2009 Budget Guide

2009 Budget Guide

The **2009 Budget Guide** describes the decision-making process involved in adopting the annual budget. It begins with a description of what is found in the various chapters of the **Adopted Budget Plan**. Then, it explains the financial and budgetary policies adopted by the Board of Trustees that guide budget decisions. The budget process is described, including the methods used to monitor the budget once it is adopted. This chapter ends with a glossary of key technical terms used throughout the document.

2009 Budget Guide

Organization of the Adopted Budget Plan

The purpose of this section is to describe the contents of the 2009 Operating and Capital Budgets (Adopted Budget Plan) for the Greater Cleveland Regional Transit Authority. It is an aid to those who wish to analyze the budget in detail. Tables of Contents in the first section of this book and on the tabs in the beginning of each chapter provide further direction to the reader.

The **Citizens Summary** is an overview of the Authority's operations and finances. It includes the CEO/General Manager's Transmittal Letter, summaries of revenues, expenditures and staffing, service indicators, and a profile of the service area.

In addition to providing an outline of the Adopted Budget Plan, the **Budget Guide** explains the Authority's financial and budgetary policies, including the rationale for their adoption and the manner in which they are implemented and monitored. The Guide also contains a description of the budget management process, a budget calendar and a glossary of terms used in the Adopted Budget Plan.

The **Fund Budgets** section defines the Authority's fund structure and the interrelationships between funds. Individual fund statements reflect the trends in revenues, expenditures, ending balances and transfers between funds over a six year period. Historical, current, and prospective information is provided. An analysis of the Authority's financial condition is based on these trends.

The **Department Budgets** present the Adopted Budget Plan by organizational unit. These chapters describe the six divisions including their mission statements, functions, achievements, and priorities for 2009. Individual budgets, budget implementation narratives, organization charts, and staffing level summaries are provided for each department.

The **Capital Improvement Plan** itemizes capital projects approved for 2009 and those planned for 2010 through 2013. The chapter discusses funding sources, the capital improvement planning cycle, and the criteria used to establish priorities.

2009 Budget Guide

Fiscal and Budgetary Policies

Introduction

The Authority adopted a set of financial policies in 1989, relating to its overall finances and to particular funds. The policies were amended in July of 1998 to include four more financial indicators as companions to the existing four. The indicators represent policy goals in an effort to achieve and maintain a sound fiscal condition. The impact of the financial policies is highlighted in the Policy Implementation sections that follow.

For accounting purposes, the Authority reports the results of its operations in a single enterprise fund. However, for budget purposes, a separate budget must be adopted annually for each fund (see **Fund Budgets**). Therefore, the following financial and budgetary policies are organized by fund, except for those general policies that are applicable to the Authority as a whole.

The policies are designed to provide a financial management framework, which ensures the fiscal integrity of the organization and adherence to laws and regulations. The Authority's purpose, which is to provide a public service, can only be accomplished so long as it remains a financially viable organization. In this vein, a balance must be struck between using the funds to provide that service and maintaining a reserve for possible future shortfalls.

All Funds

Policy Statement:
Current appropriations in each fund are limited to the sum of available cash, encumbered balances, and revenues estimated to be received in the current budget period.

Rationale:
A balance must be struck between revenues and expenditures. By law, budgets cannot exceed available resources. Available resources are defined as current period revenues plus balances carried forward from prior years. Although temporary shortfalls or operating deficits can and do occur, they should not be tolerated as long-term trends.

Implementation:
The Board of Trustees (BOT) has adopted other policy goals that go beyond the statutory requirement listed above and require certain reserves in each fund. The specific requirements are discussed under the appropriate fund policy statement. The following describes the implementation of this policy for the General Fund.

Fiscal and Budgetary Policies

All Funds, cont.

In the General Fund, estimated resources total $282.0 million (current revenues of $274.6 million plus an assumed beginning balance of $7.4 million). Total appropriations for 2009 equal $278 million and are within the estimate of total resources available. Unfortunately, the Authority's Capital and Debt programs require an additional $3.5 million in transfers above the current $274.6 million in revenue, lowering the projected 2009 year-end balance to $4.0 million. The ending balance does not meet the one-month reserve recommended by the Trustees for the General Fund (see page BG-6). The Board policy goal is considerably more restrictive and more determinant than is the legal demand for balanced appropriations.

Policy Statement:

The Authority's interim funds shall be invested to achieve the maximum financial return consistent with prudent market and credit risks while conforming to applicable State and Federal laws and consistent with the cash flow requirements of the Authority, matching maturities and/or marketability at par, to meet outstanding obligations and financial commitments.

Rationale:

With interim funds of more than $50 million, investment income is a material resource for the GCRTA and makes funds management a priority. Investment decisions should attempt to increase yields without sacrificing the safety of principal or the liquidity position of the organization. In addition, idle cash balances should be invested whenever possible to maximize investment income.

Implementation:

The Ohio Depository Act and GCRTA cash management investment policy allows the Authority to invest in the following types of financial instruments:

- U.S. Government securities, maximum term of three years.
- Secured certificates of deposit, maximum term of one year.
- U.S. Government Agency securities, maximum term of three years.
- Repurchase agreements of U.S. Government and agency securities, maximum term of thirty days.
- State Treasury Asset Reserve of Ohio (Star Ohio), daily liquidity.

Monthly reports summarizing investment transactions and earnings are provided to the Board of Trustees. The Authority was able to achieve a favorable return on its year-to-date 2008 investments and at the same time meet its outstanding financial commitments with an investment yield of 5.10 percent.

Fiscal and Budgetary Policies

All Funds, cont.

Controlling Costs

Policy Statement:
The Authority's personnel, procurement, and other policies are designed and administered to obtain the maximum value for the funds provided by its constituents.

Rationale:
As a public agency, the Authority is charged with delivering the services for which its taxpayers and users provide resources. The incentive is not to generate an excessive surplus of funds, but rather, to provide the most extensive and cost-effective level and mix of services possible. More can be done only if services and operations are well managed and if costs are contained.

Implementation:
In the General Fund, the growth in the cost of providing services (measured by cost per hour of service) must remain at or below the rate of inflation. Also, the overhead costs must not exceed 15 percent of the total cost of operations. These policy goals allow the Authority to maximize the use of its resources and provide the most direct service possible.

Budgeted 2009 General Fund operating expenditures, which exclude transfers to other funds, are $246.5 million, which represent an actual increase of nearly $4.7 million, or 1.9 percent, over estimated 2008 levels. The largest Operating Budget appropriation, $179.2 million, is for Personnel Services, which accounts for 72.7 percent of the total operating appropriation. The 2009 appropriation for personnel costs is 3.4 percent higher than the 2008 estimated level. Items increasing these costs are compensation issues including bargaining unit contractual increases, health care costs, retirement system funding, and various service opportunities. The number of total personnel was reduced, providing an offset to these increases.

In the Capital Improvement Fund, economies are sought that minimize the costs of capital projects. Construction management activities ensure the timely completion of these projects at the lowest cost. Cost savings also are possible by planning for the purchase of similar types of equipment in larger quantities. Additionally, capital investment is encouraged where operating cost savings and operational efficiencies result.

Fiscal and Budgetary Policies

All Funds, cont.

Funding Public Services

Policy Statement:
Program demands require that an adequate resource stream be maintained. The Authority must make the hard decisions required to assure a continuing flow of resources.

Rationale:
It is the policy of this Authority to take whatever steps are necessary to ensure full and continued funding for the services, programs, and facilities, which the Authority is required or elects to provide. The Authority should actively pursue whatever legitimate revenues it can locate to support the services its constituents demand.

Implementation:
Sales Tax has under-performed for the last eight years. This revenue stream provides about 63 percent of the Authority's funding in 2009. For four of the last eight years, the amount generated declined when compared to the previous year and the overall increase over that period was 1.0 percent. In 2008, the Authority noted that service reductions would result if this trend did not change. In 2008, actual Sales Tax revenue increased by 1.0 percent. The projection for 2009 is a 0.7 percent increase. The Authority locked the price for diesel fuel for 2009 thus reducing operating expenditures by nearly $2.5 million.

Although the Sales Tax revenue for 2008 increased by 1.0 percent and the projection for 2009 is a 0.7 percent increase, this is not enough to cover all operating expenses. This left no recourse but to implement a 3 percent service reduction, at the end of 2008, and another 5 percent reduction budgeted at the end of 2009. The maximum level of service was maintained given current financial constraints. The organization made and will continue to make the decisions necessary to maintain a solid financial status for 2009 and the future.

Fiscal and Budgetary Policies

General Fund

The following financial policy goals constitute the foundation of the Authority's financial management process in regards to the General Fund. Since their adoption in 1989, they have heavily influenced the development of the annual budget, including the decisions on fare and service changes. Regular monitoring of the related financial indicators by both management and the Board of Trustees demonstrates the importance of these goals to the Authority's operations. The Financial Policies were amended in 1998, adding three new financial measures for the General Fund.

Policy Statement:
An operating reserve in an amount equal to at least one month's operating expenses shall be budgeted each year to cover unforeseen or extraordinary fluctuations in revenues or expenses.

Rationale:
Adequate reserves must be maintained to avoid disruptions in service due to temporary shortages in operating funds or fluctuations in revenue streams or costs.

Implementation:
As in prior years, this policy generated discussion during 2009 budget deliberations. Unfortunately, the 2009 budget does not reflect a one-month operating reserve. It represents only a 0.2-month operating reserve, with the ending balance falling to an estimated $4.0 million. The Authority routinely manages well and holds expenses under appropriation. For 2009, an internal operating target of $243.0 million has been established, which would result in a $7.5 million reserve.

Policy Statement:
(1) Growth in the cost of delivering a unit of service (cost per service hour) shall be kept at or below the rate of inflation.
(2) ***The overhead costs shall not exceed 15 percent of the total cost.***

Rationale:
As a means of assuring cost containment, direct costs shall not be permitted to increase faster than overall price levels. Additional indirect costs (overhead) must be supported by service improvements. The specific measure of the overhead rate was added as a financial indicator in 1998 as a complement to the existing measure.

General Fund, cont.

Implementation:
Operating expenditures are expected to increase by 1.9 percent in 2009. The comparable growth in the cost per hour of service in 2009 is 10.3 percent, significantly higher than the projected inflation rate. Both statistics reflect the impact of personnel cost increases and substantial fuel/utilities cost increases. The growth in cost per hour of service is expected to decrease in 2010 and 2011 with both years remaining closer to the inflation rate. The overhead cost ratio is projected at 12.7 percent in 2009 and to remain steady in 2010 and 2011, with each year below the policy maximum.

Policy Statement:
(1) The Operating Ratio (Operating Revenues divided by Operating Expenses) shall not be allowed to go below 25 percent with a long-range objective of having Operating Revenues cover an increasing proportion of Operating Expenses. (2) The fare subsidy (net cost) per passenger shall not exceed three (3) times the average fare.

Rationale:
An increasing Operating Ratio indicates that the Authority is becoming more self-supporting and less reliant on other sources of income. Moreover, a lower fare subsidy indicates that the users are paying more of the cost of providing the service.

Implementation:
Operating revenues include fares, advertising, and interest income. Operating expenses include all expenditures of the General Fund less transfers to other funds and costs, which are charged to, and reimbursed by, the capital program.

Between 1989, when the financial policies were formalized, and 1997, the Operating Ratio ran above the 25 percent recommended minimum. It fell below the minimum of 25 percent in 1998 and continued to decline through 2004. The ratio stabilized in the 2005 Budget Year. The reversal in this trend is primarily due to the 2006 fare increase, the first in thirteen years. The fare increase was implemented in two phases, the first in July 2006 with the second, implemented in January 2008. In late 2008, a fuel surcharge of $0.25 per ride was also implemented to offset the increasing cost of diesel fuel. In 2009, a slight downturn is expected as Operating Expenses are projected to increase at a faster rate than Operating Revenue and passenger fare revenue stabilizes.

Fiscal and Budgetary Policies

General Fund, cont.

Policy Statement:
Debt service coverage (total operating revenue minus operating expenditures divided by debt service requirements) shall be kept to a minimum of 1.5.

Rationale:
Debt service payments should be comfortably supported by the organization. The excess from general obligations should be used as the measure to not jeopardize the financial condition of the Authority.

Implementation:
The debt service coverage measure has traditionally not only been met, but significantly exceeded the minimum since the Authority has historically used debt sparingly. Since 2001, the indicator steadily declined from 2.15 until it fell below the minimum in 2003, reaching a low of 1.46. In 2004, 2005, 2006, and 2007, debt service coverage rebounded and met the standard at 1.87, 2.08, 1.93, and 1.81, respectively. Current estimates project it at 1.27 for 2008. Debt service coverage is budgeted at 1.18 for 2009 with further declines in 2010 and 2011. Capital improvement appropriations were reduced for a second year in 2009. Capital expenditures for 2010 and 2011 will be further reviewed. Coupled with an internal target designed to enhance operating reserves, this trend may be remedied.

Capital Improvement Funds

Policy Statement:
An amount equivalent to ten percent of sales tax revenues shall be allocated to the Capital Improvement Fund on an annual basis. This amount shall be allocated directly to the Capital Improvement Fund to support budgeted projects or to the Bond Retirement Fund to support debt service payments.

Rationale:
Capital assets, such as facilities, equipment, and vehicles, are essential to the provision of transportation services. Although expensive to sustain, a regular capital investment program lowers operating and capital costs over the long term. A substantial proportion of capital projects are funded by the Federal Government, but RTA must have adequate matching funds on hand in order to qualify for FTA grants. State and federal assistance has shrunk in recent years, leaving the Authority to absorb an increasing share of capital expenditures through 100 percent locally-funded projects.

Implementation:
The Authority has combined debt financing and direct allocations of sales tax receipts to fulfill the commitment to capital over the last couple of years. In 1995, the definition of contribution to capital was officially broadened to include the transfer to the Bond Retirement Fund. As such, the contribution to capital in 1995-1997 well exceeded the 10 percent minimum at 14.0 percent, 12.7 percent, and 12.0 percent of sales tax receipts. The Authority provided a contribution to capital equivalent to the minimum of 10 percent in 1998 through 2002. Growth in Authority-wide capital needs progressively increased this ratio to 11.4 percent in 2003, 11.5

Fiscal and Budgetary Policies

Capital Improvement Funds, cont.

percent in 2004, 12.2 percent in 2005, and 13.0 percent in 2006 and 2007. For 2008, the percentage increased to 14.3 percent with an estimated increase to 16.6 percent for 2009. Capital expenditures for 2010 and 2011 must be reduced from current levels to hold at 17.0 percent.

Capital requirements for 2009 were substantially reduced from the previous five-year plan. This same action will be needed in 2010 and 2011. Maintaining and balancing the capital plant is important. If current Sales Tax revenue will not support past levels of service, it also will not support past levels of capital expenditures.

Policy Statement:
Capital Improvement Funds shall be used to account for the construction and acquisition of major capital facilities and equipment.

Rationale:
The separation of funds used for day-to-day operations from those employed for capital improvements facilitates the planning process and the management of resources.

Implementation:
Capital investments are defined as those exceeding $1,000, where the useful life of the asset exceeds one year. Capital Improvement Funds include the RTA Capital Fund and the RTA Development Fund. The Capital Fund is supported by the Federal and State grants as well as local sources.

Policy Statement:
The percent of capital maintenance outlay to capital expansion outlay will be a minimum of 33 percent and a maximum of 67 percent.

Rationale:
Transit remains a capital-intensive business and continued quality service relies solidly on maintenance of infrastructure and equipment. Investments must anticipate future service requirements and capacity. Ridership is increased only through a clean, dependable, and well-operated system.

Implementation:
Recognizing that the capital program requires a critical balance between maintenance of existing assets and expansion efforts, this policy objective is used to develop the annual capital budget.

Fiscal and Budgetary Policies

Capital Improvement Funds, cont.

Policy Statement:
The Authority will strive to take advantage of all available State and Federal grants and other financing programs for capital improvements, including but not limited to, State of Ohio public transportation grants and Federal Highway Administration programs as well as the programs of the Federal Transit Administration.

Rationale:
Various "formula" grants are allocated to systems usually on the basis of service or demographic indicators. Discretionary grants are competitive and require the maintenance of positive relationships, solid planning, and well-conceived, well-executed projects. The Authority strives to maximize grant funding in order to best leverage local funds. Furthermore, as more dollars are needed to support an aggressive Long-Range Plan, the Authority will explore and secure other creative and non-traditional revenue sources.

Implementation:
Limited availability of funding at the Federal, State, and Local levels meant the Authority could only place emphasis on the most essential and realistic capital projects during the 2009 process. The Authority continues to aggressively pursue the flexible funding authorized under the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and continues to improve its internal capability to plan, finance, and implement its Capital Improvement Plan. The 2009 Budget also reflects the capitalization of traditional maintenance type expenditures allowable at the Federal level, which includes inventory material and supplies and preventive maintenance costs. It also includes funding from the Transportation Review Advisory Committee (TRAC). Long-Range capital planning efforts continue and will shape future capital strategies.

2009 Budget Guide

Fiscal and Budgetary Policies

Supplemental Pension Fund

Policy Statement:
Every two years, an evaluation, including appropriate actuarial studies, shall be made of the Supplemental Pension Fund to determine the amounts required to meet expected obligations of the Fund. Any additional funds determined to be needed will be allocated during the annual budgeting process of the Authority.

Rationale:
Periodic evaluations of the pension amount ensures that the Authority has adequate funds to meet expected obligations.

Implementation:
The Supplemental Pension Fund contains assets held in trust for the payment of pension benefits to certain retired employees of the Authority. Provisions of the plan are delineated in the agreement between RTA and the Amalgamated Transit Union (ATU). As a result of low levels of investment income earned over the last few years and increasing expenditures, the fund has required transfers from the General Fund to keep the recommended balance. A 2004 transfer of $150,000 and a second transfer of $100,000 from the General Fund was done in 2005 to meet expected obligations. A transfer of $106,000 was needed for 2006 and then held at $100,000 for both 2007 and 2008. In 2009, 2010, and 2011, $100,000 transfers are needed each year to ensure that the Fund remains at the recommended level to meet all obligations.

Insurance Fund

Policy Statement:
The Authority is insured through both self-insurance and purchased insurance. Insurance for property and equipment losses as well as liability is to be purchased on the open Insurance market. This basis for the Insurance Fund structure and coverage levels shall be determined by the Risk Manager.

Rationale:
The Authority desires to save funds by implementing the most appropriate balance of insurance to solve claims. Sufficient resources have been set aside to provide security against normal business risk, for major property claims and to purchase specified insurance for these purposes.

Implementation:
The General and Insurance Funds provide for the payment of the insurance purchased on the open market. Since the hiring of a Risk Manager in 1998, the Insurance Fund was restructured to include a mix of self- and purchased-insurance. This represented a major change from the Authority's previous self-insured position. In 2009, nearly $1.6 million is budgeted in the General Fund for the payment of ordinary and routine losses in the form of personal injury and property damage claims against the Authority. An additional $3.2 million is budgeted in the Insurance Fund for claims outlay and to cover insurance premiums for catastrophic or extraordinary losses.

Insurance Fund, cont.

Policy Statement:

The minimum balance to be maintained in the Insurance Fund shall be determined by the Risk Manager on an annual basis taking into consideration the balance between self-insurance and purchased-insurance requirements. Upon attaining the required minimum balance, additional funds will be allotted to the Insurance Fund during the annual budgeting process based upon the results of periodic actuarial studies of the fund to assess its sufficiency.

Rationale:

The intent is to ensure that reserves and insurance levels are sufficient to cover extraordinary or catastrophic losses. The periodic evaluations will determine the sufficiency of the fund and the cost-effectiveness of maintaining a self-insurance program versus obtaining coverage externally, or a combination of the two.

Implementation:

The Insurance Fund provides coverage for catastrophic or extraordinary losses and is not used to pay ordinary and routine losses, which are paid through the Risk Management Department's General Fund Budget. Approximately $1.8 million was paid for this and premium outlays in 2005 and 2006. In 2007 and 2008, $1.4 million and $2.9 million were expended, respectively. For the 2009 budget year, cost are projected to increase to $3.2 million.

A $1.7 million transfer from the General Fund was required in 2003 to maintain the fund at its minimum balance of $5.0 million. In 2004, a decision was made to return the minimum balance back to the original $5.0 million level through a drawdown process, leading to the cancellation of a planned transfer of $1.0 million from the General Fund as the fund balance decreased to slightly less than $6.0 million by the end of the year.

The need for a planned transfer in 2005 of $250,000 from the General Fund was eliminated by a $1.7 million payment to the Insurance Fund from proceeds of a third party settlement. In 2006, 2007, and 2008, transfers of $750,000, $1.2 million and $2.9 million, respectively, were needed to cover budgeted premium outlays and unbudgeted claims costs. The 2009 Insurance Fund Budget will require a $2.8 million transfer from the General Fund to cover budgeted claims and premium outlays. In 2010 and 2011 a transfer of $2.3 million each year will be needed due to increasing insurance costs and low investment income growth.

Fiscal and Budgetary Policies

Bond Retirement Fund

Policy Statement:
Principal and interest payments on outstanding bonds will be accounted for in the Bond Retirement Fund. Debt issuances shall comply with pertinent state and federal laws, finance only long-term capital assets and be supported by adequate debt servicing capacity.

Rationale:
It is the intent of the Authority to issue debt in a manner, which adheres to state and federal laws and prudent financial management principles.

Implementation:
Historically, the Authority has used its debt capacity sparingly due to the benefits of federal and state grant funding. Reductions in these sources of capital support over the years though, combined with an aggressive long-range Capital Improvement Plan (CIP), has resulted in more frequent use of debt sales as a revenue source for the Authority's capital needs. At the end of 2007 the combined outstanding debt for the Authority totaled $147.4 million in general obligation bonds and $4.1 million for a State Infrastructure Bank (SIB) loan, requiring combined principal and interest payments of nearly $14.7 million in 2008, which is $2.8 million less that what was budgeted for 2008. Principal and interest payments are expected to continue to increase in future years in support of the on-going Capital Improvement Plan.

Ohio law permits the Authority to issue both voted and unvoted debt and to levy ad valorem property taxes. Current obligations have not required the use of property taxes for debt service. Debt issuances are subject to three limitations as specified in the Ohio Revised Code and the Ohio Constitution:

1. **Restriction:** Total debt supported by voted and/or unvoted property taxes may not exceed 5 percent of the total assessed valuation of the property within the Authority's territory (Cuyahoga County).

   Impact: This provision is not currently applicable since property taxes are not supporting debt repayment. Further, the $1.60 billion limitation (based on the county's assessed valuation of $31.9 billion) is not overly restrictive in view of the Authority's debt requirements.

2. **Restriction:** Annual principal and interest payments on all unvoted general obligation bonds may not exceed one-tenth of one percent of the total assessed valuation.

Fiscal and Budgetary Policies

Bond Retirement Fund, cont.

Impact: Based on the assessed valuation of $32.5 billion, annual debt service payments would be limited to $31.9 million compared with the expected 2009 payments of $18.1 million. Though not restrictive currently, this limit caps debt service at an amount equal to 1 mill (one mill equals one dollar of tax for each $1,000 of a property's assessed valuation).

3. **Restriction:** The total amount of annual debt service on unvoted general obligations issued by overlapping subdivisions is limited to ten mills of assessed valuation. Overlapping subdivisions, include Cuyahoga County and various municipalities, school districts, and townships within the taxing district.

Impact: This provision pertains to all unvoted debt regardless of the source of payment and historically has been the most restrictive to the Authority. Currently, 8.38 of the 10-mill limitation is available. The resulting debt leeway (based on the 2008 collection year) would allow the Authority to issue $80 million of unvoted debt assuming a 20-year maturity and a 4.5 percent interest rate. It should be noted that in 1996, the Authority's bond rating, a major determinant of the interest rate charged on notes and bonds, was upgraded by Fitch Investors Service from A- to A. In 1997, Moody's Investors Service refined the Authority's rating to "A3," reaffirming it in 2001. The Authority issued debt in 2008, and refinanced debt at a lower interest rate. The Authority has no plans to issue debt in 2009. Fitch Investors Service held the A rating for GCRTA. Moody's upgraded its rating from "A3" to "Aa3."

2009 Budget Guide

Budget Management Process

Introduction

As the Authority's finances became tighter, increased emphasis has been placed on the budget management process. The following procedures were instituted to strengthen the financial management process:

- The Board of Trustees developed a set of financial policies to guide the development of the budget plan and articulate the Authority's operating guidelines.
- The Authority's performance is measured against the standards established by the Board.
- A formal budget document is produced, providing clear, timely, and accurate budget information to officials and the public.
- Expenditures are tracked against appropriations and available resources.
- Performance indicators are used to assess the containment of costs and the effectiveness of service delivery.

The Budget Cycle

For the Authority, the fiscal and calendar year coincide. The budget process for the forthcoming fiscal year begins in June. At this time, a Tax Budget is prepared presenting estimates of available resources for the budget year. In addition to a legal requirement, the Authority prepares a Tax Budget as a valuable tool for estimating budget year resources and performing appropriations planning.

Around the same time, a mid-year review of spending patterns and budget variances is conducted. The July review and the Tax Budget are essential components of the base level appropriations assumed for the succeeding budget cycle. The development of this budget "base" begins the annual budget process, which proceeds as follows:

- A budget "basis" (or starting point) is selected, usually based on the mid-year estimate or the original appropriation level.
- The Office of Management and Budget (OMB) staff adjusts the budget basis for any nonrecurring costs, contracts, or binding commitments or inflation. The product is called the Base Budget.
- After receiving the Base Budget, including the budget basis and any OMB adjustments, departments submit requests for adjustments to the Base Budget.

Budget Management Process

The Budget Cycle, cont.

- Negotiations between OMB staff and Department staff refine the Base Budget. When completed, it should include commitments and recurring costs but not discretionary projects or initiatives.
- New projects or initiatives are presented as Decision Issues. These are negotiated initially at the Division level and then at hearings with the CEO/General Manager, and the Executive Management Team (EMT) based on their effect on the Authority's goals and objectives.
- The finalized CEO/General Manager's Recommended Budget:
    1. Is the sum of the refined Base Budgets, Adjustments, and approved Decision Issues.
    2. Must be limited to estimated available resources.
    3. Shall satisfy the Authority's financial policies to the best extent possible.
    4. Must support the Authority's mission and strategic direction as embodied in the Board Policy Goals and outlined in the Strategic Planning Process.
- The CEO/General Manager's Recommended Budget is presented to the Board of Trustees and is made available to the public.
- A series of budget hearings is scheduled for the Board of Trustees and for the public. Three or four hearings are held including the public discussion of the budget.
- The review process culminates in the formal adoption of a budget resolution at the December Board meeting. It is the Trustees' practice to finalize appropriations before the new fiscal year begins.

2009 Budget Guide

Budget Calendar of Events

December

- Adoption of 2009 Budget

November

- Presentation of CEO Recommended Budget to Board Committee
- Board Deliberations/Public Hearings

October

- Final EMT Presentation
- Final Rollup/Transmittal Letter

September

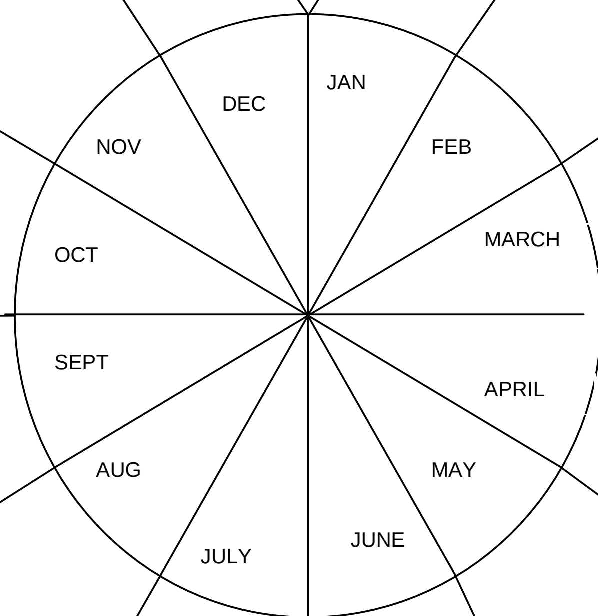
- Departmental Negotiations & Consensus
- Preliminary Budget Rollup & Reconciliation
- Preliminary EMT Presentation

August

- Base Budget Development

July

- Adoption of Tax Budget



Operating Budget

January

- Conversion of Annual Budget Plan from Budget Development System to Financial Management System
- Budget Appropriation available for use

February

- Publication of Annual Budget Plan
- Report on Fourth Quarter Review

March

- Budget Policy Review and Priority Setting

April

- Report on First Quarter Review

May

June

- Office of Management & Budget prepares Tax Budget

Budget Management Process

Quality Management System

The Authority continues to operate under the Quality Management System, an outgrowth of the organization's implementation of Total Quality. Under the Quality Management System, the Board of Trustees and senior management have identified a Mission Statement and five Priority Policy Goals felt to be essential for growth and progress in this organization. These are reviewed on an annual basis and modified, if necessary. Budget decisions are made within the context of our overall strategic planning process (see the Transmittal Letter in the Citizens Summary Section for further details). For 2009, these Policy Goals remain:

- **Customer Focus:**
  Provide safe, high quality service to all customers and support our employees in that endeavor.

- **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.

- **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.

- **Improve Financial Health:**
  Improve the agency's financial health through efficient use of resources and the pursuit of new and innovative revenue sources.

- **Provide Community Benefits:**
  Provide social, economic, and environmental benefits to the community through system improvements, and increase community awareness of these contributions.

During development of the 2009 Budget, as in recent years, however, emphasis was placed on two of the Board Policy Goals: **Customer Focus** and **Improve Financial Health**.

Budget Management Process

Budget Monitoring and Control

A quarterly financial report allows the CEO/General Manager and the Board of Trustees to monitor actual performance against appropriations and estimated resources. This report is used to determine adjustments to the budget. Generally, departments are expected to operate within their total appropriations and to justify requested amendments.

The budget may be adjusted after periodic reviews, but is normally limited to interdepartmental transfers rather than an increase to the overall appropriation level. The CEO/General Manager has the authority to transfer appropriations within departments. These transfers are reported to the Trustees within thirty days. Any increase to the Authority's total operating budget requires Board of Trustee approval.

The CEO/General Manager also has the authority to upgrade or reclassify staff positions within a department. Positions may be reallocated between departments and divisions, providing the overall division staffing level remains at the level approved by the Board. This allows the CEO/General Manager flexibility in making staff decisions.

Glossary

Accrual Accounting - A method of financial accounting where revenues are recorded when earned; the revenue does not have to be received in the same reporting period. Similarly, expenditures are recorded as soon as they result in liabilities for benefits received; the payment of the expenditure does not have to be made in the same reporting period.

Ad Valorem Tax – A tax based on the value (or assessed value) of property.

Amalgamated Transit Union (ATU) - the largest transit union in North America.

Americans with Disabilities Act (ADA) – of 1990, requires that public entities, which operate non-commuter fixed route transportation services, also provide complementary Paratransit service for individuals unable to use the fixed route system.

Appropriation – An authorization granted by the Board of Trustees to make expenditures and incur obligations for purposes specified in the Appropriations Resolution.

Arbitrage – Investment earnings representing the difference between interest paid on bonds and the interest earned on the investments made utilizing bond proceeds.

Assessed Valuation – The value of property against which an ad valorem tax is levied. Valuations are conducted by the County Auditor and reflect a percentage of the true or market value of the property.

Asset Maintenance – This category of capital projects refers to projects where 100% of the funding is provided by local sources (versus grant funding sources) and represents expenses incurred to maintain or improve the Authority's major capital assets.

Base Budget – The ongoing expenses for maintaining the Authority's daily operations, previously authorized by the Trustees. Base Budgets include all mandated and non-discretionary services or reductions to the cost of continuing projects or programs.

Bond – The written evidence of the debt issued by the Authority. It bears a stated rate of interest and maturity date on which a fixed sum of money plus interest is payable to the holder.

Bond Counsel – A lawyer or law firm, which delivers an opinion regarding the legality of a debt issuance or other matters.

Budget Basis – The starting point for budget deliberations, usually the prior-to budget year appropriation, or the Midyear Review estimate of expenses. It is critical that the budget basis be clearly documented and understood by all budget participants.

Budget Deficit – Usually, this is a projection of expenditures exceeding appropriations. It is normally determined as a result of a quarterly review. The budget is controlled so that expenditures plus encumbrances should not exceed appropriations.

Bus Rapid Transit (BRT) – A broad term given to a variety of transportation systems that, through improvements to infrastructure, vehicles, and scheduling, attempt to use buses to provide a service that is of a higher quality than an ordinary bus line. See Euclid Corridor Transportation Project.

Glossary

CAFR – Comprehensive Annual Financial Report, containing audited financial statements and related materials.

Capital Improvement Budget – The current year estimated resources and costs of construction projects and capital equipment purchases in the Capital Improvement Plan that involve maintenance and expansion projects and are funded through grants as well as local sources.

Capital Improvement Plan (CIP) – A multi-year plan for constructing, acquiring, or maintaining capital assets.

Cash Accounting - A major accounting method that recognizes revenues and expenses at the time physical cash is actually received or paid out.

Cash Deficit – This is a common circumstance in a fund deficit situation and it involves a fund carrying a negative (or credit) cash balance. This situation typically requires a cash transfer to remedy.

Closed Circuit TV (CCTV) - the use of video cameras to transmit a signal to a specific, limited set of monitors. CCTV is used for surveillance in areas, which need security, such as rapid stations, transit facilities, Park-N-Rides, and the airport.

Computer Integrated Transit Maintenance Environment (CITME)– A computer program purchased to assist in modernizing maintenance operations through management by data.

Controlled-Access Right-of-Way (ROW) – Lanes restricted for at least a portion of the day for use by transit vehicles and other high occupancy vehicles (HOV). Use of controlled access lanes may also be permitted for vehicles preparing to turn. The restriction must be sufficiently enforced so that 95 percent of the vehicles using the lanes during the restricted period are authorized to use them.

Cost Ceiling – A limit on costs for which a program allocation will reimburse. This term is used most often in reference to federally supported capital projects.

Debt Limit – A statutory or constitutional limit on the principal amount of debt that an issuer may incur or have outstanding at one time.

Debt Service – Principal and interest paid on bonds and notes.

Debt Service Coverage - the measure of the Authority's ability to meet annual interest and principal payments on outstanding debts.

Decision Issue – Any budget request for new or increased funding of projects or programs, which exceeds base budget requests. Use of decision issues aids the process of allocating financial resources and provides for the comparison and prioritization of existing programs and services relative to the need for new programs and services.

Disadvantaged Business Enterprise (DBE) – A program intended to ensure nondiscrimination in the award and administration of DOT-

Glossary

assisted contracts in the Department's highway, transit, airport, and highway safety financial assistance programs.

Door-to-Door Service – Paratransit Service where drivers have been instructed to pick-up and drop off passengers at the front door of places of residence, at the front door of the apartment buildings in which they live, or front door of destination.

Encumbrances – A budgetary technique for recording unperformed contracts for goods and services. Use of encumbrances restricts the balance in each fund so that total commitments (expenditures plus encumbrances) will not exceed appropriations.

Euclid Corridor Transportation Project (ECTP) – (Health Line) designed to improve transit service, as well as support increased development along Euclid Avenue. The objective of the project was to provide shorter travel times along Euclid Avenue and linkages with other RTA services for better access to work, home, medical, educational, and cultural centers in Greater Cleveland.

Exclusive Right-of-Way (ROW) – Roadway or other right-of-way (ROW) reserved at all times for transit use and / or other high occupancy vehicles (HOV). The restriction must be sufficiently enforced so that 95 percent of vehicles using the right-of-way (ROW) are authorized to use it.

Executive Management Team (EMT) – The General Manager's first level of management, which includes Deputy General Managers and Executive Directors.

Expenditure - A category of expense that a business incurs as a result of performing its normal business operations.

Family and Medical Leave Act (FMLA) - To grant family and temporary medical leave under certain circumstances.

Federal Highway Administration (FHA) - charged with the broad responsibility of ensuring that America's roads and highways continue to be the safest and most technologically up-to-date. Although State, local, and tribal governments own most of the Nation's highways, we provide financial and technical support to them for constructing, improving, and preserving America's highway system.

Federal Transit Administration (FTA) - supports a variety of locally planned, constructed, and operated public transportation systems throughout the U.S., including buses, subways, light rail, commuter rail, streetcars, monorail, passenger ferry boats, inclined railways, and people movers.

Financial Management System (FMS) – The information system software that houses all financial data and includes the General Ledger, Procurement, and Budget Modules.

Fiscal Year - Any 12-month period that a company uses for accounting purposes.

Fixed Guideway (FG) - A separate right-of-way (ROW) for the exclusive use of public transportation vehicles. All rail modes operate exclusively, (i.e., 24 hours per day and seven days per week), on fixed guideway (FG).

Fraternal Order of Police (FOP) - the world's largest organization of sworn law enforcement officers, committed to improving the working conditions of law enforcement officers and the safety of

Glossary

those we serve through education, legislation, information, community involvement, and employee representation.

Full-Time Equivalent (FTE) Position – A part-time position converted to the decimal equivalent of a full-time position based on 2,080 hours per year for 40 hours per week employees.

Fund – A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Fund Deficit – An excess of liabilities over assets. This is not an acceptable condition in most funds and it usually must be addressed by transferring revenue to the fund in deficit.

Fund Type – In governmental accounting, all funds are classified into eight generic types; General, Special Revenue, Debt Service, Capital Projects, Special Assessment, Enterprise, Internal Service, and Trust and Agency. The Authority uses General, Debt Service, Capital Projects, Agency, and Enterprise funds.

GAAP – Generally Accepted Accounting Principles.

General Obligation (GO) Bond – A bond that is secured by the full faith and credit of the Authority. The GCRTA pledges to utilize its taxing power (almost always Sales Tax proceeds) to pay debt service.

Goal – A statement of broad direction, purpose, or intent based on the needs of the community. A goal is not concerned with a specific achievement in a given time period.

Guideway - A public transportation facility using and occupying a separate right-of-way (ROW) or rail for the exclusive use of public transportation including the buildings and structures dedicated for the operation of transit vehicles such as tunnels, subways, bridges, paved highway lanes, and track and power systems for rail modes.

Health Line – See Euclid Corridor Transportation Project

HRV – Heavy Rail Vehicles, which operate on the Red Line. Heavy Rail is a transit mode that is an electric railway with the capacity for a heavy volume of traffic.

Indirect Costs - the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs.

Interactive Voice Response (IVR) - a phone technology that allows a computer to detect voice and touch tones using a normal phone call. The IVR system can respond with pre-recorded or dynamically generated audio to further direct callers on how to proceed.

Interest – The amount paid for the use of money.

Glossary

Interest Expense - The charges for the use of borrowed capital incurred by the transit agency, including Interest on long term and short-term debt obligations.

Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) – A legislative initiative setting policy guidance and providing funding for highway, transit, and safety programs. It expired in 1998.

Key Transit 2025 – The long-range plan to help guide the future development of public transit in Cuyahoga County, which focuses on bringing RTA's transit infrastructure up to higher standards and encouraging transit-oriented design, or TOD. Related to nationwide efforts towards Smart Growth, TOD encourages locating transit and development in close proximity in order to reduce auto dependency and improve transit access.

Legal Millage Rate – The stated rate, in mills, for levying real and personal property taxes.

LRV – Light Rail Vehicles, which operate on the Blue, Green, and Waterfront Lines. Light Rail is a transit mode that typically is an electric railway with a light volume traffic capacity, compared to Heavy Rail (HR).

Market Value – The County Auditor's estimate of the true or fair value of real or personal property. In accounting, it is the price that a good or service would command on the open market.

Mill – The equivalent of $1 of tax for each $1,000 of assessed value of real or personal property.

Mixed Traffic Right-of-Way (ROW) – Roadways that have no time restrictions nor restrictions on what type of vehicles may use them.

Mode - A general term for the different kinds of transportation used to transport people.

NOACA - Northeast Ohio Areawide Coordinating Agency. It is the federally designated Metropolitan Planning Organization (MPO) for five counties of Northeast Ohio, which include Greater Cleveland and the Lorain area. Its chief functions are to perform long- and short-range transportation planning, transportation-related air quality planning, and areawide water quality management planning, as defined by federal and Ohio mandates.

Notes – Short-term promises to pay specified amounts of money, secured by specific sources of future revenue.

Revenue - The amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise.

Object – A commodity-based expenditure classification which describes articles purchased or services obtained. It represents the lowest degree of expenditure summary and budgetary control.

Objective – Desired output-oriented accomplishments, which can be measured and achieved within a given time frame.

Glossary

Office of Business Development (OBD) - Engage, support, and assist the local disadvantaged business community to help ensure fair and representative participation in procurement opportunities at RTA and within the community at-large. The primary function of the Office of Business Development (OBD) is to administer RTA's Disadvantaged Business Enterprise (DBE) Program.

Official Statement – A document prepared by the Authority when issuing debt that gives financial and statistical information to potential investors and others.

Ohio Depository Act - requires a written investment policy that is approved by the treasurer of a political subdivision or governing board, or by the investing authority of a county, to be on file with the State Auditor. The policy must provide that all entities conducting investment business with a subdivision treasurer or governing board or county investment authority sign the investment policy of that subdivision or county.

ODOT – Ohio Department of Transportation. State operating and capital subsidies are distributed to the Authority by ODOT.

Operating Budget – Current year Estimated Revenues and Appropriations that provide for the day-to-day operations of the Authority.

Operating Deficit – An excess of current expenditures over current revenues. A fund can sustain an operating deficit only if there are sufficient fund balances carrying forward from prior years.

Operating Ratio - A ratio that shows the efficiency of management by comparing operating expense to net sales.

Operating Reserve – The available ending balance. A reserve is maintained as a safeguard to protect the organization in times of cyclical economic downturns and will be replenished as the economy improves.

Outlays – The payments on obligations in the form of cash, checks, the issuance of bonds or notes, or the maturing of interest coupons.

Park-N-Ride – Parking lots owned by the GCRTA to provide rail and/or bus services for all major commuter corridors in Cuyahoga County.

Pass-Thru – A situation where the Authority functions as a channel for the expenditure of funds from another source without authority to decide the use of the funds.

Principal – The face amount of a bond, which the issuer promises to pay at maturity.

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing an objective.

Ratings – Designations used by ratings services to indicate the financial health of the issuers of debt.

Repurchase Agreement – A money market transaction in which one party sells securities to another while agreeing to repurchase those securities at a later date.

Glossary

Resolution – A legal and public declaration by the Board of Trustees of intent, policy, or authorization. Resolutions are the legislation of the Authority.

Resolution Category – One of two cost categories at which the Board of Trustees controls operating budget expenditures. These include Personnel Services and Other Expenditures.

Revenue Bond – A bond on which the debt service is payable solely from the revenue generated from the operation of the project being financed.

Routine Capital – Budgeted expenses for equipment, the useful life of which is a year or more and the unit cost is at least $1,000. These expenses are locally, not grant, funded.

Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) – A legislative authorization for transit approved in 2005. It is a six-year initiative, which replaces the expired Transportation Equity Act for the Twenty-First Century (TEA-21).

Senior Transportation Connection (STC) - of Cuyahoga County is designed to be the centralized coordinating unit for senior transportation services in Cuyahoga County. The STC's mission is to provide comprehensive, efficient and affordable transportation for senior adults in the County.

Service Indicator – An output measure showing a statistical workload change or the degree to which program objectives are achieved.

State Infrastructure Bank (SIB) – A funding initiative administered by the State of Ohio, Department of Transportation. The SIB provides low-cost loans for transportation infrastructure projects.

Temporary Assistance for Needy Families (TANF) - provides grants to states to fund a wide array of benefits and services, primarily to low-income families with children. It is best known for funding cash welfare benefits to needy families with children, but it also is used to fund transportation aid.

Tax Levy – The total amount to be raised by general property taxes for purposes specified in the Tax Budget.

Threat and Vulnerability Assessment (TVA) - analyzes all the aspects of physical security, personnel security, information security, and communications security. It measures the current threat capabilities against emplaced security measures and operating procedures to identify vulnerabilities.

TransitStat – The Greater Cleveland Regional Transit Authority's performance monitoring program. It entails frequent gathering, reviewing, analyzing, and monitoring of critical success measures.

Transportation Equity Act for the Twenty-First Century (TEA-21) – A legislative authorization for transit originally approved in mid-1998. It is a five-year initiative, which originally expired in 2003, but was extended by Congress pending an agreement on new transit legislation. It expired in 2005.

Glossary

<u>Transportation Improvement Plan (TIP)</u> – The official listing of highway, transit, bikeway, airport, and harbor projects covering a five-year period.

<u>Transportation Review Advisory Council (TRAC)</u> - was created by the Ohio General Assembly in 1997 to bring an open, fair, numbers-driven system to choosing major new transportation projects.

<u>Urban Mass Transportation Act (UMTA) of 1964</u> – As amended, an Act of Congress providing funds to the Authority under various programs:

> **<u>Section 5309 (formerly Section 3)</u>** – A Federal discretionary program directed primarily to those rail modernization and major bus projects that require funding beyond that available under Section 9.
>
> **<u>Section 5307 (formerly Section 9)</u>** – A Federal formula program which makes resources available to urbanized areas for planning, capital, and operating assistance purposes. Funding allocations are earmarked by Congress.
>
> **<u>Title 23 Interstate Transfer Fund</u>** – Federal funding which had been made available for alternative projects due to the elimination of Interstate 490 from the Federal Interstate Highway Program. Funding for this program was split between highway and transit projects. Also established by Section 134, Title 23 of the United States Code. All funds have been exhausted at this time.