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GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

TAX BUDGET

July 1, 2014

Greater
Cleveland
Regional
Transit
Authority

Greater Cleveland Regional Transit Authority

2015 TAX BUDGET

Executive Summary

The Great Recession of 2008-2009 had a tremendous impact on the Greater Cleveland Regional Transit Authority (GCRTA). GCRTA has recovered and has built a strong financial position. Operating Expenses for 2010 were lowered by $30 million to $208 million, the lowest level since 2004. Those expenses have continued to be controlled and that six year roll back has been maintained for four years. Sales & Use Tax rebounded better than anticipated. By the end of 2011, Sales Tax collections were $173.2 million, back to the level collected in 2008. Fare revenue began to recover in the spring of 2011 as unemployment levels began to fall and fuel prices rose sharply. For 2011 through 2013, fund balances have been greater than $30 million, which has helped RTA to obtain an AAA credit rating. Reimbursed expenditures have been lowered and an additional $60 million has been shifted to capital infrastructure projects over the last three years. Thus the Airport Tunnel and S-Curve projects, Wheel Lathe, Kinsman Track project, West Shore Express project and the purchase of 23 articulated busses and 60 CNG busses have been executed. RTA has done well, but a new financial challenge is upon us. Two grants, totaling $5 million, ended in 2014. This cuts $15 million in revenue over the next three years. NOACA identified an alternate funding source for one of the grants, totaling $3.1 million, for 2015 but this funding has not been identified for 2016 or 2017. We have done well, but there is work to do to cover this new gap.

The Sales & Use Tax provides over 70% of the revenue for the Authority. The level of those collections is the key to establishing the operating levels GCRTA can afford to fund and key to the Tax Budget. Collections from the Sales & Use Tax dropped due to the Great Recession at the start of 2009. Unemployment rose, nearing 11%, and Sales & Use Tax revenue dropped to $154.6 million, a decline of nearly 11% and almost $19 million. Sales & Use Tax receipts jumped to $163.2 million in 2010. Unemployment dropped in 2011, the economy improved and Sales & Use Tax collections were up by 6% throughout 2011 ending at $173.2 million. For 2012, collections were up by 4.6% ending at $181.2 million. The pace of growth remained steady in 2013 and ended at $189.6 million. The projection for 2014 is on budget at 2.4% and $194.2 million. Growth for 2015 is again projected to be slow at 2.2%, or $198.5 million. With a 4.5% increase annually, RTA was able to recover and sustain operations and capital. A 2.2% increase begins to stress the budget.

Fare Revenue has also improved. Fare revenue for 2010 dropped by $2.6 million to $47.2 million because of the recession and its impacts, which resulted in a 12% reduction in service and lower fuel prices. Those revenues increased to $48.7 million in 2013 and are on budget for $49.3 million in 2014. Fares have not increased since 2009. These new developments mean that fares must be analyzed and an increase may have to be considered.

Personnel costs account for about 72% of RTA's operating expenses. The previous labor agreements with the RTA's two labor unions expired in August 2009 and March 2010. Negotiations went on for nearly three years. Thus, both unions were paid at 2009 levels in 2010 and for the first half of 2011. Agreement was reached with a very innovative contract that tied wage increases to sales tax and fare revenue increases. Both unions have received the maximum 3% wage increase attainable over the term of those contracts because of Sales Tax performance since 2011. The FOP contract ended in March 2014 and voting is being conducted on a tentative agreement. The ATU contract expires in July and negotiations are underway.

Fuels & Utilities are the second largest expenses for the Authority. Diesel fuel was the most volatile expense in this category. From 2004 to 2008 GCRTA fuel costs skyrocketed from $4 million to nearly $20 million as the cost of oil jumped from $40 per barrel to $140 per barrel. The Energy Price Risk Management Program was authorized in 2009 and contracts were purchased. Diesel fuel costs dropped from $17.4 million in 2009 to $7.9 million in 2010. Costs were at or under budget since then. The decision to hedge fuel has thus far been a good one and has stabilized one of GCRTA's most volatile expenses. The cost of diesel fuel for 2013 was $14.0 million. The futures contracts RTA now owns are not as favorable as those purchased in 2009 and early 2010. Thus, fuel costs will continue to increase but they remain stabilized and controlled. The U.S. has increased production of crude oil markedly in the last few years and is now less dependent on foreign sources. Prices for 2015 will be in the range of 2013 and 2014. In 2015 RTA will put 60 new CNG busses into operation and another 95 will be purchased in the years after that. Over the next three years, as the new fleets come on line, the need for diesel fuel will be reduced from 4.6 million gallons per year to 3 million gallons per year in 2017. Cheaper natural gas will take its place and the fuel costs for RTA will be lowered.

Electricity and natural gas are also closely managed now. RTA has reduced electricity costs by nearly $11 million over recent years. In June of 2011, a new contract for electricity was awarded, which fixed costs for the next three years at a very favorable price for the Authority. In the fall of 2013, the process began to bid the next contract. The shutdown of coal powered electricity plants was expected to increase costs significantly over the next three years. A new contract was awarded to a new supplier this spring at favorable rates with only a slight increase in price per kWh.

TransitStat was implemented in 2008. It is a data driven performance management initiative designed to improve processes, enhance operational capabilities, and reduce costs. Over the past six years, the program has been extremely successful and cost reductions are estimated at over $55 million, as well as increased efficiencies not quantifiable. These enhancements will continue to be monitored while pushing forward into new areas where improvement can be achieved. In a continuing drive to excellence, GCRTA made its first submission under The Partnership for Excellence and the Baldridge Criteria. The Authority intends to continue process improvement and to be the first transit authority to win the Baldrige Award. A full application will be submitted in December 2014 and review by the Partnership for Excellence will ensue.

From 2001 to 2009, GCRTA had to reduce public transportation service levels by 23%. Service reductions were made in 2008, 2009, and 2010. Fares were raised in 2006, 2008, and 2009. For 2011 no service was cut and no fares were increased. The 2012 Budget was established with a 4.3% service increase and 2013 followed with a 5.3% service increase. Service was increased again slightly in 2014. This level of service is on par with the per capita rate that existed in 2008. Service will likely not be expanded and reductions may have to be considered.

The Tax Budget for 2009 and 2010 projected $16-$20 million deficits. Those problems were addressed by service reductions, fare increases, and the implementation of the Energy Price Risk Management program. Some temporary funding was obtained in 2009, 2010, and 2011 that allowed the time needed to downsize service to operate within a reduced revenue base. The hard decisions that had to be made were implemented. TransitStat helped improve processes and operations. Costs were reduced in 2010 and controlled at lower levels since then. Those actions, and better than anticipated Sales & Use Tax collections, put the Authority in a much-improved financial position from 2010 through 2014. Adjustments were able to be made to add back service in order to reduce overcrowding.

The improved finances also allowed GCRTA to reduce use of grant funds to reimburse preventive maintenance activities within the Operating Budget. This in turn made additional funding available for capital improvement projects. Unfunded but badly needed projects were pushed forward and scheduled for execution in 2012, 2013, and 2014, but there are still capital challenges to consider. Two CNG fueling stations must be constructed for the new busses in the next three years, about 95 busses must be replaced over the next three years, and then another 105 must be purchased between 2020 and 2022. Work on ADA rail key stations must be concluded as plans to accomplish these tasks have been made. There is a constant need for funds to maintain our track and rail system. The Tax Budget shows a loss in year-end balances in 2014 and 2015. Much has been accomplished but now new challenges will make it very difficult to continue as we have for the last four years.

General Fund Assumptions

Inflation

Assumption: ***2.0% - 2.3%***

Rationale:

The Federal Reserve recently released their projections for the remainder of 2014 through the next decade. The economy is expected to expand between 2.9% and 3.7% in 2015 and to grow slightly above that in 2016. The Federal Reserve Bank Cleveland projects the core inflation rate (excluding food and energy) to remain between 2.0% and 2.3% through 2015.

Interest Rates

Assumption: ***2.9% to 3.7%***

Rationale:

The Federal Reserve Bank's June 2014 report on the current economic conditions of the U.S. economy continues to project a moderate growth rate for the U.S. economy throughout the remainder of 2014 and the 2015 fiscal year.

The economic activity in the U.S. continues to grow. The Cleveland Fed projects the GDP growth rate for 2014 at 2.9% to 3.4% and in 2015 between 2.9% and 3.7%. This projection reflects a recovery from the great recession of 2007 – 2009. The GDP growth rate for this period is at or above the long-term GDP growth rate (between 2.3% to 2.5%).

Beginning and Available Ending Balance

The 2010 ending balance was $19.8 million, and for the first time since 1996, the financial goal of 30 days operating funds was met. The 2011 available ending balance was $36.4 million and the 2012 ending balance was $38.2 million. These balances were equal to 60 days operating funds. This put RTA in a very strong position to begin 2013. Revenues for the 2013 Budget were $264.1 million and the ending balance was $34.2 million. The current estimate for revenues in 2014 is $271.5 million, slightly above budget. That figure added to the beginning balance equals total resources of $305.7 million. Operating expenses are estimated to be about $242.6 million, $5.2 million under budget, and fund transfers of $38.5 million will bring total expenditures to $281.1 million. The ending balance for 2014 is estimated at $24.6 million. That is still a strong start position for FY2015 but it is $10 million less than 2013. The challenge for 2015 is identifying additional long-term sources of revenue to cover two grants that reimburse the Operating Budget for the cost of providing ADA and Work Access services and controlling the rapidly escalating operating costs, equaling an $11.0 million increase from the 2014 budget. Although NOACA identified alternative funding for Paratransit Operations in 2015, long-term funding for ADA has not been identified. These two factors will decidedly reduce the 2015 ending balance, which will in turn impact 2016 and 2017 budgets. Budget formulation and then execution for 2015 must lessen this impact. RTA must continue to control costs and impact current budget numbers by $10 - $12 million in order to succeed. This would at least leave an $18 million balance to move forward into 2016. Ending with a $7.6 million balance would require extreme measures for 2016 and 2017.

REVENUES

Passenger Fares

Assumption: ***$49.9M***

Rationale:

Actual Passenger Fare revenue received through May of 2014 was $18.4 million. This amount is slightly less than the amount received for the same period in 2013 and about $1.0 million less than budget. A 2013 payment of $1.2 million was received in January from the Cleveland Schools. The projection for 2015 is $49.9 million, which includes an increase in the Cleveland State U-Pass fee. The 2015 Tax Budget assumes a modest 1.2% increase from the 2014 estimate.

Advertising Revenue **Assumptions**

Advertising Contract	***$1.1M***
HealthLine (net)	***$100K***
Total	***$1.2 M***

Rationale:

Advertising revenue is composed of two subcategories. The first subcategory is the current advertising contract. Late 2011, a new advertising contract was executed. Advertising revenue has improved under the new contract. The second subcategory is the HealthLine naming rights contract that will net the Authority $100,000 in 2012 and 2013. This category totaled $1,375,671 in 2012 and $1,400,191 in 2013 and estimate $1,300,000 for 2014. The 2015 estimate remains conservative at $1.2 million.

Sales & Use Tax Revenue

Assumption: ***$198.5M***

Rationale:

The Authority received $95.4 million in Sales & Use Tax revenue through the first six months of 2014. This amount is $2.4 million, or 2.5%, more than the same period in 2013. In 2009 the State added managed health care as a sales tax item. This added nearly $6 million to the Sales & Use Tax in 2010 and collections in total increased by $8.6 million from $154.6 million in 2009 to $163.2 million in 2010. As the economy rebounded in 2011, collections increased by nearly $10 million to $173.2 million. For 2012 collections were $181.2 million and in 2013 receipts equaled $189.6 million showing additional growth in the economic conditions. For 2014, receipts are projected to be slightly above budget at $194.2 million, as the economy has shown slower growth. Each of the categories within Sales & Use Tax has fluctuated greatly during the first six months of 2014 and it is difficult to project how this revenue source will end the year. The estimate for the 2015 Tax Budget is projected at $198.5 million, a 2.2% increase. This slower growth will begin to have the same impact 1% increases had from 2001 to 2008.

State Operating Assistance

Assumption: ***Elderly and Disabled*** ***$0***

Rationale:

The single source of revenue in this category was Ohio Elderly Fare Assistance. The disbursement of these funds used to occur in December of each year. The last disbursement RTA received was for a partial year in August 2010. In 2010, the State declared that these funds would no longer be sent to the eight largest transit agencies in the State but would allocate these funds to the small rural authorities.

Access to Jobs Revenue

Assumption: ***Federal Funds*** ***$1.1M***

Rationale:

The Access to Jobs revenue helps the GCRTA provide vanpool and reverse commute services consistent with Welfare to Work initiatives. The funds from this source have been uneven over the past few years. Grant funds received in support of the Access to Jobs program for 2012 equaled $1.7 million and in 2013 totaled $2.9 million. The projection for 2014 is $2.3 million. Grant funds set aside for this program end in 2014. Federal funding for the JARC/Access to Jobs program was eliminated in the new Transportation Bill, MAP-21, and no alternate funding was created for this program. As such, $1.1 million is budgeted for

2015, which will draw down all remaining funding from the existing grant. The Authority is currently reviewing whether it will continue this program and how it will be funded if it continues.

Investment Income

Assumption: ***$225K***

Rationale:

As a result of the modest recovery and Fed policy in 2011 through 2013, revenue from this source has been around $200,000 each year. For 2014 GCRTA is expecting to receive receipts totaling $225,000. Until the Fed changes its policy of quantitative easing, interest revenue will continue to be low. Indications are that policy may begin to change in 6-9 months. The 2015 Tax Budget estimates receipts to equal $225,000.

Other Revenue

Assumption: ***$1.0M***

Rationale:

This revenue category is difficult to project as it consists of various claim reimbursements, rental income, salvage sales, and identification card proceeds. In 2012 receipts totaled $971,146 and in 2013 $1.1 million. Through May 2014, GCRTA has received $919,327, $563,517 above budget and is estimated at ending the year at $1.3 million. The 2015 Tax Budget remains conservative and assumes this revenue source will total $1.0 million.

Reimbursed Expenditures

Assumptions:

Preventive Maintenance Activities	***$17.5M***
Force Account Labor & Material	***$1.7M***
Fuel Tax Reimbursement	***$1.3M***
CMAQ Reimbursement – Trolley Operations	***$0.9M***
Paratransit Operating Assistance	***$3.1M***
Total	***$24.5M***

Rationale:

This category is composed of the reimbursement of labor costs for capital projects, preventive maintenance activities within the Operating Budget, and fuel tax refunds from the State. In recent years Paratransit Operating Assistance and CMAQ Trolley Reimbursement have been added. The funding for Paratransit Operating Assistance ended in 2014 and the Trolley Reimbursement will end in 2016. NOACA has identified $3.1 million of alternate funding for ADA but it is with slim hope that NOACA and the State of Ohio will locate alternate funding for use in 2016 and 2017 to cover the loss of revenue. In 2010, the total for Preventive Maintenance Activity, Fuel Tax Reimbursement and Force Account was $39.2 million. As a result of decreases in the use of grant funds for preventive maintenance activities in the Operating Budget, GCRTA reduced these reimbursements in 2011 to $25.6 million and again to $16.9 million in 2012. This included $12.9 million for preventive maintenance activities, nearly $1.3 million from fuel tax reimbursements, and $2.7 million of reimbursements for labor costs associated with capital projects. For 2013, it was $15.2 million and in 2014 is projected at $17.8 million. This category has been less than $20 million for the last three years.

The reduction in grant-funded preventive maintenance reimbursements provided more funds for capital projects in 2012 and allowed the Airport Tunnel and S-Curve Rehabilitations to take place. For 2013 and 2014, these reimbursements were again held at reduced levels allowing additional funds to again be available for capital projects. The reduction of grant-funded reimbursements to the General Fund has been a long-term goal that is now being realized. This level cannot be sustained in 2015, 2016, and 2017. RTA will try to hold it to less than $25 million.

EXPENDITURES

Personnel Services

Assumption: ***$183.7M***

Rationale:

Service was increased in 2012 and 2013 to alleviate overcrowding on some routes and add service in other areas. Service is budgeted to increase by 3.4% in 2014 with the inclusion of the West Shoreway Line, along Clifton Blvd., scheduled to be in service by the fall. Consequently, the number of personnel needed for service has also expanded in the last two years.

An innovative contract settlement was reached with ATU and FOP that tied wage increases to revenue increases. For 2013, a 3% wage increase for the ATU, FOP, and Non-Bargaining employees was executed in the first quarter. Sales Tax and Fare Revenue for 2013 ended with a 3.4% increase. By contract, ATU personnel received a 3% increase in February for 2014. Non-bargaining personnel received a 3% merit based increase in March. The FOP contract expired in March and these union employees have not received a pay raise for 2014. Negotiations were concluded and a vote on a tentative agreement is scheduled. The wage increase for 2015 is currently estimated at 2.4% due to the slower growth in the Sales & Use Tax and Passenger Fare revenue for 2014. With the annualization of the 2014 increases and the increase for 2015, this adds nearly $9.1 million to the total, which includes an additional $3.5 million in fringe benefits. This is currently an estimate because new contracts are not in place.

A new ITS (Intelligent Transportation Systems) Department was created in the 2014 budget, based upon an assessment from TranSystems, providing recommendations for improvement and optimization of technology systems. This plan eliminated the IT (Information Technology) Department and created six new positions, including an ITS CIO/Executive Director position and the elimination of the IT Director position, and moving four positions from other departments into ITS. It was decided in January 2014 to hold off on the implementation of the ITS Department until the CIO/Executive Director was hired. In mid-2014, the CIO/Executive Director started the implementation process for the new department.

Diesel Fuel

Assumptions: ***$13.4M***

Rationale:

In late 2008, GCRTA locked in 2009 fuel prices at $3.17 per gallon. Costs for 2009 were known at that point and ended the year at $17.4 million. Lehman Brothers collapsed, the financial markets were in disarray, and commodities prices dropped. On January 13, 2009, the Board approved a resolution to authorize the implementation of the Energy Price Risk Management Program, in simpler terms, fuel hedging. GCRTA hedged 90% of the 2010 fuel requirement at the lowest fuel prices in a five-year span and realized a considerable savings. Costs for 2010 dropped to less than $8.0 million. This was $9.4 million less than the previous year and $1.39 million less than the budget of $9.39 million.

In spite of the run up in diesel fuel costs from $2.30/gallon in August 2010 to $3.39/gallon in April 2011, the Authority finished the 2011 budget year with fuel expenditures of $9.9 million. Costs were $1.0 million under budget. The Energy Price Risk Management Program worked exactly as it was supposed to and GCRTA was protected from the increased costs this price escalation could have caused. Fuel expense for 2012 was $12.6 million in spite of fuel prices spiking to $3.54/gallon in March. When prices dropped in May and June, GCRTA bought 3.6 million gallons of 2013 and 2014 fuel futures contracts. Prices dipped again in March 2013. This allowed the purchase of 2.1 million gallons of fuel for 2013, 2014 and 2015. For 2013, fuel costs were slightly over budget. Costs for 2014 should be about $14.2 million. GCRTA is completely hedged through Q3 of 2014 and 30% hedged for 2015. RTA will add future contracts for Q4 2014 and 2015 and 2016 as soon as an opportunity presents itself. Diesel fuel for 2015 will drop by 375,000 gallons as CNG busses start operation July 1, 2014. Natural Gas purchases will increase and the cost of Diesel fuel will drop to $13.4 million. Diesel will drop by 1,362,000 gallons in 2016 and 1,500,000 gallons in 2017. Natural gas purchases will increase and the overall cost of fuel will decline by $600,000 in 2015, $2 million in 2016, and $3 million in 2017.

Other Expenditures

Assumption: ***$56.6M***

Rationale:

This category of operating costs is expected to increase by $2.7 million in 2015 over 2014 projections. The major drivers for this increase are services and maintenance contracts, electricity, damage claims, and ADA purchased transportation. This does not include transfers to other funds, which are shown below.

Transfers

Assumption:	***Bond Retirement***	***$22.9M***
	Capital Improvements	***$14.8M***
	Insurance Fund	***$2.1M***
	Pension Fund	***$100K***
	Total	***$39.9M***

Rationale:

Transfers shown for the bond retirement "set-aside" is simply debt service less the investment income earned in the Bond Retirement Fund. The interest and principal payments on outstanding debt are taken from debt amortization schedules.

The transfer to the Capital Improvement Fund covers 100% locally funded Asset Maintenance and Routine Capital projects in the RTA Capital Fund, as well as required local matches for most grant-funded projects in the RTA Development Fund. The $22.9 million transfer to the Bond Retirement Fund for debt payments represents an 11.5% contribution from projected Sales & Use Tax revenue and 60.7% of the overall transfer to capital within the General Fund. The planned $14.8 million transfer to the RTA Capital Fund in 2015 represents 7.5% of projected Sales & Use Tax revenue and the remaining 39.3% of the overall transfer to capital. The total contribution to capital, at 19.0%, remains well outside the Board policy of a maximum of 15% of Sales & Use Tax revenue and continues to reflect the significant financial requirements of the Authority's capital program. The transfer to the Insurance Fund is required to maintain the Fund Balance at the current level and to cover expected expenses for the 2015 Fiscal Year. Lastly, the $100,000 transfer to the Pension Fund is also needed to maintain the recommended balance.

FINANCIAL INDICATORS

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

OPERATING EFFICIENCY

Operating Ratio: The Board policy requires a 25.0% ratio in operating revenues compared to total operating expenditures. The 2015 Tax Budget yields a 20.4% ratio, which is below the policy objective. The Operating Ratio improved to 23.8% in 2010 primarily as a result of fare increases, service cuts, and an increase in ridership. It has slowly declined since then. Though this indicator is improved over the rate in 2007-2008, the decline is a warning that self-generated revenues may be growing at a slower rate than expenditures and that an increase in fares is looming.

Operating Reserve: At an estimated $7.6 million or a 0.4-month reserve for 2015, this measure does not meet the policy goal of a one-month operating reserve (indicator = 1.0). This level represents a decrease from the 2013 and 2014 (projected) Operating Reserves of

1.8- and 1.2-month, respectively, and is a further indication of an imbalance between revenues growing at a slower rate relative to the growth in expenditures, resulting in a declining ending balance. This highlights the need to identify new revenue sources and to effectively monitor and control expenditures to achieve a sustainable Operating Budget.

Growth per Year: 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 no inflation in “Other Expenses”. This indicator is $125.2 per hour of service and is 3.5% higher than the 2014 projection of -6.3%, and higher than the estimated 2.0% - 2.3% inflation rate. Operating costs must continue to be monitored.

CAPITAL EFFICIENCY

Debt Service Coverage: At a projected 1.33 in 2015, this indicator will not meet the Board policy minimum of 1.50, and is a significant decline from the projected 2.24 at the end of 2014 due to a decrease in the expected ending balance of the General Fund and to a planned debt sale of $40 million in 2015 that includes funding for two Bus CNG fueling stations and to address CNG building compliance issues. This continues the declining trend in this indicator since a high of 2.82 was reached at the end of 2011 and future years will see this measure continue to fall below the minimum standard, to 0.78 in 2016 and 0.38 in 2017, due to declining balances in the General Fund and to debt service needs for the capital program. Effective budget execution must maintain reasonable fund balances above the $15 million level if this objective is to be met for the long term.

Sales & Use Tax Contribution to Capital: Current Board policy requires that a minimum of 10.0% and a maximum of 15.0% of sales & use tax receipts be applied to the capital needs of the Authority. These funds are used to meet the Authority’s annual debt service payments, to provide the local match for grant funded capital projects, and to fund Routine Capital and Asset Maintenance projects included within the RTA Capital Fund. This indicator has exceeded the maximum of 15.0% since the economic downturn in 2008 and, at a projected contribution to capital of $37.7 million, or 19.0%, in 2015 it will again exceed the Board policy goal. Though it is projected to slightly decline in 2016 to 18.5% and to 15.6% in 2017 it will continue to exceed the goal for this indicator in the future.

Capital Maintenance to Expansion: Several years ago, the Board recognized that our emphasis must be to maintain the Authority’s existing capital assets and revised this objective to a policy guideline of 75% to 90% of the Authority’s capital projects. The Authority’s emphasis continues to be the maintenance of existing assets as opposed to expansion projects and as such, this measure is projected to end the current year at 93.5% again finishing above the maximum guideline. At 92.5% in 2015, 94.2% in 2016 and 91.3% in 2017 this ratio will remain above the policy guideline as the focus of the Authority’s capital program is on achieving a state of good repair (SOGR) in its capital infrastructure that requires significant investments in upgrading and improving existing assets as opposed to expansion projects.

FINANCIAL RESERVES

The intense impact of the Great Recession of 2008-2009 convinced management and the Board that reserves to protect against an economic downturn in the future would be wise. The economy improved and GCRTA took the opportunity to implement this program. To mitigate any severe changes in Sales & Use Tax receipts, diesel fuel costs, compensated absences, or health care costs, funds have been reserved to cover these costs. In 2011, the Board authorized the establishment of reserved funds for fuel, hospitalization and compensated absences. The savings from fuel for 2010 through 2012 was reserved, about $2.71 million. The reserve for hospitalization is $1.94 million and the reserve for compensated absences is $2.25 million. The total is $6.9 million. The reserves protect GCRTA further against major long-term changes in fuel prices and a major increase in health care and hospitalization costs. The reserve for compensated absences puts funds aside to pay off vacation and sick leave costs in the future as long recommended by our auditors. The reserve is expected to remain at $6.9 million at the end of 2014. With the drop in the fund balance shown in the 2015 Tax Budget, these reserves cannot be maintained.

Additionally, the Administration and the Board understands that preparation must be made to replace a large portion of GCRTA's revenue vehicles. In 2012, the Board authorized the Rolling Stock Replacement Fund to put funds aside for that purpose. In 2012, $7 million was designated for that purpose. The rapid rise in expenses for 2014, 2015, 2016, and 2017 curtails this goal. The actual transfer for 2013 is shown at a reduced level of $3.5 million and the $6 million transfer hoped for in 2014 was removed. The 2015 Tax Budget indicates no future ability to fund this.

CAPITAL IMPROVEMENT FUNDS

The majority of the Authority's capital projects are funded with Federal and State grants that in most cases require a 20% local share. The funds needed to meet the local requirements of these grants, as well as for 100% locally funded capital projects, are provided through the retention of investment earnings, contributions from Sales Tax & Use proceeds as well as debt sales.

Transportation is a capital-intensive business, but during the challenging financial times in 2008 and 2009, large amounts of available grant funds had to be used to reimburse preventive maintenance activities in support of the Operating Budget. As the Authority's financial position improved in the following years the need to utilize grant funds to support the Operating Budget was reduced. This led to a strategic decision in recent years to decrease the use of grant funds in support of the Operating Budget and in turn steer a larger percentage of these funds to direct capital improvements to address many deferred state of good repair projects throughout the Authority. These projects, either completed, underway, and planned include the reconstruction of the Airport Tunnel, rehabilitation of the S-Curve, an on-going track reconstruction program, modernization of the interiors of the heavy rail cars that operate on the Red Line, reconstruction of the Shaker Square grade crossings and track junctions, the replacement of Tower City escalators, two CNG fueling stations for the Hayden and Triskett Garages, and the rehabilitation of the Waterfront Line stations.

The plan is to keep reimbursed preventive maintenance as low as possible for the next three years to allow badly needed projects to move forward and upgrade infrastructure and facilities in a sustainable way. One challenge has been the impact of the current Transportation Bill – Moving Ahead for Progress in the 21st Century (MAP-21) and the anticipated Federal grant funds that will be available for future transit projects. The major impacts of the MAP-21 legislation is the elimination of the JARC/Work Access Grant program and the replacement of the former Fixed Guideway Rail Modernization Formula Program that favored 11 older Transit Authority's operating rail services with a State of Good Repair (SOGR) Formula Grant Program based, in part, upon UZA population data from the 2010 Census and revenue service miles relative to the combined totals of all transit authorities.

Though estimates indicate an increase of approximately $2.0 - $2.5 million per year in formula grants received from the FTA as a result of the MAP-21 legislation, a static regional UZA population relative to other growing areas of the country, as well as new rail systems opening in many cities throughout the country will likely have a dampening effect on any future increases from this source of funds for the Authority's capital program. In addition, the MAP-21 legislation will expire at the end of 2014 and there are uncertainties over what the Federal Government will do, either extend the current legislation or adopt an entirely new Transportation Bill, and whether or not similar funding levels for the Authority will be maintained.

The 2015, 2016, and 2017 estimated capital expenditures included here are predicated on year-to-date outlays, obligations and projected commitments, as well as, the approved five-year Capital Improvement Plan. Projected grant revenues include current, as well as, expected traditional and non-traditional grant awards and are based on a continuation of current MAP-21 funding levels. In 2015, the Authority's capital program continues its primary focus on various State of Good Repair (SGR) projects throughout the Authority. These include the second year of a planned five-year bus replacement program that will replace up to 175 40' buses and up to 57 paratransit buses, the on-going construction of new Red Line station in Little Italy on Mayfield Road, the replacement and upgrading of equipment, additional light rail crossing improvements, rehabilitation work at current Authority facilities, and the continuation of a construction program that will address all remaining ADA key station renovations.

BOND RETIREMENT FUND

The General Fund is the source of fund transfers necessary to make the principal and interest payments for the Authority's outstanding debt service. Including payments for the $42.39 million Sales Tax support capital improvement and refunding bonds issued in 2012, a $13.36 million debt refinancing in 2014, and a projected $40 million debt sale in early 2015 combined expenditures for principal and interest payments of $22.90 million are expected in 2015 on the estimated $147.28 million in outstanding debt that will be owed at year-end 2015. The transfer to the Bond Retirement Fund will grow to a projected $23.68 million in 2016 before falling back to $17.82 million in 2017 as payments for the Series 2004, 2006 and 2008B Bonds are completed.

In mid-2011, the Authority pre-paid the remaining balance owed on the State Infrastructure Bank Loan (SIB) that reduced its overall debt service payments by $660,000 for the 2012, 2013, and 2014 Fiscal Years. Including the recently executed debt sale, the last series of current long-term debt for GCRTA will expire in 2031.

Several years ago debt levels were of concern. Having restructured, reduced costs, and increased fund balances, GCRTA is in a much stronger position financially and in a greatly improved position on debt. Rating agencies have recognized that strength in 2012, 2013, and 2014 with ratings of AAA from Standards & Poor and AA2 from Moody's. RTA must now guard against a return to its previous position.

INSURANCE FUND

The Insurance Fund is structured to reflect a combination of self and purchased insurance coverage. Projected activities in 2015 include a combined $2.5 million for premium outlays and claims payments. This will require a $2.1 million transfer from the General Fund to maintain the current Fund balance above a minimum of $5.0 million as recommended by GCRTA Risk Management Department.

SUPPLEMENTAL PENSION FUND

Authority employees who were employed by predecessor transit systems are covered by supplemental benefit payments. Activities expected within this fund in 2015 include $6,500 of revenue from investment income, a $100,000 transfer from the General Fund to maintain the Pension Fund at the recommended balance, and projected benefit payments of $70,500.

LAW ENFORCEMENT FUND

In 1988, RTA became involved with the Northern Ohio Law Enforcement Task Force (NOLETF), a multi-jurisdictional force (formerly known as the 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 monies and/or properties of convicted drug dealers prosecuted by the Task Force.

Revenue obtained through the NOLETF may be expended for non-budgeted police items for law enforcement purposes. Furthermore, certain guidelines have been instituted by the State Attorney General's Office for the reporting and disbursement of funds. At this point in time, the expenditures projected in 2015 through 2017 are funds set aside for protective equipment, and various supplies and materials to support law enforcement activities.

ALL FUNDS

As a result of projected financial activities, the All Funds Balance is expected to increase by $6.4 million, or 10.0% in 2015, when compared to 2014 projections. This is primarily due to the loss of a revenue source and the execution of $40.0 million debt sale in 2015.

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%	2.4%	2.2%	2.2%	2.2%
Personnel & Fringe Cost Growth =	5.7%	3.3%	3.2%	5.2%	1.6%	1.6%
Non-Personnel Cost Growth =	2.2%	3.0%	12.5%	4.9%	-2.6%	0.1%
Operating Expenses Growth =	6.0%	3.6%	5.0%	4.6%	-0.4%	0.9%
Capital Contribution =	31,023,887	35,601,435	36,321,696	37,716,268	37,502,965	32,240,927
	17.1%	18.8%	18.7%	19.0%	18.5%	15.6%

	2012 Actual	2013 Actual	2014 Estimate	2015 Tax Budget	2016 Budget	2017 Budget
Beginning Balance	**36,375,982**	**38,235,140**	**34,245,663**	**24,627,731**	**7,572,231**	**-5,222,623**
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	1,300,000	1,200,000	1,200,000	1,200,000
Sales & Use Tax	181,219,251	189,630,645	194,233,536	198,506,674	202,873,821	207,337,045
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	0	0
CMAQ Reimbursement - Trolley	0	950,000	950,000	950,000	850,000	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	1,300,000	1,000,000	1,000,000	1,000,000
Reimbursed Expenditures	16,955,634	15,217,046	17,756,264	20,500,000	23,000,000	23,000,000
Total Revenue	**256,927,139**	**264,092,366**	**271,504,323**	**276,511,015**	**279,678,514**	**283,922,794**
Total Resources	**293,303,121**	**302,327,507**	**305,749,986**	**301,138,746**	**287,250,745**	**278,700,171**
Operating Expenditures						
Personnel Services	163,776,230	169,101,337	174,504,516	183,653,874	186,577,691	189,559,028
Diesel Fuel	12,632,036	13,956,183	14,206,631	13,440,000	10,880,000	10,080,000
Other Expenditures	46,535,828	47,922,890	53,889,412	56,556,373	55,112,711	55,178,761
Total Operating Expenditures	222,944,094	230,980,409	242,600,559	253,650,247	252,570,402	254,817,789
Transfer to the Insurance Fund	1,000,000	1,400,000	2,100,000	2,100,000	2,300,000	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	19,386,892	18,324,392	20,154,392	22,900,876	23,677,085	17,820,578
Capital Improvement Fund	11,636,995	17,277,044	16,167,304	14,815,392	13,825,880	14,420,349
Total Transfers to Capital	31,023,887	35,601,435	36,321,696	37,716,268	37,502,965	32,240,927
Total Expenditures	**255,067,981**	**268,081,844**	**281,122,255**	**293,566,515**	**292,473,367**	**289,658,716**
Ending Balance	38,235,140	34,245,663	24,627,731	7,572,231	-5,222,623	-10,958,545
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	6,900,000	6,900,000	6,900,000
Available Ending Balance	**23,295,140**	**27,345,663**	**17,727,731**	**672,230**	**-12,122,624**	**-17,858,546**

ATTACHMENT B

2015 Tax Budget
Financial Policy Objectives

		Description	Goal	2012 Actual	2013 Actual	2014 Estimate	2015 Tax Budget	2016 Budget	2017 Budget
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%	21.1%	20.4%	20.7%	20.8%
	Cost/Hour of Service	*Measure of service efficiency. Total Operating Expenses divided by Total Service Hours*		$123.4	$129.1	$121.0	$125.2	$123.5	$123.3
	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%**	4.6%	**-6.3%**	3.5%	**-1.4%**	**-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**	**1.8**	**1.2**	0.4	-0.2	-0.5
Capital Efficiency	**Debt Service Coverage**	*The measure of the Authority's ability to meet annual interest and principal payments on outstanding debts.*	**> 1.5**	**2.77**	**2.53**	**2.24**	1.33	0.78	0.38
	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%	18.8%	18.7%	19.0%	18.5%	15.6%
	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	$2.71	$2.71	$2.71
	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	$2.25	$2.25	$2.25
	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	$1.94	$1.94	$1.94
	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 Tax Budget	2016 Budget	2017 Budget
Beginning Balance	**25,947,255**	**44,440,121**	**38,924,890**	**26,381,217**	**50,602,544**	**36,831,371**
Revenue						
Debt Service	25,000,000	0	0	40,000,000	0	20,000,000
Transfer from RTA Capital Fund	9,620,255	13,470,255	12,234,255	11,749,255	11,134,255	11,084,255
Investment Income	115,389	95,725	235,000	235,000	245,000	245,000
Federal Capital Grants	33,570,510	59,795,463	70,506,250	77,756,250	70,868,750	63,437,500
State Capital Grants	1,135,673	264,693	1,730,822	1,730,822	1,730,822	1,730,822
Other Revenue	3,424,859	0	0	0	0	0
Total Revenue	**72,866,686**	**73,626,136**	**84,706,327**	**131,471,327**	**83,978,827**	**96,497,577**
Total Resources	**98,813,941**	**118,066,257**	**123,631,217**	**157,852,544**	**134,581,371**	**133,328,948**
Expenditures						
Capital Outlay	54,373,820	79,141,367	97,250,000	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**	**97,250,000**	**107,250,000**	**97,750,000**	**87,500,000**
Ending Balance	**44,440,121**	**38,924,890**	**26,381,217**	**50,602,544**	**36,831,371**	**45,828,948**

ATTACHMENT D

RTA Capital Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Tax Budget	2016 Budget	2017 Budget
Beginning Balance	**2,096,600**	**2,286,108**	**3,238,677**	**2,972,176**	**2,488,763**	**2,030,788**
Revenue						
Transfer from General Fund	11,636,995	17,277,044	16,167,304	14,815,392	13,825,880	14,420,349
Investment Income	-7	5,200	450	450	400	400
Other Revenue	0	0	0	0	0	0
Total Revenue	**11,636,988**	**17,282,244**	**16,167,754**	**14,815,842**	**13,826,280**	**14,420,749**
Total Resources	**13,733,588**	**19,568,352**	**19,406,431**	**17,788,018**	**16,315,043**	**16,451,538**
Expenditures						
Asset Maintenance	873,929	1,083,402	1,350,000	1,350,000	1,300,000	1,300,000
Routine Capital	953,296	1,776,018	2,850,000	2,200,000	1,850,000	1,750,000
Transfer to RTA Development Fund	9,620,255	13,470,255	12,234,255	11,749,255	11,134,255	11,084,255
Total Expenditures	**11,447,480**	**16,329,675**	**16,434,255**	**15,299,255**	**14,284,255**	**14,134,255**
Ending Balance	**2,286,108**	**3,238,677**	**2,972,176**	**2,488,763**	**2,030,788**	**2,317,283**

ATTACHMENT E

Bond Retirement Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Tax Budget	2016 Budget	2017 Budget
Beginning Balance	**1,702,726**	**4,119,819**	**1,710,132**	**1,881,299**	**1,908,292**	**1,970,144**
Revenue						
Transfer from General Fund	19,386,892	18,324,392	20,154,392	22,900,876	23,677,085	17,820,578
Investment Income	23,086	12,502	25,500	25,500	26,500	26,500
Bond Premium Proceeds	3,779,561	0	0	0	0	0
Other Revenue	10	27	0	0	0	0
Total Revenue	**23,189,549**	**18,336,921**	**20,179,892**	**22,926,376**	**23,703,585**	**17,847,078**
Total Resources	**24,892,275**	**22,456,740**	**21,890,024**	**24,807,675**	**25,611,877**	**19,817,222**
Expenditures						
Debt Service						
Principal	13,990,000	13,895,000	14,475,000	16,332,453	17,392,001	12,388,505
Interest	6,776,675	6,851,608	5,532,225	6,565,430	6,247,232	5,901,815
Other Expenditures	5,781	0	1,500	1,500	2,500	2,500
Total Expenditures	**20,772,456**	**20,746,608**	**20,008,725**	**22,899,383**	**23,641,733**	**18,292,820**
Ending Balance	**4,119,819**	**1,710,132**	**1,881,299**	**1,908,292**	**1,970,144**	**1,524,402**

ATTACHMENT F

Insurance Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Tax Budget	2016 Budget	2017 Budget
Beginning Balance	**6,883,060**	**6,678,594**	**6,384,153**	**6,034,153**	**5,684,153**	**5,484,253**
Revenue						
Investment Income	34,928	39,881	45,000	45,000	45,000	45,000
Transfer from General Fund	1,000,000	1,400,000	2,100,000	2,100,000	2,300,000	2,500,000
Other Revenue	0		0	0	0	0
Total Revenue	**1,034,928**	**1,439,881**	**2,145,000**	**2,145,000**	**2,345,000**	**2,545,000**
Total Resources	**7,917,988**	**8,118,475**	**8,529,153**	**8,179,153**	**8,029,153**	**8,029,253**
Expenditures						
Claims and Premium Outlay	1,231,929	1,734,322	2,495,000	2,495,000	2,544,900	2,595,798
Other Expenditures	7,465	0	0	0	0	0
Total Expenditures	**1,239,394**	**1,734,322**	**2,495,000**	**2,495,000**	**2,544,900**	**2,595,798**
Ending Balance	**6,678,594**	**6,384,153**	**6,034,153**	**5,684,153**	**5,484,253**	**5,433,455**

ATTACHMENT G

Supplemental Pension Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Tax Budget	2016 Budget	2017 Budget
Beginning Balance	**1,161,820**	**1,195,091**	**1,228,490**	**1,264,490**	**1,300,490**	**1,338,240**
Revenue						
Investment Income	6,183	7,752	6,500	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**	**106,500**	**106,500**	**106,750**	**106,750**
Total Resources	**1,268,003**	**1,302,843**	**1,334,990**	**1,370,990**	**1,407,240**	**1,444,990**
Expenditures						
Benefit Payments	72,912	74,353	70,500	70,500	69,000	67,500
Other Expenditures	0	0	0	0	0	0
Total Expenditures	**72,912**	**74,353**	**70,500**	**70,500**	**69,000**	**67,500**
Ending Balance	**1,195,091**	**1,228,490**	**1,264,490**	**1,300,490**	**1,338,240**	**1,377,490**

ATTACHMENT H

Law Enforcement Fund Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Tax Budget	2016 Budget	2017 Budget
Beginning Balance	**298,091**	**184,341**	**406,607**	**376,732**	**346,857**	**336,982**
Revenue						
Investment Income	86	44	125	125	125	125
Other Revenue	56,000	292,445	55,000	55,000	55,000	55,000
Total Revenue	**56,086**	**292,489**	**55,125**	**55,125**	**55,125**	**55,125**
Total Resources	**354,177**	**476,830**	**461,732**	**431,857**	**401,982**	**392,107**
Expenditures						
Capital & Related Items	129,986	70,223	85,000	85,000	65,000	65,000
Total Expenditures	**129,986**	**70,223**	**85,000**	**85,000**	**65,000**	**65,000**
Reconciling Journal Entry	39,850	0	0	0	0	0
Ending Balance	**184,341**	**406,607**	**376,732**	**346,857**	**336,982**	**327,107**

ATTACHMENT I

All Funds Balance Analysis

	2012 Actual	2013 Actual	2014 Estimate	2015 Tax Budget	2016 Budget	2017 Budget
Beginning Balance	**74,465,535**	**97,139,215**	**86,138,611**	**63,537,797**	**69,903,329**	**42,769,155**
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	194,233,536	198,506,674	202,873,821	207,337,045
Federal	33,570,510	59,795,463	70,506,250	77,756,250	70,868,750	63,437,500
State	6,389,010	4,153,693	5,863,558	4,855,822	1,730,822	1,730,822
Investment Income	380,932	361,292	537,575	537,575	573,775	598,775
Other Revenue	28,275,857	21,965,425	23,653,997	24,803,518	26,105,000	25,255,000
General Obligation Debt Proceeds	25,000,000	0	0	40,000,000	0	20,000,000
Total Revenue	**324,073,417**	**324,606,098**	**344,108,970**	**396,365,662**	**352,656,861**	**369,469,891**
Total Resources	**398,538,952**	**421,745,313**	**430,247,581**	**459,903,459**	**422,560,190**	**412,239,046**
Expenditures						
Personnel Services	163,776,230	169,101,337	174,504,516	183,653,874	186,577,691	189,559,028
Diesel Fuel	12,632,036	13,956,183	14,206,631	13,440,000	10,880,000	10,080,000
Other Expenditures	48,023,751	49,801,788	56,541,412	59,208,373	57,794,111	57,909,559
Capital Outlay	56,201,045	82,000,787	101,450,000	110,800,000	100,900,000	90,550,000
Debt Service	20,766,675	20,746,608	20,007,225	22,897,883	23,639,233	18,290,320
Total Expenditures	**301,399,737**	**335,606,702**	**366,709,784**	**390,000,130**	**379,791,035**	**366,388,907**
Available Ending Balance	**97,139,215**	**86,138,611**	**63,537,797**	**69,903,329**	**42,769,155**	**45,850,139**