings and amounts due to the General Fund from the RTA Capital Fund. In addition, the 1993 beginning balance is adjusted for year-end 1992 encumbrances.

Available Ending Balance

The 1993 available ending cash balance is projected, under the above assumption, to approximate $3.1 million. It is clear that, as is the case in 1992, the Authority's policy of maintaining a reserve equal to one month's operating expenses in the General Fund will be difficult to satisfy. Overall, revenues are expected to remain flat while pressure mounts for increasing expenses. It may be two or even three years, assuming costs do not rise dramatically, before a restored economy produces revenues that will make the restoration of acceptable fund balances possible.

REVENUES

Passenger Fares

Assumption: ***$41.7 million***

Rationale:

Through May 1992, passenger fare revenue has decreased 3.2% from the same period in 1991, versus the 4.4% increase assumed in the 1992 Budget. As a result, the 1992 fare revenue estimate has been revised downward from the budgeted $42.0 million to $40.7 million.

To arrive at a 1993 estimate, the 1992 figure was incremented 2.5% on the assumption that an improving economy would result in a modest ridership gain. Clearly, ridership is the foundation for all of the Authority's services and resulting finances. Until ridership grows, there will be terrific stress on the budget.

Advertising Revenue

Assumption: ***$1,150,000***

Rationale:

The contractual minimum for the new advertising agreement is used for this estimate. It includes one month of receipts at the 1992 level and eleven months at the 1993 rate to express the total on a budget/cash basis.

Sales Tax

Assumption: ***$104.5 million***

Rationale:

The lingering effects of the recession, which began during the latter part of 1990, were felt throughout 1991 and into 1992. A gradual economic rebound is now in progress, and is expected to continue into 1993. A modest 3% increase is assumed in 1993 sales tax collections over the first quarter estimate of $101.5 million for 1992. The total expected in 1993 ($104.5 million) is a reasonable, but not overly conservative estimate.

Federal Operating Assistance

Assumption: ***$9,146,000***

Rationale:

Operating assistance for 1993 was estimated at $9.15 million in the Transportation Improvement Program, but has yet to be confirmed by FTA. All of this award will be received in 1993.

State Operating Assistance

Assumption:	***Operating Assistance***	***$6,593,000***
	Elderly and Handicapped	***630,000***

Rationale:

Funding levels for 1993 are expected to remain the same as in 1992. State budget allocations for operating assistance have not been finalized. There are proposals to trim these grants, but the final determination has yet to be made.

Investment Income

Assumption: ***$850,000***

Rationale:

After the direct contribution of $5.6 million of Sales Tax collections to capital funds, the average General Fund daily balance is projected to be $17 million for 1993 compared to approximately $15 million in 1992 and about $20 million in 1991. This figure should earn about 5.0%. For all funds, about $3.8 million will be earned next year, due to lower fund balances overall and lower interest rates.

Other Revenue

Assumption: ***$950,000***

Rationale:

In 1990, the Authority received favorable judgements in two court cases which garnered about $1,000,000 in other revenue. In 1991, about $500,000 from the health insurance rate stabilization account was returned to Authority custody. The 1992 receipts include an additional $462,602 hospitalization reimbursement and a $950,000 fuel spill reimbursement from the State of Ohio, again inflating Other Revenue above the norm. For 1993, a more typical collection rate is expected, and no unusual claims or receivables are anticipated.

Reimbursed Expenditures

Assumption: ***$2.7 million***

Rationale:

This category is composed of grant labor reimbursements and federal diesel fuel tax refunds. In this latter category, RTA will recoup $.225 per gallon of diesel fuel consumed, or $1,610,000. The estimate also assumes no net changes in service miles or fuel consumption patterns beyond the annualized impact of the service changes implemented in 1992, even though in the final 1993 budget both of these figures could be decreased.

EXPENDITURES

Personnel Services

Assumption: ***$110.0 million***

Rationale:

This estimate for salaries and fringe benefits is about 1.0% over the 1992 projection (when adjusted for the additional pay period) and is well below the 1993 projected rate of inflation of 3.0%. This is very conservative and driven as much by resource constraints as by operating requirements. No service additions are planned for next year under this scenario and it is possible further service efficiencies could be sought in 1993.

Negotiations between the Authority and its two unions' continue. The outcome cannot be estimated at this point. It will be very difficult to maintain this salary projection should the final settlement approximate past agreements.

Fringe benefits account for much of the increase. In 1993, 29.1% of gross salaries, on the average, will be paid to cover health care benefits and employer contributions to the Public Employees Retirement System (PERS), among other fringe benefits. Health care costs are expected to increase by more than 18% in 1993. Actual fringe benefit rates will vary by department.

Salary estimates reflect the full year cost impact of positions filled in 1992, step increases for bargaining unit positions, and the full-year impact of service changes implemented in 1992.

Other Expenditures

Assumption: ***$47.7 million***

Rationale:

The projected growth of only 3% in 1993 will be difficult to achieve. Services will have to remain budgeted at 1992 levels, commodity costs will grow at a rate approximating inflation and diesel fuel needs to stabilize at around $.65 per gallon, a very small increase over the $.64 paid currently.

TRANSFERS

Figures shown for the Bond Retirement Fund are simply debt service less the investment earnings already in the fund. The interest and principal payments on outstanding bonds and notes are taken from debt amortization schedules. The payments are declining as outstanding bonds are being retired. The Authority has incurred no new debt since 1986, but is planning to issue bonds during August of 1992.

The contribution to Capital Improvement Funds covers local Asset Maintenance and Routine Capital purchases, as well as required local matches of grant-funded projects. Beginning with 1989, it became RTA policy to contribute at least 10% of Sales Tax receipts to these programs. It should be noted that the 1992 bond sale could impact the 1993 contribution to capital depending on the size of the debt incurred and the projects identified for bond funding.

The planned 1992 bond sale is assuming increasing importance because of the deteriorating condition of the General Fund, due to failing sales tax collections. For purposes of this budget, a $10 million general obligation bond sale is assumed. This would permit a contribution to capital averaging the equivalent of 10% of sales tax collections for both 1992 and 1993. Debt service on this issue can be structured to postpone significant payments to 1994 through 1998, thereby relieving the General Fund of a significant short-term debt burden. The importance of maintaining the capital program in these very difficult times cannot be over-emphasized.

FINANCIAL INDICATORS

The General Fund statement presented in this Tax Budget results in the following performance against the Authority's financial policies.

Operating Ratio: The policy requires a 25% ratio, with 30% being the long-term objective. The tax budget yields 28.0%, an improvement over 1992.

Cost/Hour: Our policy requires that growth in the cost per hour from year to year be kept below the rate of inflation. This budget assumes a .8% growth in cost, well below estimates of 1993 inflation. The small percentage increase is due to the additional pay period liability in 1992. Note that no provision has been made in this budget for wage increases or other labor settlement costs.

Sales Tax Contribution to Capital: The tax budget achieves a 10% contribution of Sales Tax receipts to capital funds when it is averaged with the 1992 contribution, as explained above.

Operating Reserve: This budget does not meet the policy requirement of a one month operating reserve (indicator=1.0). Unless revenues grow significantly in 1993, this policy cannot be met without a major restructuring of the service RTA provides.

INSURANCE FUND

The only activity should be investment income, at an average rate of about 6%. In late 1992 or early 1993, a risk analysis will be commissioned. This study could result in a recommendation for restructuring the self insurance program and there could be an impact on the composition of the self insurance fund.

SUPPLEMENTAL PENSION FUND

Authority employees who were employed by predecessor transit systems are covered by supplemental benefit payments. Since the plan is fully funded, the only financial activity is investment income and benefit payments. Interest rates are estimated to run about 5% in 1992 and 1993, as investment maturities were shortened pending a possible refinancing of the Authority's supplemental pension plans. This process will require actuarial work scheduled for later in 1992.

BOND RETIREMENT FUND

In 1993, the General Fund will be the sole source of all fund transfers necessary to make scheduled interest and principal payments. The last series of long-term debt will expire in 1998. Investment income is based on rates slightly less than 5% through 1992 and 1993. A debt sale during August 1992 is assumed, as discussed earlier, with no principal retirement on the new 1992 issue during 1993.

CAPITAL IMPROVEMENT FUNDS

As required by policy, an amount equivalent to at least ten percent of sales tax revenues will be allocated to the capital improvement fund each year. Accordingly, a total of $20.6 million will be dedicated toward capital investments in 1992 and 1993; $10 million in bond proceeds will be dedicated toward meeting the local match requirement for federal grant funds and $10.6 million of sales tax proceeds will be transferred to the RTA Capital Fund.

RTA Capital Fund expenditures and encumbrances are based on historical payment and obligation rates. Grant capital outlays are based on cash flow projections and year-to-date activity. The sale of the present headquarters and the acquisition of new office space are both included in the 1993 figures at $6 million.

State capital assistance includes the 1992 repayment of $2.0 million for inactive projects on which state funds were previously received. The 1993 amount of $1.7 million represents recent awards which will be drawn-down as used.

Insurance Fund Balance Analysis

	1990 Actual	1991 Actual	1992 Estimate	1993 Tax Budget
Beginning Balance	11,541,287	11,566,303	12,014,326	10,000,000
Revenue				
Investment Income	941,426	902,835	700,000	600,000
Total Revenue	941,426	902,835	700,000	600,000
Total Resources	12,482,713	12,469,138	12,714,326	10,600,000
Expenditures				
Claims Outlay	916,410	454,812	1,500,000	0
Transfer to General Fund	0	0	1,100,000	0
Total Expenditures	916,410	454,812	2,600,000	0
Cash Balance	11,566,303	12,014,326	10,114,326	10,600,000
Year-End Encumbrance	0	0	114,326	0
Available Ending Balance	11,566,303	12,014,326	10,000,000	10,600,000

Supplemental Pension Fund Balance Analysis

	1990 Actual	1991 Actual	1992 Estimate	1993 Tax Budget
Beginning Balance	2,022,019	1,941,304	1,880,281	1,609,281
Revenue				
Investment Income	141,956	154,589	88,000	72,000
Total Revenue	141,956	154,589	88,000	72,000
Total Resources	2,163,975	2,095,893	1,968,281	1,681,281
Expenditures				
Benefit Payments	222,671	215,612	159,000	156,000
Transfer to General Fund	0	0	200,000	0
Total Expenditures	222,671	215,612	359,000	156,000
Ending Balance	1,941,304	1,880,281	1,609,281	1,525,281

Bond Retirement Fund Balance Analysis

	1990 Actual	1991 Actual	1992 Estimate	1993 Tax Budget
Beginning Balance	663,901	642,001	593,000	402,875
Revenue				
Transfer from General Fund	7,648,925	7,410,390	6,797,000	4,799,000
Investment Income	280,300	239,109	120,000	68,608
Total Revenue	7,929,225	7,649,499	6,917,000	4,867,608
Total Resources	8,593,126	8,291,500	7,510,000	5,270,483
Operating Expenditures				
Debt Service				
Principal	4,800,000	5,100,000	5,100,000	2,700,000
Interest	3,151,125	2,598,500	2,007,125	2,123,483
Total Expenditures	7,951,125	7,698,500	7,107,125	4,823,483
Ending Balance	642,001	593,000	402,875	447,000

Capital Improvement Funds Balance Analysis

	1990 Actual	1991 Actual	1992 Estimate	1993 Tax Budget
Beginning Balance	38,490,903	39,036,680	31,844,758	31,797,971
Revenue				
Transfer from General Fund	13,172,137	6,655,133	5,000,000	5,600,000
Investment Income	3,355,161	2,720,934	1,850,000	2,208,357
Federal Capital Grants	44,413,691	24,234,364	45,013,363	25,897,468
State Capital Grants	2,074,498	9,800	0	1,740,225
Local Match - UDAG	854,956	2,089,844	0	0
Bond Proceeds	0	0	10,000,000	0
Other	2,004	0	0	6,000,000
Total Revenue	63,872,447	35,710,075	61,863,363	41,446,050
Total Resources	102,363,350	74,746,755	93,708,121	73,244,021
Expenditures				
Capital Outlay	61,845,375	40,828,184	54,103,060	40,447,404
UMTA Reimbursement	1,481,295	2,073,813	0	0
ODOT Reimbursement	0	0	2,052,734	0
Total Expenditures	63,326,670	42,901,997	56,155,794	40,447,404
Ending Balance	39,036,680	31,844,758	37,552,327	32,796,617
Year-End Encumbrances	0	0	-5,754,356	0
Available Ending Balance	39,036,680	31,844,758	31,797,971	32,796,617