

RESOLUTION NO. 2001 – 109

A RESOLUTION ADOPTING THE TAX BUDGET OF THE
GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY
FOR THE FISCAL YEAR BEGINNING JANUARY 1, 2002 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, 2002, 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 Deputy 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 13, 2001,

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

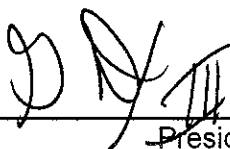
Section 1: That the budget of the Greater Cleveland Regional Transit Authority, for the fiscal year beginning January 1, 2002, heretofore prepared and submitted to this Board of Trustees, copies of which have been and are on file in the office of the Deputy General Manager – Finance and Administration 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, 2002.

Section 2: That the Deputy General Manager – Finance and Administration be 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 become effective immediately upon its adoption.

Attachments: 2002 Tax Budget Assumptions

Adopted: July 24, 2001



President

Attest: 

CEO, General Manager/Secretary-Treasurer

Greater Cleveland Regional Transit Authority
2002 TAX BUDGET ASSUMPTIONS

GENERAL FUND ASSUMPTIONS

Inflation

Assumption: **3.0-3.5%**

Rationale:

According to economic analyses including sources such as the Congressional Budget Office and the Department of Labor, inflation is averaging 3.4% where it is projected to remain during the second half of the year. For 2002, the projections are somewhat varied based on theories of how the economy will react to actions taken by the Federal Reserve Bank. Overall, most economists are placing 2002 inflation in the 3.0-3.5% range.

Interest Rates

Assumption: **4.05-4.55%**

Rationale:

At the end of June of 2001, the target rate for federal funds decreased to 3.75%, while the market yield on 2-year Treasury Notes decreased to 4.22%. Interest rates are expected to trend at a slightly lower level through the remainder of 2001 and increase slightly in 2002. During the first five months of 2001, the Authority earned an average yield of 5.37%. Average yields during the remainder of 2001 are expected to decrease slightly; however, somewhat higher yields are expected during 2002.

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 RTA Development funds have the shortest average maturity due to the need for these funds to meet current obligations

for the Authority's operating and capital needs. Therefore, the investments in these funds have the shortest maturities, and their earnings will be toward the lower end of the range.

Beginning Balance

The beginning balance for each of the five years shown is intended to represent unrestricted cash and investments.

Available Ending Balance

The 2002 available ending balance is projected to be \$5.0 million. Again, as in recent years, 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. Slower revenue performance relative to expenditure growth, particularly passenger fares and sales tax are primarily responsible for non compliance with this policy indicator.

REVENUES

Passenger Fares

Assumption: ***\$42.6 million***

Rationale:

Through June 2001, passenger fare revenue collections are below the same six month period in 2000 and more significantly, below budgeted levels. Thus, the 2001 estimate has been lowered from the original budgeted amount to reflect this decline while still anticipating slight growth during the remainder of the year.

The 2002 estimate assumes a 1.2% increase in revenue, resulting primarily from higher average fares, as ridership is projected to remain flat.

Advertising Revenue

Assumption:

\$2.0 million

Rationale:

A typical shared percent of the total projected advertising sales is the calculation used for this estimate. 2001 is the last year of the existing five-year contract and a new agreement is expected to be in place for 2002. A dispute regarding the available advertising space and subsequent action by the advertising agency to withhold payment to RTA has resulted in a revised revenue estimate for 2001 by close to \$800,000. This provides the basis for the 2002 projection as well. In addition, this revenue source includes several additional components including a Logo Shop, concession leases and vending sales.

Sales Tax

Assumption:

\$170.2 million

Rationale:

The weaker economy has resulted in less favorable receipts during the first half of 2001 as compared to recent years. Although the weaker receipts were projected and the first half of the year reflects collections close to their budgeted level, concern over the timing of an economic rebound results in a change to the estimate for the rest of the year. Thus, it has been adjusted .5% to reflect a 2.27% growth as compared to the 2.77% budgeted.

Modest economic recovery and its impact on consumer spending, however, is expected late in 2001 and during 2002, translating into a growth rate of approximately 3.5%. This small increase, although appearing enough to at least mitigate inflation, does not represent a growth rate sufficient to cover overall cost increases. It furthermore does not leave any room for system growth or expansion of services.

Federal Operating Assistance

Assumption: **\$0**

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 of \$3.4 million or 81% was experienced in 1998 with a complete elimination of Federal Operating Assistance in 1999. Therefore, no Federal Operating Assistance is expected in 2002. The loss of this one-time significant revenue source, continues to negatively impact the Authority's financial condition.

State Operating Assistance

Assumption:	Operating Assistance Elderly and Handicapped	\$ 0 \$583,000
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Rationale:

Funding levels for 2002 are expected to remain roughly the same as in 2001 for Elderly and Handicapped Assistance. State Operating Assistance, however, similar to 2001, is not expected, and instead will be given as a capital grant for inventory materials and supplies.

Access to Jobs

Assumption: **\$1.5 million**

Rationale:

The Access to Jobs program was assumed from Cuyahoga County in 1999. Expansion of the program has been seen in 2001 and the maintenance of this program will continue in 2002 to correspond with Welfare to Work initiatives. Most of the funding for this program in 2002 will be received in the form of grants from TANF, ODOT, and FTA, with relatively a small match required by RTA. Funding in the outyears, however, remains uncertain.

Investment Income

Assumption: **\$620,000**

Rationale:

An average balance of \$15.3 million in the General Fund should earn about 4.05% during 2002. For all funds, approximately \$2.5 million should be earned.

Other Revenue

Assumption: **\$1.1 million**

Rationale:

The 2002 Tax Budget assumes no unusual claims or receivables in the other revenue category and therefore mirrors the 2001 estimate. This revenue category normally consists of various claim reimbursements, rental income, salvage sales, and identification card proceeds.

Reimbursed Expenditures

Assumption: **\$17.8 million**

Rationale:

This category is composed of grant labor and materials reimbursements, capitalized operating assistance reimbursements, and diesel fuel tax refunds. In this latter category, RTA will recoup \$.21 per gallon from diesel fuel taxes, or \$1.1 million. The estimate also assumes no real changes in service miles or fuel consumption patterns beyond the impact of the service changes implemented in 2001. In addition, \$3.2 million is budgeted for reimbursements to the General Fund from the Capital Fund for labor related to capital projects, \$5.0 million for reimbursements for inventory materials and supplies and \$8.5 million for other capitalized operating expenditures.

EXPENDITURES

Personnel Services

Assumption: **\$168.4 million**

Rationale:

The 2002 estimate for salaries and fringe benefits is shown at a similar level to the projection in the 2001 operating budget for 2002. It has been adjusted, however, to reflect first quarter and subsequent projections for 2001 which includes the implementation of an Action Plan to reduce overall expenditures. The basis for the 2002 assumption is the continuation of existing service levels and equates to a 6.0% increase over 2001 estimated expenditures.

It accounts for all negotiated bargaining unit wage increases as well as a non-bargaining wage adjustment. The estimate also reflects expected increases in health care costs and changes in other fringe benefits. This includes a significant increase in PERS costs as a result of the restoration of rates after a rollback enjoyed in 2000 and 2001. The estimate does not include a selective hiring freeze which has been an active part of the last few budgets.

Other Expenditures

Assumption: **\$55.3 million**

Rationale:

In total, this category of operating costs will increase 2.2% in 2002 which includes some inflationary increases, but no new programming. This estimate is close to the 2002 budgeted level projected in the 2001 operating budget. It basically represents the continuation of existing service levels with some reductions in expenditures.

Transfers

Assumption: **Bond Retirement.....\$11.0 million**
Capital Improvements.....\$6.0 million

Rationale:

Figures shown for the bond retirement "set-aside" are simply debt service less both the investment income earned in the Bond

Retirement Fund and the transfer from the Capital Fund. The interest and principal payments on outstanding bonds are taken from debt amortization schedules. No debt issue is planned for 2002 as \$40 million will be issued in late 2001. This will result in higher debt service payments in 2002 and beyond.

The Contribution to Capital transfers cover local Asset Maintenance and Routine Capital purchases, as well as required local matches for some grant-funded projects. At \$6.0 million, the capital transfers combined with the bond retirement transfer of \$11.0 million will equal 10.0% of sales taxes revenue which is the level required to meet board policy.

FINANCIAL INDICATORS

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

REVENUES

Operating Ratio: The policy requires a 25.0% ratio. The tax budget yields a 20.4% ratio which is below the policy objective. This indicator continues to be a warning that self-generated revenues are growing at a significantly slower rate than expenditures.

Fare Subsidy (Net Cost) Per Passenger: This indicator, at \$3.03 will not meet the policy ceiling of three times the average fare (\$0.72), again an indication that self-generated revenues are not growing at the same rate as expenditures.

EXPENDITURES

Operating Reserve: At \$5.0 million or 0.3 month, this budget does not meet the policy requirement of a one-month operating reserve (indicator=1.0) which is an indication that overall revenues are not sufficient to cover expenditure growth.

Overhead Cost vs. Total Cost: This indicator, at 12.1%, is well below the policy maximum of 15%, indicating that overhead costs are being kept low.

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 5.0% growth in the cost per hour which is higher than the upper limit of the 2002 inflation rate, thus demonstrating cause for concern related to the cost of service delivery.

DEBT STRUCTURES

Debt Service Coverage: At 1.33, this indicator misses the policy minimum of 1.50. This is a result of the increase in debt service requirement stemming from higher debt levels relative to the decrease in the ending balance.

CAPITAL OUTLAY

Sales Tax Contribution to Capital: Policy requires that at least 10% of sales tax receipts be applied to capital programs. The 2002 direct contribution to capital funds is planned at \$6.0 million. In addition, \$11.0 million will be set aside for debt service. In total, this \$17.0 million represents a 10.0% contribution level.

Capital Maintenance to Expansion: At 61.3%, this ratio is projected to be within policy guidelines of 33% to 67%, indicating a sufficient balance between the two capital expenditure types.

BOND RETIREMENT FUND

The General and Capital Funds will be the sources of fund transfers necessary to make scheduled interest and principal payments on the \$105 million in current debt which will remain outstanding at the end of 2001. The last series of existing long-term debt will expire in 2018. An additional \$40 million of debt is planned to be issued in the last quarter of 2001 which will require nearly \$2.7 million of increased debt service payments in 2002.

INSURANCE FUND

The Insurance Fund was restructured in 1999 to reflect a combination of self and purchased insurance coverage. Activity expected in 2002 includes investment income of \$220,000, claims outlay estimated at \$300,000 and premium payments of \$359,000. A transfer from the General Fund of \$430,000 is necessary to maintain an appropriate ending balance. This is in addition to a transfer of \$3.4 million to be made in 2001. This will leave the balance in this fund at \$5.0 million by the end of 2001 and 2002 which is exactly the current required level.

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 at \$41,000 in 2002 with benefit payments at \$132,000.

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 2002 at this time. The only activity expected in this fund is investment earnings of \$3,000 and Law Enforcement revenue of \$10,000.

CAPITAL IMPROVEMENT FUNDS

The majority of Capital Improvement projects are funded through grants. Funds needed to meet the local share requirements of federal and other grants as well as funds 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 2001 and 2002 RTA Capital Fund outlays are based on current and expected expenditure levels.

The estimated capital outlays are predicated on year-to-date outlays, obligations and projected commitments as well as the approved five-year Capital Improvement Plan. Grant revenue projected includes current as well as expected grant awards. In 2002, maintenance projects include track, bridge, and station rehabilitations, major equipment expenditures include the purchase of buses and the overhaul of the Light Rail vehicles, and the expansion projects include continued progress on the Euclid Corridor Transportation Project.

2002 Tax Budget General Fund Balance Analysis

	1998 Actual	1999 Actual	2000 Actual	2001 Estimate	2002 Tax Budget
Beginning Balance	12,183,385	11,753,987	11,051,834	11,294,115	9,773,017
Revenue					
Passenger Fares	43,227,213	41,790,115	41,588,902	42,100,000	42,600,000
Advertising & Concessions	1,709,744	1,855,374	2,466,421	2,000,000	2,040,000
Sales & Use Tax	144,399,201	151,265,961	160,748,146	164,397,000	170,150,000
Federal Operating Assistance	773,143	0	0	0	0
State Operating Assistance	4,829,592	0	0	0	0
Ohio Elderly Fare Assistance	828,832	567,579	291,303	831,697	583,000
Access to Jobs Grants	0	91,508	529,593	1,731,591	1,500,000
Investment Income	1,255,358	905,016	1,063,120	815,000	620,000
Other Revenue	977,805	838,316	834,720	1,100,000	1,100,000
Reimbursed Expenditures	3,521,411	12,231,597	15,931,228	18,300,000	17,800,000
Transfer From Insurance Fund	1,850,000	4,250,000	0	0	0
Total Revenue	203,372,299	213,795,466	223,453,433	231,275,288	236,393,000
Total Resources	215,555,684	225,549,453	234,505,267	242,569,403	246,166,017
Operating Expenditures					
Personnel Services	142,889,592	150,565,118	156,422,620	158,907,849	168,440,000
Other Expenditures	46,472,184	48,797,501	50,313,717	54,098,837	55,274,000
Total Operating Expenditures	189,361,776	199,362,619	206,736,337	213,006,686	223,714,000
Transfer to the Insurance Fund		0	400,000	3,350,000	430,000
Transfers to Capital					
Bond Retirement Fund	8,496,339	8,756,263	7,950,000	9,300,000	11,000,000
Capital Improvement Funds	5,514,184	5,676,584	8,124,815	5,618,602	1,249,000
Total Transfers to Capital	14,010,523	14,432,847	16,074,815	14,918,602	12,249,000
Total Expenditures	203,372,299	213,795,466	223,211,152	231,275,288	236,393,000
Ending Balance	12,183,385	11,753,987	11,294,115	11,294,115	9,773,017
Capital Improvements Contribution	429,398	702,153	0	1,521,098	4,766,000
Available Ending Balance	11,753,987	11,051,834	11,294,115	9,773,017	5,007,017

2002 Tax Budget Financial Indicators

	1998 Actual	1999 Actual	2000 Actual	2001 Estimate	2002 Tax Budget
REVENUES					
Operating Ratio	24.2%	22.5%	22.0%	21.3%	20.4%
Fare Subsidy (Net Cost) Per Passenger	\$2.44	\$2.63	\$2.77	\$2.85	\$3.02
Average Fare	\$0.71	\$0.70	\$0.70	\$0.71	\$0.72
EXPENDITURES					
Operating Reserve (Months)	0.7	0.7	0.7	0.6	0.3
Overhead Cost vs. Total Cost	12.1%	11.9%	12.4%	12.0%	12.1%
Cost/Hour of Service	\$75.67	\$77.85	\$78.10	\$81.35	\$85.41
Growth per Year	-2.6%	2.9%	0.3%	4.2%	5.0%
DEBT STRUCTURES					
Debt Service Coverage	2.27	2.21	2.19	2.41	1.33
CAPITAL OUTLAY					
Sales Tax Contribution to Capital	10.0%	10.0%	10.0%	10.0%	10.0%
Capital Maintenance to Expansion	56.1%	86.3%	79.2%	80.9%	61.3%

Definitions:

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

Fare Subsidy (Net Cost) Per Passenger = (Total Operating Expenditures/Ridership) - (Fares/Ridership)

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

Overhead Cost vs. Total Cost = Operating Overhead Cost / Total Operating Cost

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

Debt Service Coverage = (Total Operating Revenues - Total Operating Expenditures) / Debt Service

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

Capital Maintenance to Expansion = Capital Maintenance Outlay / Total Capital Outlay

Bond Retirement Fund Balance Analysis

	1998 Actual	1999 Actual	2000 Actual	2001 Estimate	2002 Tax Budget
Beginning Balance	817,725	779,459	758,930	115,451	1,029,017
Revenue					
Transfer from General Fund	8,496,339	8,756,263	7,950,000	9,300,000	11,000,000
Transfer from RTA Development Fund	0	0	79,494	790,000	1,200,000
Investment Income	185,924	179,447	280,791	121,000	170,000
Total Revenue	8,682,263	8,935,710	8,310,285	10,211,000	12,370,000
Total Resources	9,499,988	9,715,169	9,069,215	10,326,451	13,399,017
Expenditures					
Debt Service					
Principal	3,655,000	3,620,000	3,835,000	4,198,101	5,778,301
Interest	5,065,529	5,336,239	5,118,764	5,099,333	6,592,344
Total Expenditures	8,720,529	8,956,239	8,953,764	9,297,434	12,370,645
Ending Balance	779,459	758,930	115,451	1,029,017	1,028,372

Insurance Fund Balance Analysis

	1998 Actual	1999 Actual	2000 Actual	2001 Estimate	2002 Tax Budget
Beginning Balance	11,403,378	10,228,659	5,471,928	5,080,421	5,009,421
Revenue					
Investment Income	675,281	464,303	315,825	218,000	220,000
Transfer from General Fund	0	0	400,000	3,350,000	430,000
Other Income	0	0	1,418	0	0
Total Revenue	675,281	464,303	717,243	3,568,000	650,000
Total Resources	12,078,659	10,692,962	6,189,171	8,648,421	5,659,421
Expenditures					
Claims and Premium Outlay	0	971,034	1,108,750	3,639,000	659,000
Transfer to General Fund	1,850,000	4,250,000	0	0	0
Total Expenditures	1,850,000	5,221,034	1,108,750	3,639,000	659,000
Ending Balance	10,228,659	5,471,928	5,080,421	5,009,421	5,000,421

Supplemental Pension Fund Balance Analysis

	1998 Actual	1999 Actual	2000 Actual	2001 Estimate	2002 Tax Budget
Beginning Balance	1,278,162	1,187,483	1,107,662	1,040,217	965,217
Revenue					
Investment Income	64,499	65,528	70,058	60,000	41,000
Total Revenue	64,499	65,528	70,058	60,000	41,000
Total Resources	1,342,661	1,253,011	1,177,720	1,100,217	1,006,217
Expenditures					
Benefit Payments	155,178	145,349	137,503	135,000	132,000
Total Expenditures	155,178	145,349	137,503	135,000	132,000
Ending Balance	1,187,483	1,107,662	1,040,217	965,217	874,217

Law Enforcement Fund Balance Analysis

	1998 Actual	1999 Actual	2000 Actual	2001 Estimate	2002 Tax Budget
Beginning Balance	154,931	177,504	116,332	140,376	63,376
Revenue					
Law Enforcement Revenue	55,812	6,931	17,078	5,000	10,000
Investment Income	6,811	8,073	6,966	8,000	3,000
Total Revenue	62,623	15,004	24,044	13,000	13,000
Total Resources	217,554	192,508	140,376	153,376	76,376
Expenditures					
Capital	40,050	76,176	0	90,000	0
Total Expenditures	40,050	76,176	0	90,000	0
Ending Balance	177,504	116,332	140,376	63,376	76,376

RTA Capital Fund Balance Analysis

	1998 Actual	1999 Actual	2000 Actual	2001 Estimate	2002 Tax Budget
Beginning Balance	8,522,859	6,809,597	7,394,526	8,123,797	7,136,497
Revenue					
Transfer from General Fund	5,943,582	6,378,737	8,124,815	7,139,700	6,015,000
Investment Income	439,922	233,018	178,856	373,000	270,000
Total Revenue	6,383,504	6,611,755	8,303,671	7,512,700	6,285,000
Total Resources	14,906,363	13,421,352	15,698,197	15,636,497	13,421,497
Expenditures					
Routine Capital	2,521,611	2,468,550	3,299,985	4,000,000	3,500,000
Asset Maintenance	1,945,452	1,258,276	1,274,415	2,500,000	3,000,000
Transfer to RTA Development Fund	3,629,703	2,300,000	3,000,000	2,000,000	4,000,000
Total Expenditures	8,096,766	6,026,826	7,574,400	8,500,000	10,500,000
Ending Balance	6,809,597	7,394,526	8,123,797	7,136,497	2,921,497

RTA Development Fund Balance Analysis

	1998 Actual	1999 Actual	2000 Actual	2001 Estimate	2002 Tax Budget
Beginning Balance	2,208,541	23,190,813	13,958,867	10,112,468	37,957,061
Revenue					
General Obligation Debt Proceeds	33,000,000	0	0	40,000,000	0
State Infrastructure Bank Loan	0	0	4,439,709	2,156,116	0
Transfer from RTA Capital Fund	3,629,703	2,300,000	3,000,000	2,000,000	4,000,000
Investment Income	1,114,250	1,076,664	979,336	790,000	1,200,000
Federal Capital Grants	34,257,862	27,196,159	31,256,602	49,502,526	71,300,622
State Capital Grants	1,500,727	10,300,506	8,944,439	14,166,921	10,211,775
Other	93,181	44,843	3,844,031	3,200,000	7,200,000
Total Revenue	73,595,723	40,918,172	52,464,117	111,815,563	93,912,397
Total Resources	75,804,264	64,108,985	66,422,984	121,928,031	131,869,458
Expenditures					
Capital Outlay	52,613,451	50,150,118	56,226,738	83,180,970	111,656,153
Other	0	0	4,284	0	0
Transfer to Bond Retirement Fund	0	0	79,494	790,000	1,200,000
Total Expenditures	52,613,451	50,150,118	56,310,516	83,970,970	112,856,153
Ending Balance	23,190,813	13,958,867	10,112,468	37,957,061	19,013,305