

RESOLUTION NO. 1997 - 131

A RESOLUTION ADOPTING THE TAX BUDGET OF THE
GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
FOR THE FISCAL YEAR BEGINNING JANUARY 1, 1998
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, 1998, 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 or 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 revenue, 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 2, 1997.

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, 1998, 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 any 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, 1998.

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 country, Ohio.

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

Attachments: 1998 Tax Budget Assumptions

Adopted: _____ July 15, 1997 _____



President

Attest: 

General Manager/Secretary Treasurer

Greater Cleveland Regional Transit Authority
1998 TAX BUDGET ASSUMPTIONS

GENERAL FUND ASSUMPTIONS

Inflation

Assumption: 2.8-3.1%

Rationale:

According to the Congressional Budget Office Economic and Budget Outlook, inflation is averaging 2.9% but is projected to fall to 2.6% during the second half of the year. For 1998, however, the median forecast shows the consumer price index rising slightly at a rate of about 3.0%. Overall, most economists are placing 1998 inflation in the 2.8-3.1% range.

Interest Rates

Assumption: 5.7-6.0%

Rationale:

During mid-June of 1997, the target rate for federal funds stood at 5.5%, while the market yield on 2-year Treasury Notes was about 6.0%. Interest rates are expected to trend higher during 1997 and into 1998, especially if the Federal Open Market Committee increases the federal funds rate before the end of 1997. During the first five months of 1997, the Authority earned an average yield of 5.67%. Average yields during the remainder of 1997 are expected to increase only slightly, while higher yields (closer to 5.8%) are expected during 1998.

The specific rate used in calculating revenue projections depends on the fund being examined and the terms of the matching investment instruments. For example, the General Fund and the Local Match funds have the shortest average maturity due to the need for these funds to meet current obligations for the Authority obligations and the local share of federal moneys. Therefore, the investments in these funds have the shortest maturates, and their earnings will be toward the lower end of the range.

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 payroll withholdings, amounts due to the General Fund from the RTA Capital Fund, and encumbrances.

Available Ending Balance

The 1998 available ending cash balance is projected to be dangerously low at \$5.0 million. For the second year in a row, it is clear that the Authority's policy of maintaining a reserve equal to one month's operating expenses in the General Fund will not be satisfied. Sluggish revenue performance, particularly sales tax, is responsible for non compliance with this policy indicator.

REVENUES

Passenger Fares

Assumption:

\$45.0 million

Rationale:

Through May 1997, passenger fare revenue collections have increased 1.1% from the same five month period in 1996. These collections are, however, at expected budget levels. At this point, the 1997 estimate remains unchanged from the original budget.

The 1998 estimate assumes a 2.5% increase in revenue, resulting from a modest increase in the customer base including a significant increase in rail ridership. Also, the COA, which will be implemented in 1997, is expected to produce an overall increase in ridership.

Advertising Revenue

Assumption: *\$2.4 million*

Rationale:

A contractual increase in the contract minimum for the advertising agreement is used for this estimate. It includes the second year of a new contract with increases projected for each of the five year agreement. This revenue source also assumes several additional components initiated in 1997 including a Logo Shop, advertising the Walkway to Gateway, and additional painted buses.

Sales Tax

Assumption: *\$140.4 million*

Rationale:

Modest economic growth and its impact on consumer spending is expected to slow down sales tax growth in 1998, translating into a growth rate of approximately 3.0% (as compared to 4.0% in 1997). This small increase is enough to mitigate inflation without leaving much room for system growth or expansion of services.

Federal Operating Assistance

Assumption: *\$4.2 million*

Rationale:

Federal Operating Assistance was decreased 47% in 1996 as a result of a reduction recommended by a Congressional Conference Committee. This was a loss of \$3.8 million. An additional reduction was originally expected in 1997 with a complete elimination of Federal Operating Assistance occurring by 1999. However, no further reductions are expected at this time. Therefore, the 1998 estimate for Federal Operating Assistance remains at the 1996-7 level of \$4.2 million.

Reimbursed Expenditures

Assumption:

\$3.5 million

Rationale:

This category is composed of grant labor reimbursements, and federal diesel fuel tax refunds. In this latter category, RTA will recoup \$.22 per gallon from diesel fuel taxes, or \$1.1 million. The estimate also assumes very small net changes in service miles or fuel consumption patterns beyond the impact of the service changes implemented in 1997. In addition, \$2.4 million is budgeted for reimbursements to the General Fund from the Capital Fund for labor related to capital projects.

EXPENDITURES

Personnel Services

Assumption:

\$139.7 million

Rationale:

The 1998 estimate for salaries and fringe benefits is shown at a level lower than projected in the 1997 operating budget for 1998. It has been adjusted to reflect first quarter and subsequent projections for 1997 as well as more stable growth in 1998. It accounts for negotiated bargaining unit wage increases and a non-bargaining wage adjustment. The estimate also reflects expected increases in health care costs and other fringe benefits.

Other Expenditures

Assumption:

\$53.7 million

Rationale:

In total, this category of operating costs will increase 1.7% in 1998 which includes some inflationary increases, limited new programming, and trade-offs with existing programming. This estimate is also lower than the 1998 budgeted level projected in the 1997 operating budget.

Transfers

<i>Assumption:</i>	<i>Bond Retirement.....</i>	<i>\$8.7 million</i>
	<i>Capital Improvements.....</i>	<i>\$5.4 million</i>
	<i>Insurance Fund.....</i>	<i>\$1.1 million</i>

Rationale:

Figures shown for the bond retirement "set-aside" are simply debt service less the investment income earned in the Bond Retirement Fund. The interest and principal payments on outstanding bonds and notes are taken from debt amortization schedules. A debt issue is planned for the first quarter of 1998 in the amount of \$25 million.

The Contribution to Capital transfers cover local Asset Maintenance and Routine Capital purchases, as well as required local matches for grant-funded projects. At \$5.4 million, the capital transfers combined with the bond retirement transfer of \$8.7 million will equal 10.0% of sales taxes revenue which is required to meet board policy.

The transfer from the Insurance Fund to the General Fund is necessary to cover expenditures due to projected slowed revenue receipts. The \$1.1 million transfer represents a surplus above the \$10 million balance required to maintain the Insurance Fund.

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 25.0% ratio, with 30% being the long-term objective. The tax budget yields a 25.3% ratio which is slightly above the policy objective.

Operating Reserve: At 0.3, this budget does not meet the policy requirement of a one-month operating reserve (indicator=1.0).

Cost/Hour: This policy requires that growth in the cost per hour of service from year to year be kept at or below the rate of inflation. This budget assumes a 1.2% growth in the cost per hour, an amount well below the upper limit of the 1998 inflation rate, due both to inflationary cost increases and to wage and benefit cost increases.

Sales Tax Contribution to Capital: Policy requires that at least 10% of sales tax receipts be applied to capital programs. The 1998 direct contribution to capital funds is planned at \$5.4 million. In addition, \$8.7 million will be set aside for debt service. In total, this \$14.1 million represents an 10.0% contribution level.

BOND RETIREMENT FUND

The General Fund will be the sole source of all fund transfers necessary to make scheduled interest and principal payments on the \$73.6 million in debt which will remain outstanding at the end of 1997. The last series of existing long-term debt will expire in 2016. An additional \$25 million of debt will be issue in 1998. Interest earned in the Capital Improvement Fund on the investment of new bond proceeds will be transferred to the Bond Retirement Fund during 1998.

INSURANCE FUND

The Authority is self-insured in all areas except personal property and equipment. The Authority's financial policies require a minimum balance of \$10.0 million be available for this purpose, based on an actuarial analysis. Activity expected in 1998 includes investment income, at an average rate of about 6.0% and claims outlay estimated at \$600,000. Also, \$1.1 million is projected to be transferred to the General Fund. This will bring the balance in this fund to \$10.1 million by the end of 1998.

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 activity is investment income and benefit payments. Investment rates are estimated to run about 6.0% in 1998.

CAPITAL IMPROVEMENT FUNDS

Funds needed to meet the local share requirements of federal grants and those needed for locally-funded capital projects are provided through the retention of investment earnings and contributions from sales tax proceeds in addition to debt sales. The 1997 and 1998 RTA Capital Fund outlays are based on current and expected expenditure levels.

CAPITAL IMPROVEMENT FUNDS - Con't

The estimated 1997 grant-funded capital outlays are predicated on year-to-date outlays and obligations. The 1998 projection includes projects approved in the six-year Capital Improvements Plan. In 1997, projects under construction include track, bridge, and station rehabilitations.

LAW ENFORCEMENT FUND

In 1988, RTA became involved with the multi-jurisdictional Caribbean/Gang Task Force. RTA's involvement was prompted by the increased gang activity found in and around the rail system and the need to obtain intelligence in this area. In addition to the benefits of intelligence gathering and improved inter-department relations, RTA derives revenue from seized and confiscated moneys and/or properties of convicted drug dealers prosecuted by the Task Force. Revenue obtained through the Task Force can be expended for non-budgeted police items. The Authority uses these proceeds for unbudgeted capital items. Furthermore, certain guidelines have been instituted by the State Attorney General's Office for the reporting of and disbursement of funds. No expenditures are assumed in 1998 at this time.

General Fund Balance Analysis

	1995 Actual	1996 Actual	1997 Estimate	1998 Tax Budget
Beginning Balance	14,536,995	19,129,640	16,749,347	8,475,538
Revenue				
Passenger Fares	42,455,659	42,993,320	43,900,000	45,000,000
Advertising & Concessions	936,401	1,052,553	1,470,000	2,400,000
Sales & Use Tax	126,969,593	131,024,347	136,265,000	140,353,000
Federal Operating Assistance	7,954,319	4,167,000	4,167,000	4,167,000
State Operating Assistance	6,029,882	5,635,168	4,398,689	4,548,000
Ohio Elderly Fare Assistance	274,781	537,504	589,000	589,000
Investment Income	1,795,331	1,981,217	1,400,000	900,000
Other Revenue	989,433	1,262,743	1,400,000	1,400,000
Reimbursed Expenditures	1,234,906	4,698,822	3,500,000	3,500,000
Transfer From Insurance Fund	0	0	0	1,100,000
Worker's Compensation Deposit	2,400,000	0	0	0
Total Revenue	191,040,305	193,352,674	197,089,689	203,957,000
Total Resources	205,577,300	212,482,314	213,839,036	212,432,538
Operating Expenditures				
Personnel Services	124,625,768	131,016,576	135,752,213	139,667,257
Other Expenditures	44,024,548	48,041,391	52,814,912	53,712,766
Total Operating Expenditures	168,650,316	179,057,967	188,567,125	193,380,023
Transfers				
Bond Retirement Fund	5,297,344	7,778,599	8,267,564	8,694,782
Capital Improvement Funds	12,500,000	6,516,108	255,000	1,882,195
Total Transfers	17,797,344	14,294,707	8,522,564	10,576,977
Total Expenditures	186,447,660	193,352,674	197,089,689	203,957,000
Ending Balance	19,129,640	19,129,640	16,749,347	8,475,538
Capital Improvements Contribution	0	2,380,293	8,273,809	3,473,023
Available Ending Balance	19,129,640	16,749,347	8,475,538	5,002,515

1998 Tax Budget Financial Indicators

	1995 Actual	1996 Actual	1997 Estimate	1998 Tax Budget
Operating Ratio	27.1%	26.0%	25.1%	25.3%
Operating Reserve (Months)	1.4	1.1	0.5	0.3
Cost/Hour of Service	\$78.01	\$79.89	\$80.31	\$81.27
Growth per Year	2.5%	2.4%	0.5%	1.2%
Sales Tax Contribution to Capital	14.0%	12.7%	12.3%	10.0%

Definitions:

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

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

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

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

Notes:

* Total Operating Expenditures are net capital expenditures.

Bond Retirement Fund Balance Analysis

	1995 Actual	1996 Actual	1997 Estimate	1998 Tax Budget
Beginning Balance	419,000	1,127,835	645,113	690,250
Revenue				
Transfer from General Fund	5,297,344	7,778,600	8,993,074	8,694,782
Transfer from Local Match	281,186	360,758	100,000	750,000
Investment Income	146,784	308,177	240,000	205,000
Note Premium	4,521	0	0	0
Total Revenue	5,729,835	8,447,535	9,333,074	9,649,782
Total Resources	6,148,835	9,575,370	9,978,187	10,340,032
Expenditures				
Debt Service				
Principal	3,750,000	4,750,000	4,855,000	4,371,983
Interest	1,271,000	4,180,257	4,432,937	5,447,811
Total Expenditures	5,021,000	8,930,257	9,287,937	9,819,794
Ending Balance	1,127,835	645,113	690,250	520,238

Insurance Fund Balance Analysis

	1995 Actual	1996 Actual	1997 Estimate	1998 Tax Budget
Beginning Balance	10,412,376	10,718,061	11,328,779	11,195,779
Revenue				
Investment Income	554,044	653,903	646,000	570,000
Total Revenue	554,044	653,903	646,000	570,000
Total Resources	10,966,420	11,371,964	11,974,779	11,765,779
Expenditures				
Claims Outlay	248,359	43,185	779,000	600,000
Transfer to General Fund	0	0	0	1,100,000
Total Expenditures	248,359	43,185	779,000	1,700,000
Ending Balance	10,718,061	11,328,779	11,195,779	10,065,779

Supplemental Pension Fund Balance Analysis

	1995 Actual	1996 Actual	1997 Estimate	1998 Tax Budget
Beginning Balance	1,657,339	1,467,373	1,369,432	1,279,432
Revenue				
Investment Income	98,004	77,463	74,000	73,000
Total Revenue	98,004	77,463	74,000	73,000
Total Resources	1,755,343	1,544,836	1,443,432	1,352,432
Expenditures				
Benefit Payments	287,970	175,404	164,000	160,000
Total Expenditures	287,970	175,404	164,000	160,000
Ending Balance	1,467,373	1,369,432	1,279,432	1,192,432

Law Enforcement Fund Balance Analysis

	1995 Actual	1996 Actual	1997 Estimate	1998 Tax Budget
Beginning Balance	78,990	155,521	149,121	119,121
Revenue				
Law Enforcement Revenue	86,566	6,348	10,000	10,000
Investment Income	7,456	8,752	10,000	7,000
Total Revenue	94,022	15,100	20,000	17,000
Total Resources	173,012	170,621	169,121	136,121
Expenditures				
Capital	17,491	21,500	50,000	0
Total Expenditures	17,491	21,500	50,000	0
Ending Balance	155,521	149,121	119,121	136,121

RTA Capital Fund Balance Analysis

	1995 Actual	1996 Actual	1997 Estimate	1998 Tax Budget
Beginning Balance	6,129,906	10,097,607	12,725,966	3,017,755
Revenue				
Transfer from General Fund	12,500,000	8,896,400	7,803,299	5,355,218
Investment Income	529,462	716,988	529,490	280,000
Total Revenue	13,029,462	9,613,388	8,332,789	5,635,218
Total Resources	19,159,368	19,710,995	21,058,755	8,652,973
Expenditures				
Routine Capital	1,329,724	1,531,451	3,600,000	3,119,510
Asset Maintenance	1,232,037	3,453,578	3,404,000	4,080,490
Transfer to Local Match Fund	6,500,000	2,000,000	7,800,000	300,000
Reimbursement to FTA	0	0	0	0
Total Expenditures	9,061,761	6,985,029	14,804,000	7,500,000
Ending Balance	10,097,607	12,725,966	6,254,755	1,152,973
Year-End Encumbrances	0	0	-3,237,000	0
Available Ending Balance	10,097,607	12,725,966	3,017,755	1,152,973

Grant Funds Balance Analysis (Local Match and Grant Funds)

	1995 Actual	1996 Actual	1997 Estimate	1998 Tax Budget
Beginning Balance	1,222,261	9,683,415	14,810,915	229,635
Revenue				
Debt Proceeds	30,000,000	40,000,000	0	25,000,000
Transfer from RTA Capital Fund	6,500,000	2,000,000	7,800,000	300,000
Transfer from the General Fund	0	0	0	0
Investment Income	211,432	1,196,287	549,000	937,500
Federal Capital Grants	19,434,596	21,055,010	72,464,000	53,940,000
State Capital Grants	765,000	1,748,085	1,349,311	7,074,000
State Funds for Waterfront Line	18,327,000	1,250,191	1,329,409	0
Other	0	0	5,000,000	0
Total Revenue	75,238,028	67,249,573	88,491,720	87,251,500
Total Resources	76,460,289	76,932,988	103,302,635	87,481,135
Expenditures				
Capital Outlay	66,495,688	61,761,315	102,973,000	72,293,000
Transfer to Bond Retirement Fund	281,186	360,758	100,000	750,000
Total Expenditures	66,776,874	62,122,073	103,073,000	73,043,000
Ending Balance	9,683,415	14,810,915	229,635	14,438,135