

2017 TRANSMITTAL LETTER

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

Date: November 1, 2016

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



Subject: 2017 Transmittal Letter

EXECUTIVE SUMMARY

I am again pleased to report that 2016 was yet another successful year at the GCRTA. Once again the Authority was highly recognized on a national and international level for its best-in-class accomplishments. In 2016 we continued focusing on enhanced communications with our employees and our customers, and continued to deliver on our established mission, vision and values. We also continued our quest for continual improvement of the Authority's operations by expanding our process in obtaining ISO 14001 certifications to the two Bus Districts, by implementing a predictive maintenance program to improve the quality of our bus service, and by focusing on improving the quality of our capital assets.

As the GCRTA continues to effectively manage its financial resources, we continued our efforts throughout the year to invest in capital projects to improve the state-of-good-repair of our capital assets. Some highlights were the delivery of 12 replacement trolley buses, entering into a contract for 43 additional 40-ft CNG buses, replacing four Tower City Station escalators in time for the Republican National Convention, rehabilitating Platform 7 and began reconstruction work on Track 8 at the Tower City Station, which is scheduled for completion later this year, rehabilitated the East 81st & East 83rd Street Track Bridges, and completed rehabilitation work on three more Light Rail Crossings. By year-end, we will dedicate redesigned and ADA accessible stations at Shaker/Warrensville on the Green Line and at Brookpark on the Red Line. With these and other capital improvement projects currently underway, there can be little doubt that RTA is investing in the future of our region and public transportation system.

As we work hard every day, it is gratifying to see our progress through improvements in the dependability of our bus and rail services, in our continuing progress to improve the quality of our capital assets, and in our efforts to communicate with and to meet the needs of our customers. Many individuals and organizations are recognizing the contribution we make to our community and our industry and recently, Cleveland was named the best city in the country for visitors to go car-free, in large part due the public transportation services provided by the GCRTA.

During 2016, the GCRTA:

- Participated in planning for and provided public transportation services during the Republican National Convention.
- Received the from the Ohio State Auditor an Award with Distinction for excellence in Financial Reporting for the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2015.
- Was awarded the 2016 Technology Solutions Award for Telecommunications and Information Technology for the implementation of DriveCam.
- Implemented a pilot program for Mobile Ticketing that has been successfully tested and we will continue to expand this new service for our customers in the upcoming budget year.
- Continued on our journey towards the Baldrige Award for Excellence.

The following pages discuss the General Fund revenue and expenditure assumptions incorporated into the 2017 budgets. The proposed budgets support the daily operating activities of the Authority, will help to improve the quality of its service delivery, and continues the path towards achieving a state of good repair in the capital assets of the Authority. The uncertainty over what may happen in regards to the Authority's Sales & Use Tax base provides reason for concern, but the Authority is working with other State entities and the State Legislature to favorably address the issue.

Over the last ten years the GCRTA has gone through and weathered several economic cycles, addressed many challenges, and responded to increased service demands & opportunities. The first economic cycle (pre-2008) was a slow growth economy where Sales & Use Tax revenue was underperforming at a 1 percent annual growth rate and service opportunities were limited. This was followed by a severe economic downturn or "Great Recession" when Sales & Use Tax collections plummeted by nearly \$19 million in 2009, unemployment escalated throughout the County, and the GCRTA ended the year with a General Fund balance of less than \$2.9 million, an operating reserve of 3.5 days.

In response, a 12 percent service reduction was implemented in 2010, Harvard Garage was closed and 245 positions were eliminated. The fuel hedging Energy Price Risk Management Program was implemented and dramatic fluctuations in diesel costs were managed and an Energy Management program was initiated to reduce electricity costs. Also at that time, both operating and capital revenue was augmented by a one-time infusion of \$46 million from the Federal American Recovery and Reinvestment Act (ARRA). The GCRTA utilized a portion of these funds to support operations through reimbursements for preventive maintenance activities within the Operating Budget, but the largest portion of these funds were used to support State of Good Repair (SOGR) capital improvements including the reconstruction of the East 55th, Puritas, and Woodhill Stations, 20 replacement Paratransit buses, rehabilitation of three light rail crossings, and construction activities on the Stephanie Tubbs Jones Transit Center.

These combined actions reduced annual operating expenses by approximately \$30 million and as Sales & Use Tax revenue recovered in the following years, the operating reserve jumped to the 30-day goal with a balance of about \$20 million and, as a result, from 2011 to 2014 the GCRTA was in a very strong financial position. Union negotiations were settled with an innovative contract that tied pay increases, up to 3 percent, to prior-year revenue increases for Passenger Fares and Sales & Use Tax. All personnel received a 3 percent wage increase in 2012, 2013, 2014 and 2015. The current FOP and ATU contracts, set to expire in 2017, were renewed following the same principle.

As Sales & Use Tax revenue was growing by 5 percent annually, grant-funded preventive maintenance reimbursements to the Operating Budget were significantly reduced resulting in more funds for needed projects within the Capital Budget. During these years capital expenditures increased to \$80-90 million per year as rail stations were reconstructed, track was repaired, 47 articulated buses & 90 new CNG buses were purchased and a CNG fueling station was installed at the Hayden Garage.

The next financial trend began in 2014 as revenue growth slowed and expenditures increased substantially as the 2014 General Fund year-end balance declined by \$11.1 million to \$27.1 million. The decline in fund balance continued in 2015, in part due to the elimination of Federal Operating Assistance grant awards, resulting in an end-of-year fund balance of \$17.1 million. In 2016, due to better than projected revenue from the Sales & Use Tax, which has mostly offset a decrease in passenger fare revenue, a one-time reduction of the budgeted transfers from the General Fund to the Capital Funds, and good control of Operating Budget has improved the end-of-year fund balance to a projected to \$22.0 million, or \$15.3 million better than

budget. Although budget execution continues to be strong, the GCRTA will need to react to a new set of challenges in 2017.

As it currently stands, due to Federal requirements Medicaid Managed Health Care (MMHC) providers will be removed from the Sales & Use Tax base effective July 1, 2017. The problem is that the State only includes MMHC providers in the Sales & Use Tax base, but not all Managed Health Care (MHC) providers. The Federal position is that the State cannot tax only a subgroup (MMHC) of the MHC providers, those funded through Medicaid, and either needs to tax all MHC providers or none.

The problem is certainly not unique to the GCRTA. Under this change, if not mitigated, the State of Ohio will realize a loss of approximately \$500 million annually, Ohio's 88 counties will realize an annual loss of approximately \$200 million and the eight transit agencies, that directly receive revenue from the Sales & Use Tax, will realize a \$38 million annual loss.

It is important to note that this impact was also felt by approximately eight other states which have successfully addressed this loss by applying their sales tax to all MHC providers, and not just the portion that was traditionally paid for by Medicaid. Unless the State of Ohio takes action to correct the problem or develop a revenue-neutral fix by June 30, 2017, the loss of MMHC providers will cost the Authority approximately \$18 - \$20 million, or eight to ten percent, of its Sales & Use Tax revenue on an annual basis.

The revenues projected for 2017 assume the loss of the MMHC providers in July, but as receipts of these revenues lag three months, the impact of the projected loss of \$4.5 million won't be felt until the last three months of the year. In 2018 though, this amount will annualize to an expected loss of \$18 - \$20 million and require some significant steps be taken to achieve a positive sustainable budget.

Operating expenses are budgeted to increase at a faster rate than are projected revenues, primarily due to the assumption that the State will not develop a revenue-neutral fix to the MMHC providers issue and, if this occurs, the GCRTA will see a loss of close to \$20.0 million on an annual basis from its largest revenue source the Sales & Use Tax. The GCRTA is participating in a unified approach involving Ohio Counties and other Transit Agencies who are communicating their concerns to the State Legislature and developments on this subject will be closely monitored through 2016 and throughout 2017.

The 2017 Budget includes one quarter's loss (\$4.5 M) from the assumed loss of revenue from the removal of the MMHC providers and the ending balance decreases to \$8.5 million as budgeted expenditures exceed expected revenue by \$13.4 million. The ending balance of the General Fund then unacceptably declines to a negative \$11.8 million in 2018 and to a negative \$30.1 million in 2019 as the full impact of the loss of Sales & Use Tax revenue is felt.

Alternatively, if a revenue-neutral fix or correction is implemented by the State Legislature, the ending balances of the General Fund Operating Budget in the three years would be approximately \$12.1 million in 2017, \$7.9 million in 2018, and \$6.2 million in 2019. Though each is less than a one-month reserve, through continual improvements in service delivery efficiencies, management and positive execution of the annual budgets, these balances will improve and the Authority will have approached a sustainable General Fund Operating Budget where service delivery, the capital program and revenues are in equilibrium.

Despite the uncertainty over what the State can and will do on this issue, the GCRTA will continue its efforts to effectively allocate available resources that can best meet the needs of its customers and maintain its capital assets in a state of good repair. Effective budgeting and operations requires that contingency planning begin to prepare for the possible loss in revenue, but hopes are that a solution will be found that will

at most minimally impact on the Authority's most important and largest revenue source – the Sales & Use Tax.

The Board of Trustees' first review of the proposed 2017 – 2021 Capital Improvement Plan (CIP) took place on August 2, 2016 and subsequently authorized the 2017 Capital Budget Appropriations on August 16, 2016 allowing the Authority's Capital program to be better aligned with the Federal fiscal calendar. The committee will deliberate issues on the Operating Budget at a meeting on November 1, 2016 and again on December 6, 2016. Public Hearings will be held on December 6, 2016 at 9:00 AM and on December 20, 2016 at 9:00 AM. At the Committee meeting on December 6, 2016, the Finance Committee is expected to make a recommendation to the full Board of Trustees to adopt the proposed 2016 Operating and Other Funds Budgets. Adoption will be considered at the December 20, 2016 Board Meeting.

The Operating Budget includes resources to fund rail, bus, and paratransit services and includes a new mode, Van Pools, added in 2016 with implementation underway at the end of the year. The approved 2017 Capital Budget provides resources for the on-going replacement, rehabilitation, and/or maintenance of equipment and facilities. In preparing the 2017 Operating and Other Funds Budgets, staff developed Fund Balance Analysis statements for each major fund group, which summarize projected financial activity and ending balances. The Finance and Operations Committees will review major revenue and expenditure assumptions and trends, financial policy objectives, service and employment levels, and strategic initiatives. The capital projects included in the 2017 – 2021 Capital Improvement Plan (CIP) were reviewed and approved on August 16, 2016 and if changes are required, a request to amend the approved budget appropriation will be made during the 2017 Budget Year.

The combined 2017 appropriation for operating expenditures totals \$267.5 million, a slight decrease compared to the \$267.7 million appropriated for 2016. Based on Sales & Use Tax Revenue and Passenger Fare in 2016, relative to 2015, a 2.7 percent wage increase for ATU employees was calculated for 2017 based on the current contract, which will expire in the second half of 2017. The Operating Budget includes \$196.5 million for Personnel Services: providing salary, overtime, and fringe benefit resources needed to fund 2,332 positions. This number is a decrease of nearly 30 Full-time Equivalent (FTE) positions from the 2,361.75 FTE positions include in the 2016 budget as a result of annualizing the service adjustments made in the second half of 2016.

The establishment, execution, and management of the annual Operating Budget has an impact on the Capital Budget. A strategic objective has been to maintain grant-funded preventive maintenance reimbursements to the Operating Budget at or below \$20 million. This in turn provides additional funding for the Authority's capital program to maintain and improve its capital assets required for a public transportation entity of this size and to meet the State of Good Repair requirements of the new Transportation Legislation – Fixing America's Surface Transportation Act (FAST Act).

To reach and maintain a SOGR over the next five years, the Authority will need to replace its CAD/AVL Radio System, identify funding for approximately 200 replacement buses for the Authority's paratransit and large bus fleets, install a CNG fueling station at the Triskett Garage, continue its aggressive track reconstruction program, meet the remaining ADA Key Station deadlines, reconstruct various track bridges, improve rail signalization and the overhead catenary system, as well as replace equipment at the end of its useful life.

A looming financial challenge over the next decade will be the need to replace the Authority's aging Heavy Rail and Light Rail fleets at a combined cost estimated at \$250 million. The Authority must continue to focus on state of good repair maintenance, rehabilitation and construction projects and the need to provide

customers with safe and reliable service. That strategy will become increasingly difficult if Operating Reserves are not maintained at the 30 day goal and near impossible without a revenue-neutral fix to the looming Sales & Use Tax issue.

Over the last ten years, RTA has gone through at least three economic cycles with a fourth now underway as revenues have not exceeded expenses for the last three years, in great part due to the reduction and subsequent elimination of Federal Operating Assistance grant awards in 2016. At the same time, RTA is continuing to execute its strategic plan and is continuing its efforts to improve the reliability of service delivery through the implementation of a predictive maintenance program that represents a paradigm shift in bus maintenance from reacting to a problem to identifying potential problems and proactively addressing them before they occur.

STRATEGIC APPROACH TO THE BUDGET

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

GCRTA MISSION

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

BOARD POLICY GOALS

- I. **CUSTOMER FOCUS:** Provide safe, high-quality service to all customers and support our employees in that endeavor.
- II. **EXPAND AND REORGANIZE SERVICE:** Expand and reorganize service to retain our current riders and attract new riders by providing service that meets customer and community needs.
- III. **PREPARE FOR THE FUTURE:** Prepare for the future by forging new partnerships and strengthening existing ones with the public and private sectors to establish policies, funding, innovations, and technologies that support cost-effective public transportation.
- IV. **IMPROVE FINANCIAL HEALTH:** Improve the agency's financial health through efficient use of resources and the pursuit of new and innovative revenue sources.
- V. **PROVIDE COMMUNITY BENEFITS:** Provide social, economic, and environmental benefits to the community through system improvements and increase community awareness of these contributions.

From 2007 to 2011, the business planning efforts were forced to highlight only two of the five policy goals as most critical: **Customer Focus** and **Improve Financial Health**. After 2011, the improved financial status allowed GCRTA to focus on **Preparing for the Future** and **Providing Community Benefits**. In an effort to more effectively transition the strategic planning focus into the 2017 budgeting process, the evaluation of requests and the allocation of funding for 2017 initiatives were linked to the business plan and most directly

to these four policy goals. Based on the current economic conditions, **Expansion** cannot be a priority at this time. Rather **Maintaining and Reorganizing** service to retain the base and attract new customers is objective.

In addition, RTA conducted a strategic planning initiative in the summer of 2014 with SWOT exercises and analyses conducted with ten groups totaling over 120 people, including the Board of Trustees and the Citizens Advisory Board. A two-day planning retreat was held with the Executive Management Team and Board participation. That retreat resulted in a new and updated Strategic Plan with nine Vital Few Objectives and ten Change Initiatives for execution over the next 18 months. A new set of Mission, Vision, and Values was adopted and are now in deployment. This will encourage greater internal communication and ensure that all RTA employees know what RTA stands for and its vision for the upcoming years.



Figure 1

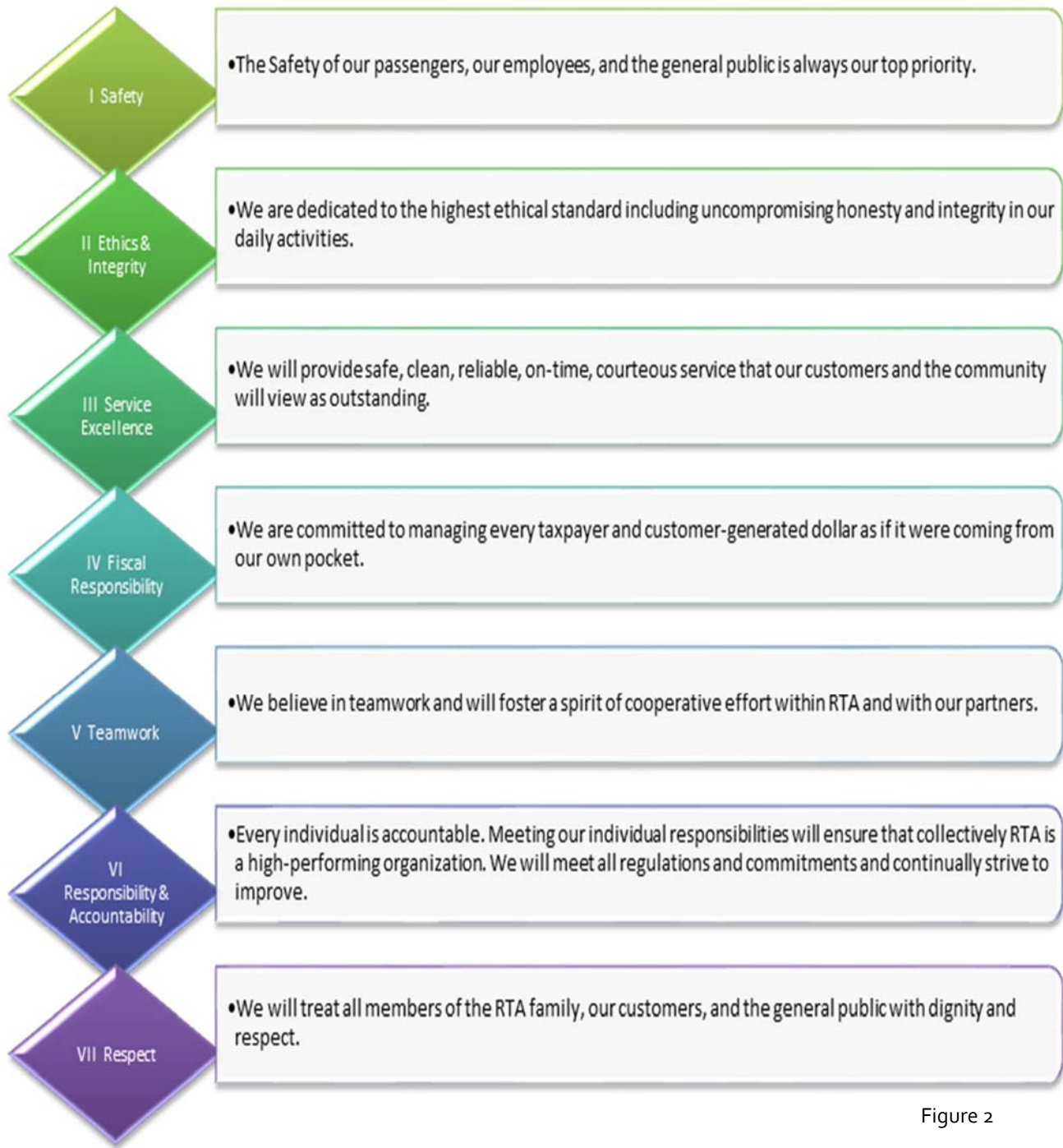


Figure 2

GENERAL FUND

REVENUES

With the continued reduction in ridership and lack of State support, a fare increase and service reduction was implemented in August 2016. The 2017 budget projects \$289.5 million in General Fund revenue and total resources of \$311.5 million. This is a \$3.0 million increase in total resources compared to the 2016 year-end estimate. This increase is a result of a higher beginning balance compared to 2016 and a \$2.5 million increase in Passenger Fare revenue due to the annualized fare increase.

The chart below shows the percentage of each revenue stream for 2017. Sales & Use Tax has remained above 70 percent of total revenue, at 75.0 percent, showing a continued reliance on this revenue stream. Passenger Fares is 16.2 percent of total revenue and has been slowly decreasing. In 2016 it was budgeted at 17.8 percent but is projected to end the year at 15.2 percent of total revenue, as ridership fell. Reimbursed expenditures, which includes grant-funded and preventive maintenance reimbursements to the Operating Budget, is the third largest source of revenue, at 7.6 percent of total revenue for 2017.

The key to any budget is a realistic estimate of revenues to support operations. This is particularly true of a public entity such as a transportation authority, which can only provide the level of service that revenues will support. The General Fund Balance Analysis included as Attachment A, presents the 2017 Operating Budget in summary. The specific assumptions and calculations for the revenues included there are as follows:

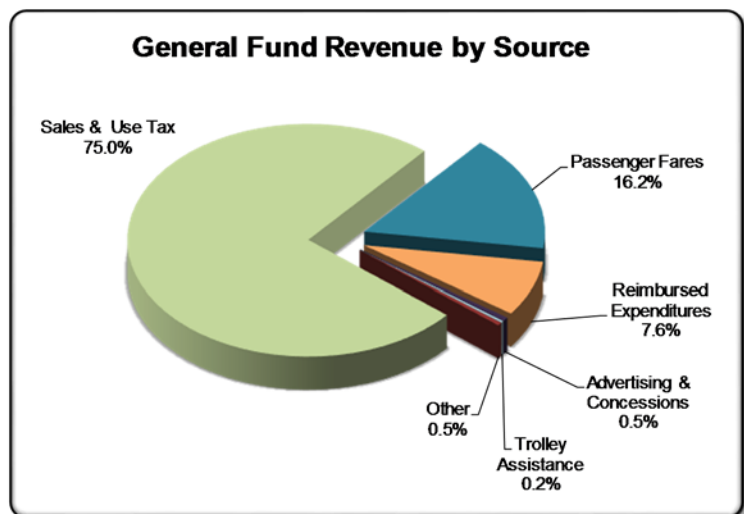


Figure 3

PASSENGER FARES

\$46.9 MILLION

RATIONALE:

Ridership has continued to decline over the past several years. As fuel prices remain low, choice riders are opting to drive to work rather than take public transit. The 2017 Budget includes an annualized increase in base fare from \$2.25 to \$2.50. Costs for Paratransit service continue to rise. Consequently, an annualized fare increase for Paratransit service from \$2.25 to \$2.50 per trip is included, as well as an additional increase from \$2.50 to \$2.75 starting in August 2017. RTA is permitted to charge twice the fixed route rate for Paratransit services. Currently, the Paratransit fare could be \$5.00.

SALES & USE TAX REVENUE

\$217.1 MILLION

RATIONALE:

Over the past several years Sales & Use Tax collections have been fairly steady. The 2016 projection at the end of the third quarter was \$218.4 million, a 6.1 percent increase, mainly due to additional receipts received in June from a 13-month audit of a Medicaid company. The budget for 2017 projects Sales & Use Tax to

increase by 2.8 percent until October. Currently, the Sales & Use Tax base includes receipts from Medicaid services. The Federal Government mandated Ohio Legislatures to comply with new regulations by June 30, 2017, prohibiting the taxing of a subset of Managed Health Care (Medicaid) providers. If the State decides to not address this issue, all 88 Ohio counties, as well as transit authorities that receive Sales & Use Tax receipts, will lose funding as will the State of Ohio. The Authority is cautiously awaiting the State's decision and budgeted for the \$4.5 million reduction in revenue for 2017 and then annualizes this decrease in the 2018 budget year.

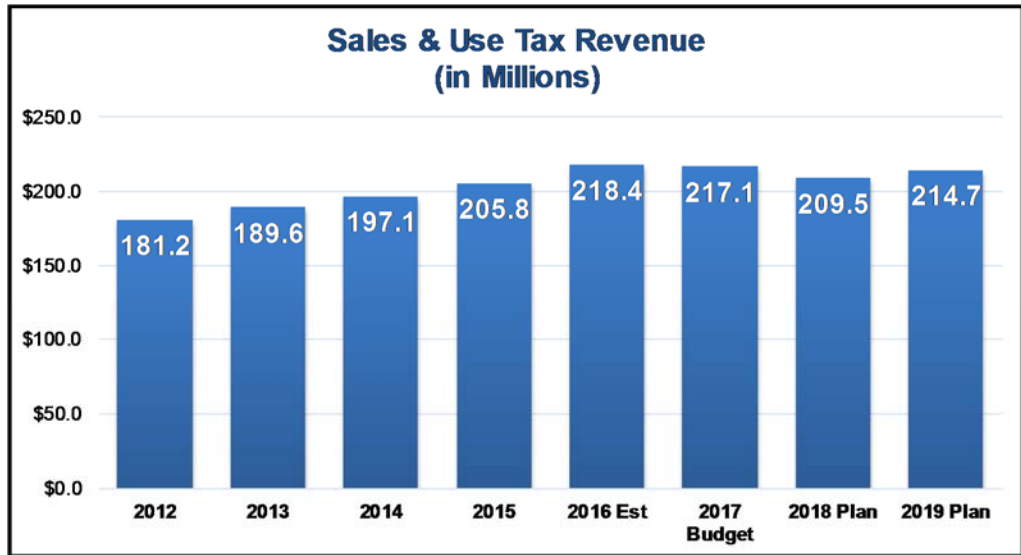


Figure 4

<u>ADVERTISING & CONCESSIONS</u>	\$1.6 MILLION
ADVERTISING CONTRACT	\$1.15 M
CONCESSIONS & NAMING RIGHTS	\$0.40 M
TOTAL	\$1.55 M

RATIONALE:

The Advertising and Concessions Category consists of two subcategories. The first is the current advertising contract. For 2017, the advertising contract is budgeted at \$1.15 million. The second subcategory is the naming rights for the HealthLine and the new Cleveland State Line and concessions that will net the Authority about \$402,000. Advertising revenues for 2016 are projected at \$1.5 million by year end.

<u>INVESTMENT INCOME</u>	\$70 THOUSAND
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RATIONALE:

For 2016, the Investment Income is projected at \$70 thousand by year-end as the Fed has kept interest rates at all-time lows in an attempt to spur the economy. Through the Third Quarter 2016, the Authority has received 0.46 percent interest return on its investments. Income from this source is budgeted at \$70 thousand for 2017 and the out-years as ending balances will be dropping.

<u>OTHER REVENUE</u>	\$1.8 MILLION
OTHER REVENUE	\$1.2M
TROLLEY ASSISTANCE	\$0.6M
TOTAL	\$1.8M

RATIONALE:

These other sources of revenue include contractor and hospitalization claim reimbursements, rent, salvage sales, and identification card proceeds, among other miscellaneous receipts. The amounts received from

these sources have fluctuated over the years, mainly due to one-time settlements and reimbursements. For 2017, the revenue projection is \$1.2 million. As funding for the C-Line and Nine-Twelve Trolleys ended, additional funding is being sought from area businesses to sponsor the Trolleys, similar to the B-Line and E-Line Trolleys. RTA is seeking 80 percent funding, or \$640,000, from the community and the remaining 20 percent will be maintained by the Authority.

REIMBURSED EXPENDITURES	\$22.1 MILLION
PREVENTIVE MAINTENANCE REIMBURSEMENTS	\$20.0M
FUEL TAX REIMBURSEMENT	\$ 1.1M
REIMBURSED LABOR & MATERIAL	\$ 1.0M
TOTAL	\$22.1M

RATIONALE:

Reimbursed Expenditures category includes reimbursements for Preventive Maintenance (PM), fuel tax, grant-funded reimbursements for employee’s time spent working on capital projects, as well as other Federal and State reimbursements. For 2017, Reimbursed Expenditures are budgeted at \$22.1 million. Preventive Maintenance at \$20.0 million, \$1.1 million for fuel tax reimbursements, and \$1.0 million for force account labor and other reimbursements. For the out-years, \$22.1 million is budgeted each year for Reimbursed Expenditures. Increasing PM Reimbursement would, in turn, lower available funding for capital projects and increase the difficulty of achieving and maintaining a state of good repair.

EXPENDITURES

Operating Expenditures for the 2017 budget include the appropriation and expenditure changes as described below. As with revenues, expenditures are estimated not only for the 2017 Budget Year, but also for the two consecutive out-years. The General Fund Balance Analysis projections include those out-years to demonstrate the longer-term impacts of various items contained in the 2017 Budget (collective bargaining agreements, service changes, contract changes, as well as requirements of the Capital Improvement Plan, etc.). An annualized 3 percent service reduction was budgeted for 2017.

The chart on page 13 summarizes the budgeted expenditures for 2017 and highlights the various areas of cost increases included in the proposed Operating Budget.

Compensation Issues include the wage and fringe benefit payments consistent with current collective bargaining agreements with the ATU and FOP, vacancy replenishments, as well as expected cost increases associated with health care and the Ohio Public Employee Retirement System (OPERS). An innovative approach for wage increases was approved by both unions that tied wage increases for the current year to

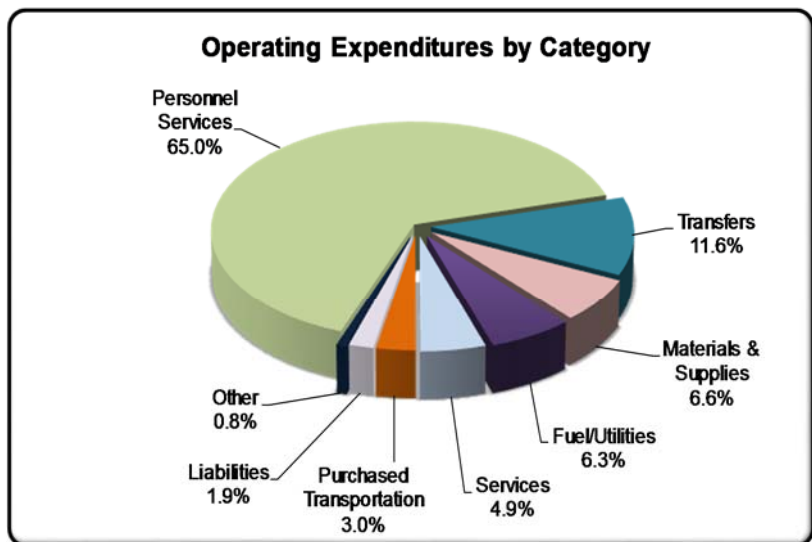


Figure 5

the increases in revenues for Passenger Fares and Sales Tax from the prior year. Both union contracts will end in 2017 and negotiations to continue this innovative approach will be decided.

Health Care and prescription costs for 2017 are projected to increase by nearly 12 percent compared to 2016 levels, from \$24.9 million estimate to a projected cost of \$28.0 million. The employee contribution for health care coverage is 14 percent and non-smoking employees receive a one percent credit and employees who complete an annual physical also receive a one percent credit from this amount. Those employees who complete both received a 2 percent credit on their health care contribution. In the upcoming contract, co-pays and deductibles have been increased due to family size and employee monthly payments decreased. This action makes employees more involved in their own care. It will also help avoid penalty payments in the future under the Affordable Care Act.

Fuel costs have been stabilized through the Energy Price Risk Management Program. The balance of 2016 is hedged at an average price of \$2.44/gal. For 2017, the average cost of fuel is hedged at \$2.17/gal and 2018 at \$1.73/gal. While 2019 is not fully hedged, the average price for the current 10 contracts is \$1.63/gal. The 2017 budget for diesel fuel is \$7.7 million.

Utility Cost Reduction Measures have been implemented, and will continue to result in significant cost savings for the Authority. An electrical supply contract was secured in April 2016 for the period of June 2017 through May 2019. The rate contracted for the supply of electricity will result in 5.3 percent lower electrical supply expenses in 2017, but the lower supply costs will be offset by increases in transmission charges. The 2017 budget for electricity is \$2.8 million.

The Natural Gas supply is contracted through mid-2017 ensuring budget stability. A Request for Proposal (RFP) was issued on July 18th to contract the next two years. Compressed Natural Gas for the CNG buses had an average pre-tax and credit cost of \$0.98/Diesel Gallon Equivalent (DGE) and after tax and credit costs of \$0.42/DGE. Natural Gas and CNG costs are projected at \$2.2 million for 2017 increasing from 2016 due to increased use of CNG buses and expected higher costs for fuel and delivery charges.

Areas of Expenditure Growth 2017 Budget			
2016 Projected Operating Expenses		\$252,148,521	
Compensation Issues		\$ 7,944,521	4.2%
ATU Contractual Increases	\$ 1,696,262		
Union Step Increases	\$ 982,505		
Health Care/Prescription Fringe Benefits	\$ 2,972,024		
Mechanics/Technicians/Maintenance	\$ 1,870,000		
Overtime - Bus Bridges/Special Events	\$ 423,730		
Fuel / Utilities		\$ 987,304	5.4%
Diesel Fuel	\$ (976,658)		
Propulsion Power	\$ 692,837		
Natural Gas & CNG	\$ 374,805		
Other Utilities	\$ 896,320		
Service Opportunities		\$ 3,467,401	15.1%
Purchased Transportation	\$ 331,925		
Tires & Tubes	\$ 261,377		
Maintenance Contracts & Services	\$ 2,740,447		
Training	\$ 133,652		
Other		\$ 2,947,667	13.2%
Liabilities	\$ 1,513,464		
Miscellaneous	\$ 1,434,203		
Expenditure Growth		\$ 15,346,893	6.1%
2017 Budgeted Operating Expenditures		\$267,495,414	

Figure 6

TRANSFER TO THE INSURANCE FUND

The Insurance Fund has a required minimum fund balance of \$5.0 million and is used to account for resources to protect the Authority against future catastrophic or extraordinary losses. The Authority is self-insured in all areas except personal property and equipment. Expenditures in the Insurance Fund are used for extraordinary claims and insurance premiums over \$100,000. With the increase in safety measures, claims have declined significantly and the budgeted transfer of \$1.2 million for 2016 was reduced to \$500,000. For 2017, a transfer of \$2.4 million will be needed to maintain the \$5.0 million level and to cover projected insurance premiums and possible claims payments. In 2018 and 2019, transfers of \$2.3 and \$2.5 million, respectively, are planned, due to higher premiums and projected claim payments. Continued safety actions may allow these amounts to be lowered in the future.

TRANSFER TO THE SUPPLEMENTAL PENSION FUND

The Supplemental Pension Fund was established for payments of benefits relating primarily to certain retired employees of the Authority and predecessor transit systems. Since 1986, the Pension Fund has also been used to account for funds on deposit with the Ohio Public Employees Deferred Compensation Board. The Authority has no control over these funds, but is required to account for them in a trust. The 2017 budget estimates that the Supplemental Pension Fund will need transfers of \$75,000. For the two out-years, 2018 and 2019, an additional \$75,000 for each year is planned in order to maintain the necessary balance within this fund as identified in a bi-annual actuarial study.

TRANSFERS TO CAPITAL

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

As Sales & Use Tax revenue recovered, this measure has fluctuated over the years to 17.1 percent in 2012, falling back to 18.0 percent in 2013 and 18.4 percent in 2014. Between 2011 and 2015, General Fund Transfer to Capital grew from \$31.0 million to \$38.1 million. In 2016 though, the projected transfers for capital totals \$31.4 million and equals 14.4 percent of Sales & Use Tax revenue. Local funds are transferred to the capital program to provide the local match for preventive maintenance expenditures and for other locally funded state of good repair projects that are ineligible to fund with debt service.

Overall, the projected 2016 combined transfer to capital of \$31.4 million is close to \$7.2 million below budget. This amount includes \$9.5 million for payment of 100 percent locally funded capital projects, a decrease of \$6.1 million versus budget due to a planned lowering of the balance of 100 percent local funds used for RTA Development Fund projects, and the \$21.9 million transfer to the Bond Retirement Fund for debt service payments associated with existing debt service is \$1.1 million below the 2016 Budget due to savings from a refinancing of existing debt service earlier this year.

In 2017, the transfer to capital will increase to \$32.6 million, or 15.0 percent of Sales & Use revenue, as additional local funds are transferred to capital to meet the financial needs of the capital improvement

program and debt service payments. In 2018, the transfer to capital will slightly decrease to \$32.5 million, or 15.5 percent of Sales & Use Tax revenue as the impact of the loss of MMHC providers and a decrease in revenue is felt. These transfers will then decrease to \$32.4 million, or 15.1 percent, in 2019. This measure may be impacted if additional debt service is needed in the future. The high level of this measure continues to highlight the difficulty created by increased capital and debt service needs in times of constrained revenue.

EMPLOYMENT LEVEL ANALYSIS

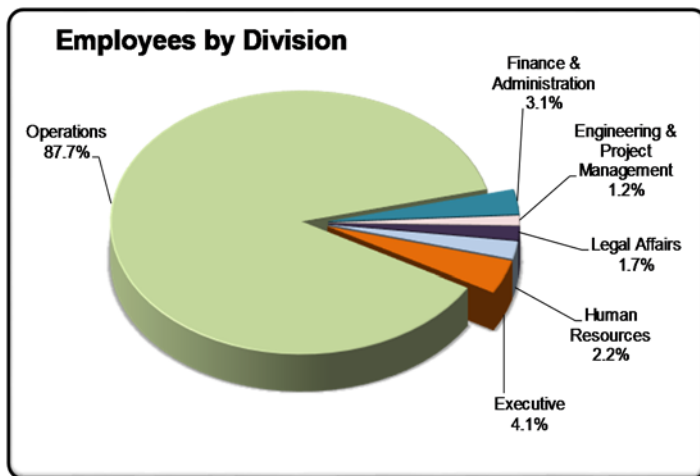


Figure 7

The 2017 Budget reflects staffing of 2,332.0, an overall decrease of 30 positions from the 2016 budget.

The pie chart represents the relative employment levels within each division.

With the 3 percent service reduction annualized in 2017, Operator positions were reduced by 31.0 positions. Safety initiatives have increased over the past several years and the focus will continue in 2017 due to increased State safety oversight for rail. A part-time position was included to accommodate these needs. The Safety Awareness Coordinator audits operators to

ensure they are using safe practices. As Operators continue to think "Safety", preventable incidents decrease. One of the Authority's VFOs (Vital Few Objectives) is to decrease preventable incidents, the need for this position is substantiated. On the administrative side, one Administrative Assistant position has been included for one-half of the year, effective July 1st, for the Information Technology (IT) Department. The position will only be filled after mid-year if the pending issue with the Sales & Use Tax base is resolved by the State.

SERVICE LEVELS

Service hours and miles have increased slowly over the years as funding and needs increased. Since 2015, however, ridership has slowly dropped as gas prices have remained low and choice riders elected to drive rather than take public transit. A plan was proposed in 2015 to decrease service but was postponed until August 2016. A 3 percent service reduction is annualized in 2017 for bus and rail modes. Paratransit service and needs continue to increase and is budgeted in 2017 with a 1.5 percent increase.

Work on the rail tracks and stations has demanded the increase need for bus bridges while the rail lines are down. Many of these bus bridges are factored into the 2017 budgeted service levels. The projected bus service hours and miles are shown on the chart below. These updated service levels are compared to the budgeted service levels for 2016, which has accounted for bus bridges during rail work.

A new pilot program for a van pool service was budgeted for 2016 and was set to begin toward the end of the year. The 2017 budget includes funding for the new contract where the vendor will set up and provide the van pool service for our customers.

2017 Budget Service Levels By Mode										
Compared to 2016 Budgeted Service Levels by Mode										
Service Mode	Service Hours					Service Miles				
	2016 Budget	2016 Estimate	2017 Budget	Variance	Percent Variance	2016 Budget	2016 Estimate	2017 Budget	Variance	Percent Variance
Rail										
Heavy Rail(Red)	148,088	141,280	147,000	(1,088)	-0.7%	2,758,293	2,669,992	2,700,000	(58,293)	-2.1%
Light Rail(Blue/Green)	61,985	57,886	59,000	(2,985)	-4.8%	895,025	769,027	830,000	(65,025)	-7.3%
Total Rail	210,073	199,166	206,000	(4,073)	-1.9%	3,653,318	3,439,019	3,530,000	(123,318)	-3.4%
Bus										
RTA	1,376,803	1,341,757	1,340,000	(36,803)	-2.7%	16,566,033	16,087,653	16,000,000	(566,033)	-3.4%
Total Bus	1,376,803	1,341,757	1,340,000	(36,803)	-2.7%	16,566,033	16,087,653	16,000,000	(566,033)	-3.4%
Paratransit										
In-House	189,041	170,165	194,712	5,671	3.0%	2,633,475	2,288,668	2,229,065	(404,410)	-15.4%
Contract	205,312	214,759	208,392	3,080	1.5%	2,885,414	3,066,272	3,372,899	487,485	16.9%
Total Paratransit	394,353	384,924	403,104	8,751	2.2%	5,518,889	5,354,940	5,601,964	83,075	1.5%
Grand Totals	1,981,229		1,949,104	(32,125)	-1.6%	25,738,240		25,131,964	(606,276)	-2.4%
Van Pool	29,000	-	12,000	(17,000)	-58.6%	640,000	-	300,000	(340,000)	-53.1%
	29,000		12,000	(17,000)	-58.6%	640,000		300,000	(340,000)	-53.1%

Figure 8

POLICY COMPLIANCE

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

OPERATING EFFICIENCY

An **OPERATING RATIO** of at least 25 percent is the policy goal. This ratio will not meet the objective for 2017, at 18.2 percent, as ridership has decreased over the past several years. RTA has not increased fares for seven years. The 2017 Budget includes a fare increase and a 3 percent service reduction. Base fare were increased from \$2.25 to \$2.50 in 2016, and an additional Paratransit fare increase is budgeted from \$2.50 to \$2.75 in August 2017. RTA will need to control expenses throughout the year in order to end the year with a ratio above 20 percent.

The **COST PER HOUR OF SERVICE** is to be maintained at or below the level of inflation (under 2 percent for 2017 per the Cleveland Fed). For 2017, operating costs are increasing by 6.3 percent, compared to the 2016 estimate. Service hours are scheduled to decrease by 1.6 percent. At a budgeted rate of 12.4 percent, this measure will not be met.

The goal that is most easily understood and tracked is the **ONE-MONTH OPERATING RESERVE**. This objective requests the Authority should have a year-end balance equal to one month's operating costs (1.0). The Operating Reserve objective is projected to be met in 2016. For 2017, a one-month operating reserve is equal to \$22.3 million. With a budgeted ending balance of \$8.5 million, 0.4-months reserve, the Authority will

not meet this measure. For the two out-years, this policy goal is also not projected to be met at -0.5-month and -1.3-month, respectively.

CAPITAL EFFICIENCY

The goal for the **DEBT SERVICE COVERAGE** ratio is to be above 1.5. Due to the impact of the recent recession, this measure had declined to a low of 1.14 at the end of 2009. The ratio improved to 2.02 in 2010 as revenue from the Sales & Use Tax recovered and again increased in 2011, to 2.82 at the end of the year as Tax receipts continued to grow, the Authority stretched the use of its 2008 borrowing for four years, and pre-paid a State Infrastructure Bank loan in 2011. Between 2014 and 2016, the debt service coverage continued to meet the Board Policy goal, though slowly declining in each year from 2.38 in 2014, to 1.80 in 2015, to a projected 2.10 at the end of 2016. At a projected 1.48 in 2017, it will be close to, but is not expected to meet the goal due to the projected decline in Sales & Use Tax revenue.

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

The financial contributions to the capital programs support 100 percent locally funded capital projects, provide the local match for projects funded by grants, and funds the Authority’s debt service requirements. The added contribution of 18.4 percent in 2014 was due to transfers of additional local funds needed for multi-year bus replacement program and to meet the financial needs of the Authority’s capital programs. The contribution to capital held steady at 18.5 percent in 2015 before declining to 14.4 percent in 2016. This decline in contribution will continue at 15.0 percent in 2017, but increase to 15.5 percent in 2018 and 15.1 percent in 2019 as the decreases in Sales & Use Tax revenue also impacts this measure.

The projected ratio of 96.3 percent in 2016 for **CAPITAL MAINTENANCE OUTLAY TO CAPITAL EXPANSION** is above the Board Policy goal of between 75 percent and 90 percent due to a large number of State of Good Repair (SOGR) capital maintenance projects including the bus improvement program, reconstruction of heavy and light rail stations, and track infrastructure projects. It will remain above the 90.0 percent maximum in 2017, at 94.1 percent, as the focus of the Authority’s capital program remains on the maintenance, rehabilitation, and the replacement and/or upgrade of existing capital assets, rather than on expansion projects. This measure is expected to remain above the maximum of 90 percent, at 92.5 percent in 2018 and 2019, due to the focus of the 2017-21 Capital Improvement Plan on state of good repair projects throughout the Authority.

In 2017, only one of the six objectives will be met due to constrained revenue. The major factors include elimination of \$5.0 million grant funds that help subsidize operation, the increase in operating expenses over the past years, and the growing demand in capital projects to maintain a state of good repair.

The **OPERATING RATIO** will be a projected 18.2 percent, below the goal of 25 percent, due to the increase in the operating budget and decrease in passenger fare revenue. The Operating Budget Growth per Year is programmed to increase by 12.5 percent, above the rate of inflation, but with execution is expected to be reduced and the **SALES & USE TAX CONTRIBUTION TO CAPITAL** is expected to be at 14.4 percent in 2017 with the focus of capital projects on maintenance, rehabilitation, and replacement of current assets. In 2018, only one out of the six financial policy goals will be achieved, Growth per Year, the cost of delivering a unit of service and in 2019 none of the Board Goals will be met as the full impact of decreasing revenue from the Sales & Use Tax is felt.

The Authority has been able to improve internal processes over the past five years and reduce costs to enable shifts of financial resources to address many SOGR capital projects. The GCRTA must continue to maintain a balance between operating and capital funds to stay successful and develop plans to address the significant challenges it will face in the upcoming years.

END OF YEAR RESERVE FUNDS

RTA has made a decision to reduce grant funded preventive maintenance reimbursements to the Operating Budget and redirect those funds to increase Capital expenditures. Transit is a capital-intensive business and the Authority addressed some of the capital needs to ensure a state of good repair. Operating costs are rising and are budgeted at \$267.5 million for 2017 with a budgeted ending balance for of \$8.5 million. If the GCRTA is to remain financially sustainable in the future, a 30-day operating reserve must be met while maintaining PM reimbursement under \$20.0 million is going to become increasingly difficult.

A transfer to the Rolling Stock Reserve Fund is budgeted to reserve a percentage of the year-end balance for future purchases of revenue vehicles. This Fund would reserve 10 percent of the balances over \$5 million and 5 percent if the balances is under \$5 million. This fund will help to create the local match needed for revenue vehicle purchases. The 2016 estimate for the transfer is \$2.4 million. The budgeted transfer for 2017 is \$0.4 million.

CAPITAL IMPROVEMENT PLAN

The Capital Improvement Plan (CIP) for 2017-2021 was approved by the Board in August 2016. It provides for the purchase, maintenance, and improvement of the Authority's capital assets through a programmed allocation of available financial resources. The capital assets of the Authority are varied and include such items as buses, rail cars, rail right-of-way infrastructure, facilities, equipment, non-revenue vehicles, and other capital assets needed to support the on-going operations of the Authority. The life cycle of these capital assets extends over a period of years and effective capital improvement planning provides the framework for scheduling improvements based on the availability of resources, the condition of assets, and the priorities among submitted capital projects. The capital-intensive nature of public transportation makes long-term financial planning, as well as effective implementation and completion of programmed capital projects on a timely basis, indispensable.

As in previous years, additional resources are needed to meet the needs of maintaining the Authority's capital assets in a SOGR. In recent budget years, due to the improved financial conditions of the Authority additional funding was supplied to the capital program by strategically reducing grant funded Preventive Maintenance (PM) reimbursements to the Operating Budget and directing more resources towards capital asset

improvements. After the 2008 Recession, the upturn in the balance of the General Fund triggered a reduction in actual PM reimbursements from \$21.6 million in 2011 to a low of \$9.6 million in 2013. This recent trend was reversed in the current year as growth of the General Fund balance slowed and projected PM reimbursements have grown to a projected \$21.2 million in 2016. For 2017, Preventive Maintenance reimbursements are budgeted at \$20.0 million and are expected to remain at this amount in the following two years.

The allocation of capital funds and budget authority in recent years have targeted a significant number of SOGR projects throughout the Authority. Financial resources were allocated through a capital review process that prioritized both budgeted, unfunded capital projects as well as consideration of new capital projects. It continues to maintain the focus of the Authority’s capital program on achieving and maintaining a State of Good Repair throughout the system as it continues to reflect existing and future financial and operational constraints facing the Authority. The Authority should replace 30-35 buses per year over the next five years at an annual cost of \$17.5 million of which, 43 40-Ft CNG buses are currently on order and 2017 and early 2018, while at the same time it need to invest in the reconstruction of rail stations to meet ADA key station standards, and its rail track, bridges, rail signals & electrical system, and overhead catenary.

The Authority’s capital projects are grouped in the proposed 2017 – 21 Capital Improvement Plan shown on the following page.

2017 - 2021 CAPITAL IMPROVEMENT PLAN						
Combined Budget Authority						
PROJECT CATEGORY	2017 Budget	2018 Plan	2019 Plan	2020 Plan	2021 Plan	2017-2021
Bus Garages	\$0	\$2,400,000	\$5,450,000	\$0	\$0	\$7,850,000
Bus Improvement Program	\$12,844,595	\$21,958,227	\$20,000,000	\$20,000,000	\$24,000,000	\$98,802,822
Equipment & Vehicles	\$2,634,600	\$8,060,176	\$7,100,825	\$4,850,000	\$4,290,000	\$26,935,601
Facilities Improvements	\$5,532,000	\$8,768,724	\$12,812,061	\$7,236,890	\$7,932,890	\$42,282,565
Other Projects	\$2,271,450	\$2,272,250	\$2,273,750	\$2,273,750	\$2,275,250	\$11,366,450
Prev. Maint./Oper. Reimb.	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$100,000,000
Rail Projects	\$20,492,642	\$24,968,485	\$25,208,719	\$13,316,000	\$11,175,000	\$95,160,846
Transit Centers	\$320,000	\$300,000	\$300,000	\$300,000	\$300,000	\$1,520,000
TOTALS	\$64,095,287	\$88,727,862	\$93,145,355	\$67,976,640	\$69,973,140	\$383,918,284

Figure 9

CONCLUSION

GCRTA has managed well over the past few years. As the growth in revenues and resources slow, increasing operating costs are making it difficult to end with a 30-day balance. The 2017 budget annualizes the fare increase and the 3 percent service reduction implemented in August 2016, but difficult decisions may lie ahead in 2017 through 2019 in order to mitigate a potential yet significant decrease in revenues due to Medicaid services possibly being removed from the Sales & Use Tax base. As in the past, the GCRTA will take the necessary actions as the budgeted operating reserve falls.

Additional funding from the state would be helpful. In 2015, the state conducted a study in the indicating that funding for public transportation was inadequate. Despite that, no additional funding was budgeted for public transportation nor was included in the State's latest budget. The GCRTA must manage within its current resources and control its expenses accordingly. Along with that, the GCRTA must continue to improve its operational efficiencies and effectiveness to provide quality service and meet its commitments to its customers while at the same time it must maintain the necessary funds sustain operations and keep its infrastructure in a state of good repair. The proposed 2017 General Fund and the Other Fund Budgets achieve that goal, but at the same time indicate that significant financial issues may lay ahead in the upcoming year.