

# 2012 Suburban Service Budget and Three Year Business Plan

## General

The following section presents Pace’s Suburban Service budget and three year financial business plan for the period 2012 through 2014. The RTA Act requires that the Service Boards submit a budget and a three year financial plan. The plan is required to show a balance between the funding estimates provided by the RTA (known as “the marks”) and the anticipated costs of providing services. Pace’s plan for 2012 – 2014 achieves this balance. The assumptions and highlights for the three years in review are provided in this section.

The plan presented for review is based largely on status quo operations. The status quo assumption is derived from current year (2011) estimates that show service and ridership levels essentially constant with prior year 2010 levels. The good news is that 2011 shows a modest growth in ridership—up 0.9% over 2010 levels. The outlook for 2012 sees little change. Demand is forecasted to grow at a modest rate of 0.8% next year as the outlook for high unemployment is expected to continue to have a negative affect on ridership growth. A slow recovery is seen for ridership over the three year planning cycle.

The RTA also suggests a slow economic recovery as supported by their conservative outlook for sales tax growth for 2012 and the out-years. They are forecasting public funding to grow by a conservative 2.8% annually for the three years of the plan. However, despite the projection for conservative growth, they have raised their estimates for public funding growth for the current year (2011). They

are projecting that state public funding will finish the year up 4.2% over 2010 levels and will exceed the 2011 budgeted funding marks that they set for the Service Boards back in September 2010. This is positive news, and will allow Pace to finish with a net surplus of \$5.681 million for 2011.

The conservative outlook for funding growth over the three year plan will require Pace to use a modest amount of Federal 5307 funds to help balance funding needs for the two out-years. The use of these funds is consistent with Pace’s prior multi-year plan. The use of Federal funds can also help achieve annual recovery ratio requirements.

As noted, the budget and three year financial plan are balanced, and Pace will achieve a 30% recovery ratio set by the RTA for the Suburban Service program for 2012. No fare increases or service reductions are planned for 2012 at this time. For plan years 2013 and 2014, we have applied a use of federal capital funds to a maximum level of \$3.4 million. The capital funds help balance the funding gap and achieve the recovery ratio; however, some additional budget balancing actions will be required in 2014. A discussion of the assumptions used in developing the multi-year plan and a review of the highlights of the plan are provided in the following pages, along with Table 19 showing the full details of the plan.

**Table 17. Baseline Economic Assumptions**

	2011	2012	2013	2014
Change in Demand (Based on Total Ridership) (1)	0.9%	0.8%	1.1%	1.1%
T-Bill Rates (90 Day) (2)	0.2%	0.2%	0.4%	0.7%
CPI-U (National) (3)	1.6%	1.7%	1.5%	1.8%
Ultra-Low Sulfur (Price Growth) (4)	45.3%	6.7%	0.0%	0.0%
Pace Public Funds (Sales Tax) (5)	4.2%	2.8%	2.8%	2.8%

(1) Assumptions for demand, as measured by estimates for total ridership, are generated by Pace’s planning staff. Demand estimates are used to forecast fare revenues.

(2) T-Bill rates are considered when forecasting investment income.

(3) While numerous sources are referenced for CPI, The Congressional Budget Office (CBO) was the source for most CPI data.

(4) Reflects fuel price estimates for the current and future years for diesel. Oil futures contract pricing was used for budget and plan years 2012-2014.

(5) Reflects RTA sales tax estimates for Pace for the budget and three year plan cycle.

## Assumptions

Numerous factors are considered in order to develop an annual budget and multi-year plan. The amount of demand has to be evaluated and identified for both the short and long term. The demand is measured by estimates for ridership and these estimates translate into the forecasts for farebox revenues. Economic assumptions related to the costs of providing transit services must be identified. Estimates for the consumer price index (CPI) and estimates for fuel are assumptions of significant importance. The outlook for public funding growth as verified by the RTA's estimates for state sales tax revenues is highly important as it provides between 60% and 70% of annual funding for operations. A list of baseline assumptions used to develop the Pace three year plan is summarized in Table 17. The following list of key sources were also referenced for information/outlooks on the industry/economy: the Congressional Budget Office

– CBO (the primary source used for inflation indices); The Kiplinger Letter (referenced for general economic information including outlooks for inflation, interest rates, etc.); The Bureau of Labor Statistics – BLS (a source for key indicators including the Producer Price Index – PPI, Utilities, Inflation, etc.); EIA – The U.S. Energy Information Administration (a source for energy price growth for fuel); The Oil Daily (an oil industry newsletter providing up-to-the-minute activities in the oil market); Moody's Economic Projections (a list of selected indices provided by the RTA to assist the Service Boards in developing forecasts); and the Wall Street Journal, which was referenced for general economic trends.

The outcome of applying the assumptions identified in Table 17 to known or anticipated conditions is reflected in Table 18.

**Table 18. Multi-Year Category Growth**

	<b>2012</b>	<b>2013</b>	<b>2014</b>
Fare Revenue	2.0%	1.2%	1.2%
Total Revenue	3.6%	1.5%	1.6%
Labor/Fringes	4.4%	2.8%	3.3%
Health Care	5.9%	9.0%	9.0%
Parts/Supplies	3.0%	4.3%	5.2%
Purchased Transportation	6.2%	3.5%	4.1%
Utilities	1.4%	4.0%	4.6%
Insurance/Claims	-7.6%	4.5%	5.4%
Fuel (Costs)	6.7%	0.0%	0.0%
Fuel Costs—Diesel - Suburban Service	\$ 19.657 mil	\$ 19.657 mil	\$ 19.657 mil
Number of Gallons - Suburban Service	5.805 mil	5.805 mil	5.805 mil
Price per Gallon — Diesel	\$ 3.39	\$ 3.39	\$ 3.39
Fuel Costs—Gasoline - Vanpool	\$ 2.801 mil	\$ 2.860 mil	\$ 2.855 mil
Number of Gallons - Vanpool	.832 mil	.849 mil	.866 mil
Price per Gallon - Gasoline	\$ 3.36	\$ 3.37	\$ 3.30

### Highlights–2012 Budget and Three Year Plan

Pace’s 2012 Budget presented in Table 19 is balanced using RTA Sales Tax funding marks and Federal CMAQ, JARC, and New Freedom funds. For the two out-years (2013 – 2014) the plan is balanced with continued use of a small amount of Federal 5307 funds; however, in addition to the use of funds, the plan assumes budget balancing actions will be needed in 2014. Actions may include, but are not limited to, adjusting service, adjusting fares, implementing efficiencies, reducing operating costs, and identifying additional funds or revenues. For all three years, Pace achieves a 30% recovery ratio, due, in part, to the allowed use of credits approved by the RTA when calculating the ratio.

Some of the highlights for the three years include operating revenues which will grow at an annual compound rate of 2.2%. The conservative growth in revenue reflects the modest outlook for ridership growth over the three year horizon. Also contributing to the revenue growth is advertising revenue which has returned to historic levels given the new contract that was recently executed.

**E**xpenses will grow at an annual compound rate of 3.9% over the three year period. This is a relatively conservative rate which is driven by the continued outlook for low inflation over this time period.

Total public funding will grow at an annual compound rate of 2.8% as forecasted by the RTA. The RTA continues to maintain this conservative forecast given the current economic outlook. The conservative outlook for funding requires the continued use of federal funds in order to maintain a status quo program over the three year horizon and to achieve recovery rate compliance.



*Pace recently received approval from the State to operate bus service on the shoulder of tollways. (Photo courtesy of MNDOT).*



*Pace rolled out a new advertising tag line in 2011, “Connecting Communities,” which will underscore Pace’s future marketing efforts.*

## Suburban Service Budget and Three Year Business Plan

**Table 19. 2012-2014 Suburban Service Operating Budget and Three Year Business Plan (000's)**

	<b>2010 Actual</b>	<b>2011 Estimate</b>	<b>2012 Budget</b>	<b>2013 Plan</b>	<b>2014 Plan</b>
<b>OPERATING REVENUE</b>					
Farebox	\$ 32,262	\$ 32,770	\$ 33,436	\$ 33,827	\$ 34,222
Local Share/Other	12,859	12,837	13,961	14,265	14,596
Advertising Revenue	3,931	4,319	4,417	4,440	4,446
Investment Income	111	81	84	177	311
Reduced Fare Reimbursement	2,416	2,571	2,571	2,571	2,571
<b>Total Revenue</b>	<b>\$ 51,578</b>	<b>\$ 52,580</b>	<b>\$ 54,469</b>	<b>\$ 55,280</b>	<b>\$ 56,145</b>
<b>OPERATING EXPENSE</b>					
Labor/Fringes	\$ 88,621	\$ 92,585	\$ 96,637	\$ 99,349	\$ 102,591
Health Care	15,474	16,922	17,920	19,533	21,291
Parts/Supplies	6,062	6,149	6,335	6,610	6,955
Purchased Transportation	28,201	27,537	29,250	30,265	31,499
Fuel	15,063	21,122	22,458	22,517	22,512
Utilities	1,939	1,910	1,937	2,015	2,107
Insurance	11,546	9,549	8,825	9,222	9,720
Other	12,271	13,708	15,649	15,885	16,173
Regional ADA Support Credit	(2,933)	(3,857)	(3,992)	(4,093)	(4,219)
<b>Total Expenses</b>	<b>\$ 176,249</b>	<b>\$ 185,624</b>	<b>\$ 195,017</b>	<b>\$ 201,304</b>	<b>\$ 208,628</b>
<b>Deficit</b>	<b>\$ 124,670</b>	<b>\$ 133,044</b>	<b>\$ 140,548</b>	<b>\$ 146,024</b>	<b>\$ 152,484</b>
Budget Balancing Actions	0	0	0	0	(1,755)
<b>Funding Requirement</b>	<b>\$ 124,670</b>	<b>\$ 133,044</b>	<b>\$ 140,548</b>	<b>\$ 146,024</b>	<b>\$ 150,729</b>
<b>PUBLIC FUNDING</b>					
Sales Tax (Part I)	\$ 73,054	\$ 76,122	\$ 78,234	\$ 80,425	\$ 82,677
RTA Sales Tax and PTF - (Part II)	29,785	31,036	30,197	30,712	31,225
Suburban Community Mobility Funds (SCMF)	18,959	19,755	20,319	20,888	21,472
South Suburban Job Access Funds	7,500	7,500	7,500	7,500	7,500
RTA Discretionary (PTF - Part I)	0	0	3,000	3,084	3,170
Federal CMAQ/JARC/New Freedom	2,738	2,211	1,298	1,237	1,287
RTA ICE Funding	207	100	0	0	0
Federal 5307	2,300	2,000	0	2,178	3,398
<b>Total Public Funding</b>	<b>\$ 134,543</b>	<b>\$ 138,725</b>	<b>\$ 140,548</b>	<b>\$ 146,024</b>	<b>\$ 150,729</b>
<b>Net Funding Available</b>	<b>\$ 9,873</b>	<b>\$ 5,681</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
Recovery Ratio	36.00%	36.00%	30.00%	30.00%	30.00%

## Pace Suburban Service Cash Flow—2012

The following provides an estimate of Pace’s revenues, expenses and cash position for Suburban Service operations on a monthly basis. Cash flow estimates for Suburban Services public funding are included in total revenues and are based on information provided by the RTA.

The projected cash flow for Pace’s Suburban Service operations shows sufficient funds for Pace to maintain operations during 2012.



*Riding Pace saves fuel and cost to our passengers.*

**Table 20. Pace Suburban Service Projected Cash Flow Summary—2012 (000's)**

	<b>Beginning Balance</b>	<b>Revenues</b>	<b>Expenses</b>	<b>Net Results</b>	<b>Ending Balance</b>
January	\$ 44,550	\$ 21,030	\$ 15,641	\$ 5,389	\$ 49,939
February	49,939	13,913	16,641	(2,728)	47,210
March	47,210	13,913	17,278	(3,365)	43,845
April	43,845	13,733	15,641	(1,909)	41,936
May	41,936	13,733	15,641	(1,909)	40,027
June	40,027	13,733	15,641	(1,909)	38,119
July	38,119	21,475	15,641	5,833	43,952
August	43,952	14,079	15,641	(1,563)	42,389
September	42,389	14,079	15,641	(1,563)	40,827
October	40,827	16,650	15,641	1,008	41,835
November	41,835	14,079	15,641	(1,563)	40,272
December	40,272	24,583	20,304	4,278	44,551

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