2011 Budget Guide

Budget Guide

The 2011 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.

2011 Budget Guide

Organization of the Adopted Budget Plan

The purpose of this section is to describe the contents of the 2011 Operating and Capital Budgets (Adopted Budget Plan) for the Greater Cleveland Regional Transit Authority. This section 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 **Transmittal Letter** 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 Budget 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 2011. 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 2011 and those planned for 2012 through 2015. The chapter discusses funding sources, the capital improvement planning cycle, and the criteria used to establish priorities.

Budget Management Process

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, **All Funds Statement**. 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 Authorityôs 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 of using the funds to provide that service and maintaining a reserve for possible future shortfalls must occur.

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:
By law, the budget must be balanced and expenditures cannot exceed available resources. A balanced budget is when total expenditures are equal to total revenues. However, the budget is also balanced in situations where total expenditures are less than total revenues, also called a surplus. A third type of a balanced budget is when total resources (previous year balance plus current year revenues) are greater than total expenditures.

Balanced Budget:
A) Total Revenues = Total Expenditures
B) Total Revenues > Total Expenditures
C) Total Resources > Total Expenditures

Implementation:
The Board of Trustees (BOT) has adopted other policy goals that go beyond the statutory requirement listed above and requires 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.

Budget Management Process

All Funds, cont.

In the General Fund, estimated resources total $270.2 million: current revenues of $261.3 million plus an assumed beginning balance of $8.9 million. Total estimated expenditures for 2011 equal $260.5 million and are within the estimate of total resources available. The ending balance, $9.7 million, does not meet the one-month reserve recommended by the Trustees for the General Fund (see page BG-6) but is much closer than the $2.9 million ending balance in 2009. 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 allow 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 2010 investments and at the same time meet its outstanding financial commitments with an investment yield of 0.47%.

Budget Management Process

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 delivers 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. When services and operations are well managed and costs are contained, the Authority can provide greater services.

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. In addition, the overhead costs must not exceed 15% 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 2011 General Fund operating expenditures, which exclude transfers to other funds, are $225.9 million, which represent an increase of nearly $8.3 million, or 3.8%, over estimated 2010 levels. The largest Operating Budget appropriation, $168.1 million, is for Personnel Services, which accounts for 74.5% of the total operating appropriation. The 2011 appropriation for personnel costs is 1.6% higher than the 2010 estimated level. This increase is due, in part, to the restoration of the 3% wage reduction of non-bargaining personnel. These increases include labor and fringe benefits. Other increases include diesel fuel and utility costs. These costs have been stabilized through the Fuel Hedging program and reduction of Utility costs and have been managed through the TransitStat program.

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.

Budget Management Process

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:
The continuing economic crisis and the constraints in Sales Tax revenue has not let up. Cuyahoga County experienced an historic decline in Sales & Use Tax receipts in 2009. For RTA, Sales Tax declined 10.94%, losing nearly $19 million in Sales Tax revenue. During 2010, Sales Tax receipts increased $9 million from 2009 levels due to the additional tax on managed health care.

Sales Tax revenue is not expected to return to the 2008 levels until 2015. RTA must then plan on a new base level of revenue at a reduced amount. Other sources of funding have the same revenue generating problems and cannot be depended upon to stabilize transit in Ohio.

In 2008, Governor Strickland led the way for temporary emergency funding for Ohio Transit Agencies with balances held in Metropolitan Planning Organizations (MPO's). As a result, the Northeast Ohio Area Coordinating Agency (NOACA), our regional MPO, made $9.0 million available to GCRTA to lessen the impact of fuel cost increases from 2008 to 2009. The Authority used $7.3 million of those funds in 2009 and the remaining $1.7 million was utilized in 2010. Two grants for Congesting Mitigation and Air Quality (CMAQ) for costs associated with the HealthLine and Trolley operations were authorized for use in 2010, equaling $6.2 million and $0.8 million, respectively. Only $1.69 million of the HealthLine funding was used in 2010, the remainder will be utilized in 2011 and 2012. The CMAQ funds for Trolley operations are split between 2010, $1.96 million, and 2011, $0.98 million.

Budget Management Process

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.

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 2011 budget deliberations. Although the projected ending balance is significantly higher than in 2009, the 2010 ending balance and 2011 budgeted ending balance represents only a 0.5-month operating reserve, with the ending balances at $8.9 million and $9.7 million, respectively.

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 should not be permitted to increase faster than overall price levels. Additional indirect costs (overhead) must be supported by service improvements.

Implementation:
Operating expenditures are budgeted to increase by 3.8% in 2011 due to service added, increase of diesel fuel costs, and the restoration of the 3% wage reduction for non-bargaining employees. The comparable growth in the cost per hour of service in 2011 is 4.5%, slightly higher than the projected inflation rate. Both statistics reflect the impact of increases in personnel costs, fuel/utilities, and inventory costs. The growth in cost per hour of service is expected to decrease in 2012 and 2013 with both under the inflation rate. The overhead cost ratio is projected at 16.0% in 2011 and to remain steady in 2012 and 2013, with each year just above the policy maximum.

Budget Management Process

General Fund, cont.

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:
A higher Operating Ratio indicates that the Authority is becoming more self-supporting and less reliant on other sources of income. Additionally, a lower Operating Ratio indicates that the customers are paying a higher portion of the operating cost of providing the service.

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

The ratio increased in 2008, although still below the 25% goal, primarily due to a fare increase, implemented in two phases, the first in July 2006 with the second, in January 2008. In late 2008, a fuel surcharge of $0.25 per ride was implemented to offset the increasing cost of diesel fuel. In late 2009, the second half of the fuel surcharge, an additional $0.25, was implemented. In 2011, the ratio will take a slight downturn to 22.5% due to projected increases in labor, diesel fuel costs, and inventory costs. However, the Operating Ratio is expected to stabilize in 2012 and 2013.

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 had historically used debt sparingly.

The debt service coverage was last met in 2007 at 1.81. In 2008 and 2009, the debt service coverage declined to 1.32 and 1.14 due to significant decreases in revenue from the Sales & Use Tax. The measure rebounded to 1.43 in 2010 due to a decline in operating costs and will again increase to 1.49 in 2011. Debt service is expected to drop off in 2012 and 2013 to 1.22 and 0.97 respectively.

If actual operating costs for 2011 are below projection, this goal may be reached. The use of debt service to help fund the Capital needs of the system must be carefully controlled so that it will not impact the future operating needs of the Authority.

Budget Management Process

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. The Federal Government funds a substantial proportion of capital projects, but RTA must have adequate local 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% local funds.

Implementation:
The Authority has combined debt financing and direct allocations of sales tax receipts to fulfill the commitment to capital over the last decade. In 1995, the definition of contribution to capital was officially broadened to include the transfer to the Bond Retirement Fund. 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 between 2003 and 2008, from 11.4% to 14.3%. In 2009, the contribution to capital increased to 18.0% and RTA budgeted a transfer of 18.8% in 2010. Capital expenditures for 2011 and 2012 must be held at current levels to remain at about 19.0%. In 2008, the budget for Capital requirements was reduced by 40% and then maintained at that level in 2009. Stimulus funds provided through ARRA in 2009 provided almost a years funding amount for shovel ready capital projects. RTA was able to utilize those funds effectively and catch up on needed infrastructure work. Capital requirements for 2010 were reduced from the 2008-2009 level. Unfortunately, our plan must be maintained at that level in 2011 and 2012 in order to keep our operating and capital budgets in balance. 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.

Budget Management Process

Capital Improvement Funds, cont.

Policy Statement:
The percent of capital maintenance 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 has been used in the past to develop the annual capital budget. In 2009 and 2010, the capital maintenance to expansion ratio is 95.6% and 99.0%, respectively. During these years, our capital projects are to maintain our existing vehicles, buildings, and infrastructure. A reduced level of Sales Tax means the funds available will be used for maintenance and no funds available for expansion. This is the new reality currently faced.

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 ľformulaò grants are usually allocated to systems based on service or demographic indicators. Discretionary grants are competitive and require the maintenance of positive relationships, solid planning, and well-conceived 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 2011 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 2011 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.

Budget Management Process

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:
A periodic evaluation 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). Because 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. The transfers from 2007 through 2010 were held at $100,000. In 2011, 2012 and 2013, $100,000 transfers will be 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. The Risk Manager determines the basis for the Insurance Fund structure and coverage levels.

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 was a major change from the Authority's previous self-insured position. In 2011, over $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. An additional $3.2 million is budgeted in the Insurance Fund for claims outlay and to cover insurance premiums for catastrophic or extraordinary losses.

Budget Management Process

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. Ordinary and routine losses are paid through the Risk Management Department's General Fund Budget. Approximately $3.5 million and $3.2 million were transferred to the Insurance Fund in 2009 and 2010, respectively. For 2011, the transfer remains at $3.2 million.

A $3.1 million transfer from the General Fund is projected in 2012 to maintain the fund at its minimum balance of $5.0 million. In 2013, a projected transfer of $3.25 million will be needed to maintain the minimum balance.

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 that 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 2010, the combined outstanding debt for the Authority totaled $152.8 million in general obligation bonds and $2.2 million for a State Infrastructure Bank (SIB) loan, requiring combined principal and interest payments of nearly $18.1 million in 2011. Principal and interest payments are expected to continue to increase in future years due to the on-going needs of the Capital Improvement Plan.

Bond Retirement Fund, cont.

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 Authorityôs territory (Cuyahoga County).

   Impact: This provision is not currently applicable since debt obligations have not required the use of ad valorem property taxes for debt service payments. Further, the $1.49 billion limitation (based on the countyôs assessed valuation of $29.8 billion) is not overly restrictive in view of the Authorityôs 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.

   Impact: The 2008-2010 recession has negatively affected the property valuation for Cuyahoga County leading to a decline from $32.5 billion declined to $29.8 billion in the assessed property valuation at the end of 2010. Based on this valuation, the annual debt service capacity of one-tenth of one percent would be $29.8 million and apply to all debt issued by the Authority.

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: The 10 mill limit provision pertains to all unvoted debt regardless of the source of payment and historically has been the most restrictive to the Authority. At the end of 2010, this restriction remains above 10-mill limitation with 10.16 mills in use, primarily due to the decrease in property valuation, leaving 0.00 mills for additional debt issuances. The fact that the 10-mill limit has been exceeded is now another factor to be considered as the Authority prepares for an additional debt issuance in FY 2011.

   Beyond that, it should be noted that in 1996, the Authorityôs 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, Moodyôs Investors Service refined the Authorityôs rating to ñA3,ò reaffirming it in 2001. The Authority issued debt in 2008, and refinanced debt at a lower interest rate. The Authority did not issue debt in 2009 or in 2010. Fitch Investors Service currently holds the A+ rating for GCRTA and Moodyôs is at ñAa2.ò

Budget Management Process

Introduction

As the Authorityõs finances become tighter, increased emphasis has been placed on the budget management process. The following procedures were instituted to strengthen this process:

- The Board of Trustees developed a set of financial policies to guide the development of the budget plan and articulate the Authorityõs operating guidelines.
- The Authorityõs 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.
- Citizens Advisory Board (CAB) meets monthly to provide the pulse of the community in matters of fare changes, Long Range Plan updates, capital projects, and service changes.

The Budget Cycle

For the Authority, the fiscal and calendar year coincide. The budget process for the forthcoming fiscal year begins in June with the development of the Tax Budget. The Authority prepares a Tax Budget as a valuable tool for estimating budget year resources and performing appropriations planning.

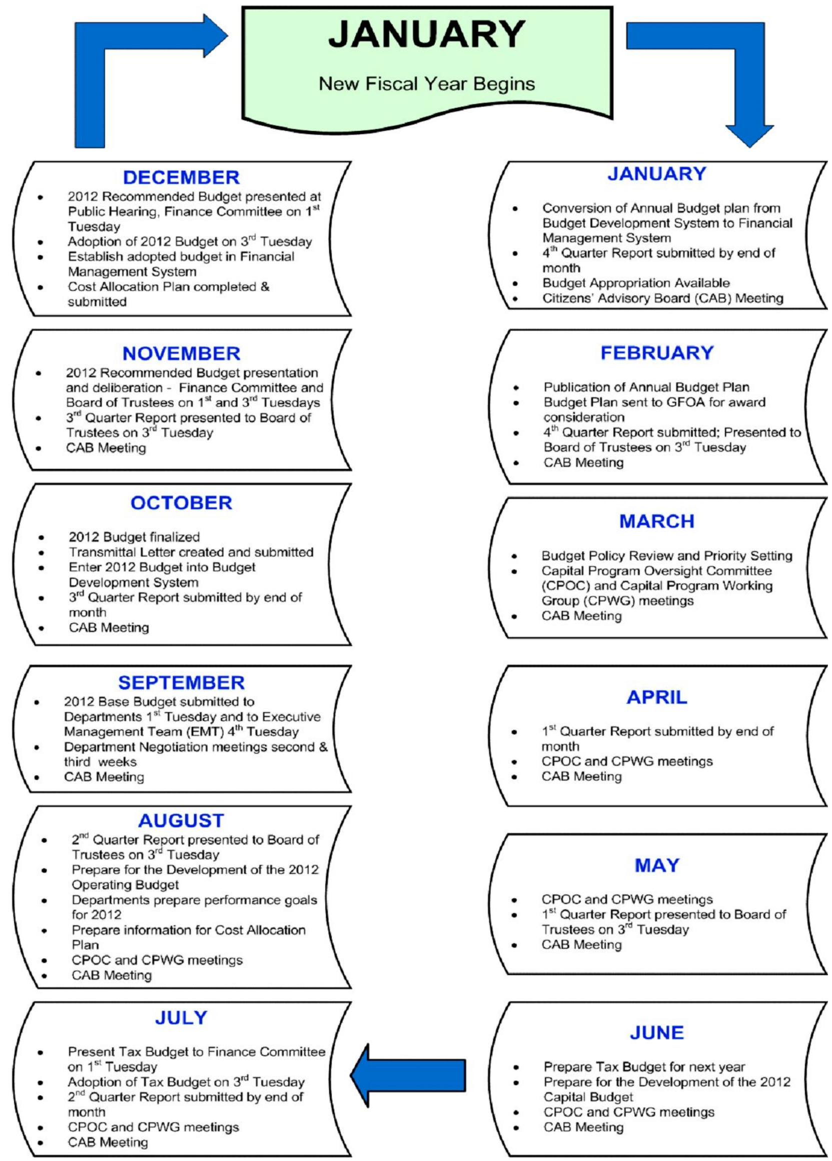
Around the same time, a mid-year review of spending patterns and budget variances is conducted. The July review and the Tax Budget are essential components of the base level appropriations assumed for the succeeding budget cycle. The development of this budget ñbaseò begins the annual budget process,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

- A budget ñbasisò (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.
- 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.

Budget Management Process

The Budget Cycle, cont.

- 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.



Budget Management Process

Quality Management System

The Authority continues to operate under the Quality Management System (QMS), an outgrowth of the organization's implementation of Total Quality Management (TQM). Within the QMS, the Board of Trustees and senior management have identified a Mission Statement and five Priority Policy Goals essential for growth and progress in RTA, which are reviewed annually and modified if necessary. Budget decisions are made with the overall strategic planning process in mind (see the Transmittal Letter for further details). For 2011, these Policy Goals remain:

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

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

- **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.

- **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 2011 Budget, as in recent years, emphasis was placed on two of the Board Policy Goals: **Customer Focus** and **Improve Financial Health**.

Budget Monitoring and Control

A quarterly financial report allows the CEO/General Manager and the Board of Trustees to monitor actual performance. This report is used to determine adjustments to the budget. 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, which 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. 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.

2011 Budget Guide

Glossary

Accrual Accounting ï A method of financial accounting where revenues are recorded when earned, however, the revenue does not have to be received in the same reporting period. Similarly, expenditures are recorded as soon as the goods or services are received; the payment of the expenditure does not have to be made in the same reporting period.

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

Amalgamated Transit Union (ATU) ï The largest transit union in North America.

Americans with Disabilities Act (ADA) ï 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 ï A financial authorization granted by the Board of Trustees to make expenditures and incur obligations.

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

Assessed Valuation ï 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 ï This category of capital projects refers to projects where 100% of the funding is provided by local sources (versus grant funded sources) and represents expenses incurred to maintain or improve the Authorityõs assets.

Balanced Budget ï The Authority considers the budget balanced when total expenditures equal total revenues. The budget is also balanced in situations where total expenditures are less than total revenues, which is called a surplus. There are also few instances where the Authority might plan to spend fund balances from previous years on one-time or non-routine expenditures, provided the funding from previous years is available. The Authority, however, must have a plan in place to not build ongoing expenditures into this type of funding.

Base Budget ï The total appropriation for maintaining the Authorityõs daily operations, authorized by the Board of Trustees.

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

Budget Basis ï The starting point for budget deliberations, usually the current budget year appropriation, or the Midyear Review estimate of expenses.

Glossary

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

Bus Rapid Transit (BRT) ï A broad term given to transit systems that use buses to provide a service that is of a higher quality than an ordinary bus line. See HealthLine.

CAFR ï Comprehensive Annual Financial Report, contains audited financial statements, financial notes, and related materials.

Capital Improvement Budget ï The current year estimated revenues and expenses of construction projects and capital equipment purchases in the Capital Improvement Plan. The Capital Budget includes maintenance and expansion projects that are funded through grants and local sources.

Capital Improvement Plan (CIP) ï A five to ten year plan for constructing, acquiring, or maintaining capital assets.

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

Cash Deficit ï Occurs when a fund is carrying a negative cash balance. This situation typically requires a cash transfer to remedy.

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

Comprehensive Annual Financial Report ï See CAFR

Computer Integrated Transit Maintenance Environment (CITME) ï A computer program, created by UltraMain, purchased to assist in modernizing maintenance and inventory operations through management by data.

Controlled-Access Right-of-Way (ROW) ï Lanes restricted for a portion of the day for use by transit vehicles and other high occupancy vehicles (HOV).

Cost Ceiling ï A limit on the reimbursed costs for federally supported capital projects.

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

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

Debt Service Coverage ï The measure of the Authorityõs ability to meet annual interest and principal payments on outstanding debts.

Decision Issue ï A 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.

Depreciation ï The reduction in value of a capital asset due to use, age, or wear.

Glossary

Disadvantaged Business Enterprise (DBE) ï A program intended to ensure nondiscrimination in the award and administration of the Authorityồs programs and contracts.

Door-to-Door Service ï 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 ï 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.

Exclusive Right-of-Way (ROW) ï Roadway or other right-of-way (ROW) lanes reserved at all times for transit use and / or other high occupancy vehicles (HOV).

Executive Management Team (EMT) ï The General Managerồs first level of management, which includes Deputy General Managers and Executive Directors.

Expenditure ï An expense that a business incurs as a result of performing its normal business operations.

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

Federal Highway Administration (FHA) ï Supports all of Americaồs roads and highways and ensures them to be the safest and most technologically up-to-date. Although State, local, and tribal governments own most of the Nationồs highways, the FHA provides financial and technical support to them for constructing, improving, and preserving Americaồs highway system.

Federal Transit Administration (FTA) ï 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) ï The information system software that houses all financial data and includes the General Ledger, Procurement, and Budget Modules.

Fiscal Year ï The 12-month period that the Authority uses for accounting purposes. The Fiscal Year for the Authority is concurrent with the Calendar Year.

Fixed Guideway (FG) ï A separate right-of-way (ROW) for the exclusive use of public transportation vehicles. The Heavy Rail and Light Rail modes operate exclusively on fixed guideway (FG).

Fraternal Order of Police (FOP) ï The world's largest organization of sworn law enforcement officers, committed to improving the working conditions of law enforcement officers and the safety of those we serve through education, legislation, information, community involvement, and employee representation.

Full-Time Equivalent (FTE) Position ï 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.

Glossary

Fund ï A reserve of money set aside for a specific purpose. The RTA has funds set up for Operating (General), Capital, Insurance, Bonds, Pension, and Law Enforcement.

Fund Deficit ï An excess of expenditures over revenues during a fiscal year. This is not an acceptable condition and must be addressed by transferring revenue to the fund in deficit. See Balanced Budget.

Fund Type ï See Fund.

GAAP ï Generally Accepted Accounting Principles. Guidelines and rules for use by accountants in preparing financial statements.

General Obligation (GO) Bond ï 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 ï A statement of 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 ï A separate right-of-way (ROW) or rail system for the exclusive use of public transportation including the buildings and structures dedicated for the operation of transit vehicles. Includes tunnels, subways, bridges, tracks, and power systems.

HealthLine ï A route providing service along Euclid Avenue that is of a higher quality than an ordinary bus line. This service improves transit, as well as supports increased development along Euclid Avenue with links to medical, educational, and cultural centers in Greater Cleveland.

Heavy Rail Vehicle (HRV) ï Operate on the Red Line, from the Airport to Windermere Rapid Station. Heavy Rail is a transit mode that is an electric railway with the capacity for a heavy volume of traffic.

Indirect Costs ï The expenses of doing business that are not readily identified with the Authorityõs transportation, but rather with the general operation of the organization, such as finance, accounting, engineering, legal, and human resources.

Interactive Voice Response (IVR) ï 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 ï The amount paid for the use of money.

Interest Expense ï 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) ï A legislative initiative setting policy guidance and providing funding for highway, transit, and safety programs. It expired in 1998.

Glossary

Key Transit 2025 ï 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 ï The stated rate, in mills, for levying real and personal property taxes.

Light Rail Vehicle (LRV) ï 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 ï 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 ï The equivalent of $1 of tax for each $1,000 of assessed value of real or personal property.

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

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

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

Revenue ï The amount of money that a company actually receives during a specific period, usually a year.

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

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

Office of Business Development (OBD) ï 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 ï A document prepared by the Authority when issuing debt that gives financial and statistical information to potential investors and others.

Glossary

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 expenses 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 carried forward from prior years. See Balanced Budget.

Operating Ratio – A ratio that shows the efficiency of management by comparing operating expenses to fare revenues.

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. The Board Policy requires at least one month's operating reserve. RTA recently added three reserves for fuel, medical, and compensated absences.

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 authorization 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.

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.

2011 Budget Guide

Glossary

Routine Capital ï Budgeted expenses for equipment, where 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) ï 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) ï Of Cuyahoga County is designed to be the centralized coordinating unit for senior transportation services in Cuyahoga County. The STCõs mission is to provide comprehensive, efficient, and affordable transportation for senior adults in the county.

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

State Infrastructure Bank (SIB) ï 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) ï 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 and assistance.

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

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

TransitStat ï The Greater Cleveland Regional Transit Authorityõs 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) ï 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.

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

Transportation Review Advisory Council (TRAC) ï Created by the Ohio General Assembly in 1997 to bring an open, fair, numbers-driven system to choosing major new transportation projects.

Glossary

U-Pass (Universal Pass) ï offers university students a discounted transportation pass. Currently students at Case Western Reserve University (CWRU), Cleveland State University (CSU), Cleveland Institute of Art, and Cleveland Institute of Music have U-Passes.

Urban Mass Transportation Act (UMTA) of 1964 ï As amended, an Act of Congress providing funds to the Authority under various programs:

> **Section 5309 (formerly Section 3)** ï A Federal discretionary program directed primarily to those rail modernization and major bus projects that require funding beyond that available under Section 9.
>
> **Section 5307 (formerly Section 9)** ï A Federal formula program which makes resources available to urbanized areas for planning, capital, and operating assistance purposes. Funding allocations are earmarked by Congress.
>
> **Title 23 Interstate Transfer Fund** ï 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.

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Greater Cleveland RTA Service Profile

The Service Profile depicts the economic and service activity as it impacts the organization on operational and financial levels. The provided information highlights trends regarding items that have direct affect on how RTA develops, supports, and implements services to the Cuyahoga County area.

Economic Profile

Population

- 2009 Estimate at 1,275,709
- -8.5% Population Change from Apr 1, 2000 to Jul 1, 2009
- 2,782 People per Square Mile

Housing

- Average Household Size at 2.4 per Household
- 210,469 Rented Apartments
- 360,988 Owned Homes & Condos

Income Levels

- 2008 Median: $44,324
- 2009 Median: $40,101
- April 2010: 9.1%
- 18% Poverty Level
- Cost of Living Index: 83 (Low);

Business Development

- Top 5 Business Sectors
  - Professional, Science, Technology Service
  - Other Services (Excluding Public Administration)
  - Real Estate Rental & Lease
  - Healthcare & Social Assistance
  - Real Estate Sales
- Top Businesses in NorthEast Ohio (Workforce)
  - Cleveland Clinic (32,000)
  - University Hospitals (12,970)
  - Giant Eagle, Inc. (10,319)
  - Progressive Corp. (8.795)
  - Summa Health System (8,079)
  - Group Mgmt. Services, Inc. (6,507)
  - KeyCorp (5,973)
  - First Energy Corp. (5,384)
  - Metro Health System (5,379)
- Total Receipts: $84.24bil
- Total Employed: 540,000

Service Profile

Cuyahoga County

- Land Area: 458 sq mi
- Water Area: 787.1 sq mi

Ridership Economic Demographics

- Workforce
  - Private: 82%
  - Gov't: 13%
  - Self-Employed, Non-Inc.: 5%
- Potential Ridership
  - Median Age at 38 years
  - 47% Male; 53% Female
  - 67% White; 27% Black; 3% Hispanic; 1.5% 2+ Races; 1.5% Other
  - 69% Democrat; 30% Republican; 1% Other

Service Types

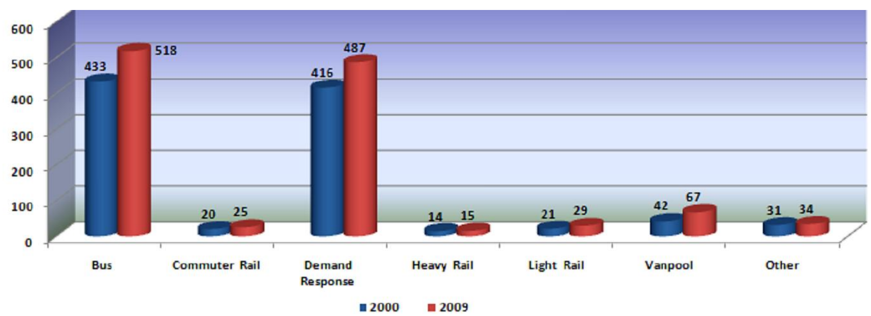
- Bus: 47
- Rapid: 3
- BRT: 1
- Park-N-Rides: 5
- Other: 10

National & Ohio Transit Profile

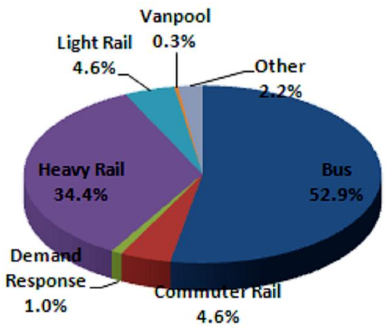
National Transit Trends

A Total of 719 Agencies reported data in the National Transit Database (NTD) in 2009.

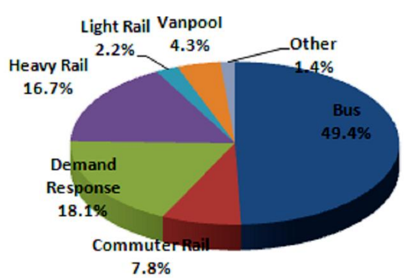
Number of Agencies reporting by Mode 2000 - 2009



Distribution of Unlinked passenger trips per mode 2009



Distribution of Vehicle Revenue Miles per Mode 2009



Ohio Transit Trends

24 Agencies (9 Vehicles and over) reported data in the National Transit Database in 2009

The Nine Largest Agencies in Ohio - data listed below:

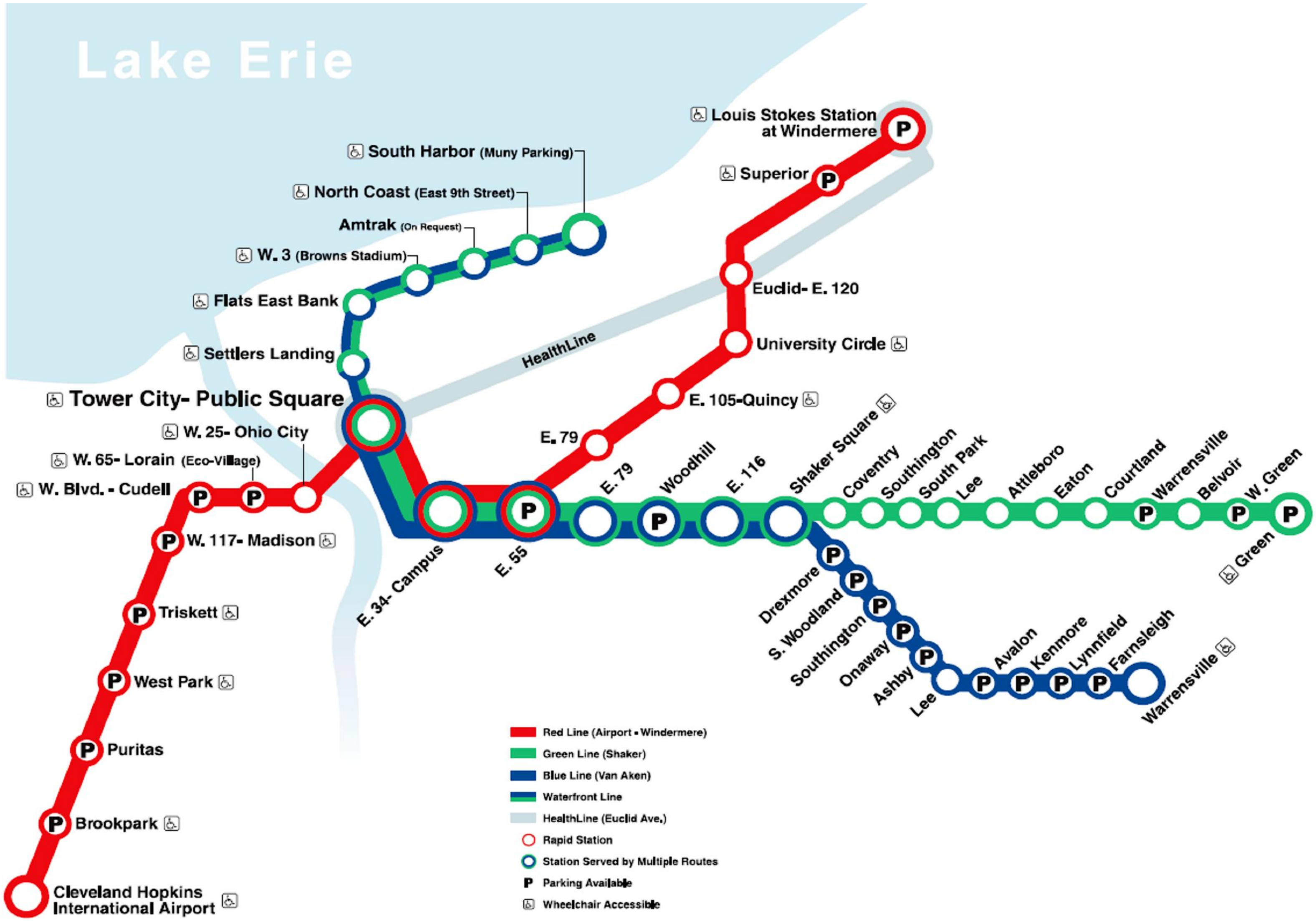
Agency	Sq. Mi	Pop	Mode	Unlinked Passenger Trips	Vehicle Revenue Miles	Vehicles in Max Service
Akron (Metro)	420	542,899	Bus	4,792,127	3,020,176	107
			DR	230,915	1,625,733	105
Canton (SARTA)	567	378,098	Bus	2,025,920	2,324,370	35
			DR	139,214	1,063,428	23
Cincinnati (SORTA)	262	845,303	Bus	22,886,445	10,445,144	324
			DR	234,507	1,809,465	48
Cleveland (GCRTA)	458	1,412,140	Bus	38,214,394	17,042,385	424
			HR	4,491,119	1,789,025	22
			LR	2,365,801	756,929	17
			DR	540,739	3,968,815	122
Columbus (COTA)	325	1,057,915	Bus	17,208,787	8,523,927	235
			DR	237,949	2,803,983	56
Dayton (GDRTA)	274	559,062	Bus	6,960,449	5,189,349	95
			DR	259,144	2,377,276	82
			TB	3,170,510	1,112,054	30
Lake County	295	227,511	Bus	533,433	769,967	24
(Laketran)			DR	282,819	2,072,347	77
Toledo (TARTA)	149	426,230	Bus	6,984,265	3,657,896	140
			DR	184,550	1,019,927	52
Youngstown (WRTA)	433	288,870	Bus	1,687,118	880,984	35
			DR	19,886	154,519	10

HR = Heavy Rail; LR = Light Rail; DR = Demand Response (Paratransit); TB = Trolley
2009 NTD

Greater Cleveland RTA System Map for 2010-2011

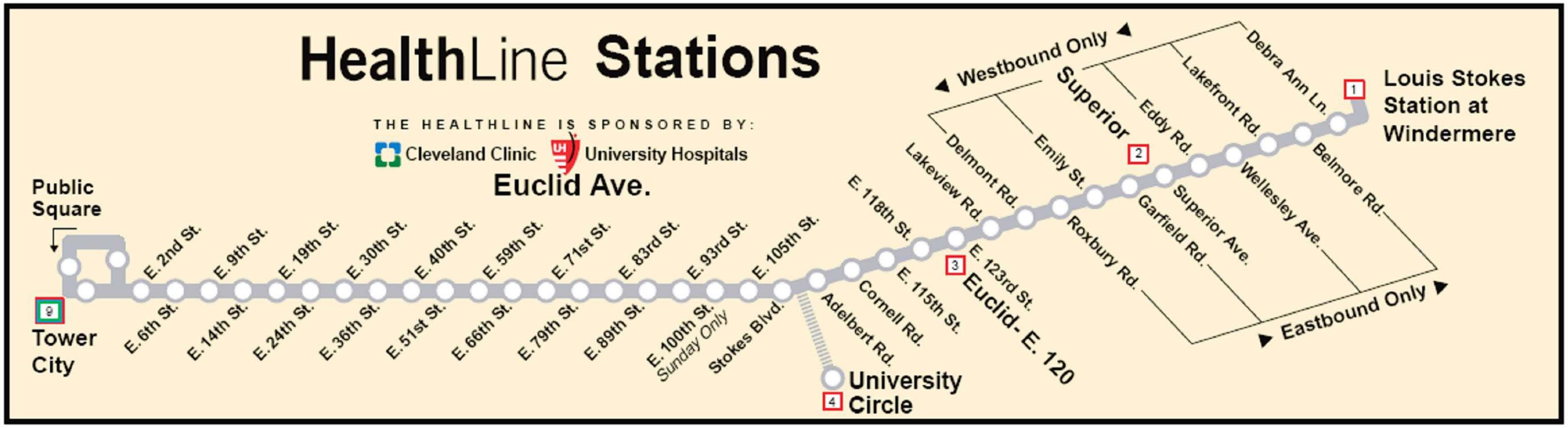
(Click on map to go to RTA Website and larger view of map)

Greater Cleveland RTA Rapid Transit System



(Click on map to go to RTA Rapid Transit System website with bus connections)

Greater Cleveland RTA Health Line



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