

Memorandum



Date: May 1, 2008

To: Board of Directors

From: Dwight A. Ferrell
Deputy General Manager/COO

Subject: FY09 Operating and Capital Budgets

As not all Board members were able to participate in last week's retreat, Dr. Scott asked that we provide a brief summary of the topics discussed, all of which will be revisited over the next few months.

The first portion of the retreat focused on MARTA's strategic plan, in particular, a review of the existing Vision, Mission and Priority Areas, which were last discussed by the Board in 2005. A summary of this portion of the retreat is being put together by our facilitator and will be provided under separate cover.

The second portion of the retreat focused on the FY09 Operating and Capital Budgets, for which we have developed the summary that follows.

This information will be presented during the Board work session on May 12, 2008, prior to being taken to public hearing on May 12 and 13. We will bring the results of those hearings to you at the Business Management Committee meeting on May 28, with the anticipation of a vote at the full Board meeting on June 9.

As you are aware, MARTA is required by law to enact a new operating budget prior to the start of the next fiscal year. Staff has developed a budget recommendation that does not cut service or raise fares; however, as anticipated during the FY08 budget process, it does depend heavily on reserve accounts due to the fact that no new funding sources have been identified.

We view this budget as one step in a longer, comprehensive process that will include the implementation of zero based budgeting and an item by item review that will ultimately lead to a mid-year budget revision in January 2009.

In addition, concurrent to this process, we are undertaking a fare policy study that will help us determine what kind of fare increase or restructuring should be considered for Fiscal Year 2010.

For Board members that were unable to attend the retreat, email notification was sent earlier this week to schedule individual sessions by phone, or, for Board members that would like to come in – a briefing will be held next Wednesday, May 7 at 11:00 a.m. To RSVP, please contact the Board Office at 404/848-5142. In the meantime, should you have any questions, please do not hesitate to contact me at 404/848-4227 or DFerrell@itsmarta.com.

FY09 Operating and Capital Budgets Staff Recommendation and Rationale

Current State

The current FY08 budget, which anticipated a use of \$21.35 million in reserves, has been impacted by declining sales tax and passenger revenue. Despite this downturn in revenue and as a result of an aggressive cost containment program implemented in December 2007, we expect to end the year within the projected budget.

- Sales tax receipts are forecast to be *\$7.6 million less* than expected
 - MARTA uses projections from the Georgia State Economic Forecasting Center, which are updated regularly
- Passenger revenue is forecast to be *\$2.4 million less* than expected
 - MARTA typically experiences a decrease in ridership as the economy declines and fewer people are going to work
- Lease, advertising and other income is *up \$6.8 million*
- Mid-year cost containment resulted in *\$10.2 million in savings*
 - Containment program included freezing 130 vacancies and \$2.9 million in other cost saving measures
- *One time expense of \$6.5 million* for Other Post Employment Benefits (OPEB) required by GASB 45 is included in current year-end projections

The budget adopted by the Board for FY08 anticipated drawing upon \$46.6 million in reserves in FY09 and \$49.36 million in FY10.

- This assumed no changes or additions to current funding mechanisms
 - Efforts to pass a new one cent tax for transportation unfortunately failed during the 2008 General Assembly session
- MARTA's ability to use an extra 5% of sales tax and interest on capital reserves towards operating expenses *sunsets in December 2008*

FY09 Budget Recommendations

Operating and Capital Budgets have been developed with an emphasis on a few key principles:

- *Focusing on the basics* - safety, security, reliability and the customer experience
- Keeping the system in a *state of good repair*
- Making any changes in a *cost-neutral manner*
- *Living within available means*

The staff's recommendation for the FY09 Operating Budget projects \$351.72 in revenues, \$395.46 million in expenses, and the use of \$43.74 million in reserves.

- Does not anticipate a fare increase
- Maintains current service levels for Bus and Rail
- Provides a significant investment in Mobility Service with the addition of 50 vehicles
- Assumes a reduction in force of approximately 200 positions

- These positions are a combination of current vacancies and station services staff who were hired specifically to assist with MARTA's conversion to the new Breeze fare collection system
- Assumes no new sources of transit funding

MARTA's operating reserve accounts have been strengthened by two consecutive years that ended with revenues greater than expenses, allowing the Authority to withstand the current economic downturn.

- The operating carry over in FY06 was \$19.99 million and in FY07 was \$15.68
 - This resulted from a combination of sound fiscal management and higher than anticipated sales tax projections
- The projected operating reserve balance going into FY10 is \$57.15 million
 - This includes the 10% operating reserve required by the MARTA Act

The staff's recommendation for the FY09 Capital Budget is \$386.5 million. This includes funding to move MARTA's current expansion projects forward as well as a number of system enhancements. In addition to projects already underway, the budget anticipates several new initiatives including:

- Implementation of a configuration management program
- Expanded environmental/sustainability initiatives
- Installation of closed-circuit television cameras (CCTV) in rail cars

Next Steps

As staff moves this recommendation forward, work has already begun on a number of efforts focused on ensuring future financial stability:

- Completion of a "zero based" organizational and financial assessment, with the anticipation of a mid-year budget revision in January 2009
- Development of additional internal productivity and cost containment measures
 - Areas of focus include employee availability, fleet size and reliability, right-sizing of staff, inventory control and improved project management
- Review of current performance management, data analysis and reporting procedures to ensure MARTA's ability to "manage by fact"
- Comprehensive fare study, with an anticipated fare restructuring in 2010
 - MARTA has not raised fares since 2001 and has kept the commitment made at that time that there would be no increases for five years
- Development of legislative proposals for 2009 including elimination of the 50/50 operating/capital split of sales tax receipts and restrictions on the use of the interest earned on capital reserves included in the MARTA Act
 - MARTA is the only transit system in the nation forced to operate with such revenue restrictions
- Continued efforts in conjunction with regional partners to adopt a regional transit plan and secure new sources of dedicated funding