BOARD OF DIRECTORS REPORT

To:	David A. Genova, General Manager and CEO	Date: October 12, 2017
From:	Heather McKillop, CFO/AGM, Finance & Administration	GM
Date:	October 12, 2017	Board Meeting Date: October 24, 2017
Subject:	Adoption of the Strategic Budget Plan and Annual Program Evaluation	

RECOMMENDED ACTION

It is recommended by the Financial Administration and Audit Committee that the RTD Board of Directors adopts the 2018-2023 Strategic Budget Plan (SBP) and the 2018-2023 Annual Program Evaluation (APE).

This action item meets policy requirements and the General Manager's goals of Fiscal Sustainability by effecting current and long-range budgeting in a timely manner.

POLICY REFERENCE

Fiscal Policy Statement – Capital Improvement Policies 1 and 7, Budget Policies 13 and 14

BACKGROUND

Capital Improvement Policy 1 of RTD's Fiscal Policy Statement states that *"On an annual basis, RTD will prepare and update annually a six-year Strategic Budget Plan (SBP) including projected capital construction and improvements, service levels and operating costs, and revenues to fund the capital and operating programs."* Capital Improvement Policy 7 states that *"RTD will prepare an annual update of the FasTracks Annual Program Evaluation (APE) which will be integrated with the SBP incorporating actual costs incurred and the most recent available projections of capital improvement costs, service levels, and operating costs and revenues to fund the FasTracks capital and operating programs."*

The SBP and APE are RTD's six-year financial plans. Updated annually, they provide important cash flow planning information used to determine the District's operating, investing and financing activity as well as services that the District can provide using projected financial resources. The first year of the SBP and APE serve as the basis for the preparation of the annual budget.

Each year during the planning process, operating costs are estimated and capital projects are developed to support the goals and objectives of the District. Estimates of other expenditures, such as principal and interest payments on long-term debt, are also developed as part of the overall costs to the District. The other major component of the plans is the estimate of available revenues during the six-year time period. These estimates of costs and revenues are brought together to insure that RTD will have adequate resources to meet cash flow needs.

Per RTD Fiscal Policy Statement, RTD will contract with a qualified third party to provide sales and use tax forecasting containing projections for the short term (one year), medium term (SBP and FasTracks APE) and long term (financial plan). RTD has contracted with the University of Colorado-Leeds School of Business for this service. See "sales and use tax" in Discussion below.

Capital and operating/maintenance projects are evaluated based on their relative costs and benefits, relative need, and to what extent they meet the RTD mission statement and State of Good Repair priorities; projects are constrained to operate within the forecast of revenues and funding sources available for their completion and operation.

The SBP and APE also provide the basis for the District's application for federal transit funding through the Transportation Improvement Program (TIP), prepared by the Denver Regional Council of Governments. The TIP is a list of all roadway and transit projects in the region that receive federal funding. RTD cannot receive federal funds for projects unless the SBP/APE qualifying projects are included in the TIP.

The 2018-2023 SBP includes service and projects funded from the Base System 0.6% sales and use taxes. The 2018-2023 APE includes service and projects funded from the FasTracks 0.4% sales and use taxes. Projected Base and FasTracks future expense and projects for the period 2024-2040 are presented separately in the Long-Range Financial Plan.

DISCUSSION

Strategic Budget Plan

The attached SBP incorporates the 2017 amended budget and includes all known adjustments and best estimates at this time. The SBP was presented to the Financial Administration and Audit Committee on May 16th, July 18th, and August 8th for discussion. The final presentation follows in this document on October 17th with staff recommendation for Board adoption on October 24th.

Exhibit I

Exhibit I (attached) summarizes the 2018-2023 projected cash flow through the extension of the 2017 Amended Budget. The column titled "Adjusted Amended Budget 2017" in Exhibit I incorporates revenue and expense adjustments approved in the Amended Budget and subsequent known items.

The SBP is balanced through the six-year period after incorporating into the projections 1) the September sales/use tax forecast from CU-Leeds School of Business, 2) minimum/must-have SBP requested projects, including minimum fleet requirements, within State of Good Repair (SOGR) parameters, 3) reductions, eliminations or deferrals of non-critical SBP requested projects, 4) use of the capital replacement reserve fund to support planned fleet purchases, 5) contribution to reserve funds, and 6) no new debt issued. No service reductions other than reprogrammed fixed route service are proposed in the SBP through this period.

Exhibit I summarizes the 2018-2023 projected cash flow activity based on the staff recommendation incorporating the following:

- Revenue estimates:
  - Fare revenue of $115.2 million in 2018 is projected to be slightly higher over 2017. The fare revenue is forecast using the fare model and current data on average fare paid per boarding. Fare rate increases in the fare model are assumed in conjunction with Board policy. (Line 1)
  - Sales and use tax incorporates the September semi-annual update from the CU-Leeds School of Business for the years 2018-2023. In all years of the SBP, the medium baseline forecast

from CU is used. Of the total forecasted amounts, 0.6% is apportioned to the Base System. (Line 2)

- The CU-Leeds forecast contains confidence bounds on total RTD revenues. The mean forecast for 2018 of $626.2 million is bracketed by 67% confidence bounds of $584.4 million on the low side and $666.9 million for the upper bound. The upper bound estimate is 6.5% higher than the medium baseline forecast, reflecting more robust economic conditions that could materialize. It is not impossible or unrealistic that revenue could grow somewhat strongly over the next year. Likewise, economic threats pose downside risk to the forecast, with a 6.7% lower bound. The values of the high and low forecast bounds are computed as 67% confidence bounds, meaning that a 0.67 probability exists that the interval between low and high forecast values will contain the actual value of the variable being predicted.

- Grant revenue estimates are based upon past trends, formula allocations, known proceeds, and recent congressional actions. Amounts are escalated at the area Consumer Price Index (CPI) (obtained from Moody's) or as identified. (Line 3)
- Other income consists of on-going advertising revenue, joint venture revenue, and IGA and miscellaneous rental income, escalated at the CPI beginning in 2018. (Line 4)

➢ Operating expenses (excluding depreciation):

- Operating expenses are increased at area CPI rates and then adjusted for known items and necessary reductions.The area CPI rates follow:(Line 6)
  2018: 2.8%
  2019: 3.1%
  2020: 2.9%
  2021: 2.7%
  2022: 2.6%
  2023: 2.6%
- Service increase consists of the cost of new CMAQ-funded service projects to be operated by RTD in years 2016-2019 to include service enhancements on Routes L and 324, Route 73 extension, Superior and Broomfield call-n-Ride services, and Anschutz Medical Campus Shuttle. These services are included in the DRCOG TIP. RTD costs will be reimbursed in full by CMAQ grant funds and contributed funds from the applicable municipalities. Determination will be made in future years whether to continue such service at RTD's cost. (Line 7)
- Costs of operating the West Line, R Line, DUS Bus Concourse, Free MetroRide, BRT, the H-Line extension and SERE are allocated from Base to FasTracks based on resource drivers on a full-allocation basis for all years of the SBP, thus, Base total expenses are reduced by the amount of the allocation. Prior to 2017, the allocation was made on an incremental basis; it was changed to full allocation including administrative and support costs beginning in 2017. (Line 8)
- Expenses include the Collective Bargaining Agreement at a negotiated amount through 2017 plus an adjustment to capture current and anticipated higher costs, and then escalated at the CPI rate for 2018-2023. (Line 9)
- Diesel fuel is forecast at an estimated lock price of $1.80/gallon in 2018 and then escalated at the national CPI rates as follows: (Line 10)
  2018: 2.5%
  2019: 3.0%
  2020: 2.7%
  2021: 2.4%
  2022: 2.3%
  2023: 2.2%

- Gasoline is forecast at $2.65/gallon in 2018, which is same cost per gallon used in the 2017 budget, and then escalated at the national CPI rates above. (Line 10)
- The line item for expense projects (O&M) includes specifically identified minimum/must-have operating and maintenance projects based on SOGR priorities. These projects are detailed in Exhibit III. Other projects may be added based on available cash flow if sales tax revenue improves or there are excess fund balances at year-end. Specific projects will be determined from the deferred project list in Exhibit IV. (Line 11)
- The FasTracks service increase, or "rubber tire" service based on the 2004 FasTracks Financial Plan whereby FasTracks will fund enhanced bus service on the Base System, increases by the CPI rate serially each year. (Line 12)

➢ Interest income is based on current yields adjusted for expected changes in investable balances and forecasted interest rates per forward rate curves. (Line 15)

➢ Interest expense is calculated by individual debt instruments outstanding during each year (for current debt and future debt as applicable) by using debt amortization schedules. Interest expense is forecast only on existing debt balances because the plan assumes no new debt issued through 2023. (Line 16)

➢ The line item for capital expenditures includes specifically identified minimum/must-have capital projects based on SOGR priorities, plus the minimum required new fleet, detailed in Exhibit II. Dollar amounts of the new fleet are determined so as not to exceed cash flow constraints determined in the SBP model. Other projects may be added based on available cash flow if sales tax revenue improves or there are excess fund balances at year-end. Specific projects will be determined from the deferred project list in Exhibit IV. (Line 19)

➢ The Fiscal Policy Statement establishes a Board-appropriated fund, capital replacement fund, and unrestricted operating reserve.

- Staff recommends that the Board-appropriated fund be funded at a minimum of $3 million each year in 2018-2019, not funded (not drawn) in 2020, drawn by $7.0 million in 2021 to help balance the SBP, and then funded at $5 million each year in 2022-2023. This fund is projected to reach a balance of over $26 million in 2023. (Lines 20 and 33)
- Staff recommends that the capital replacement fund be drawn entirely in 2018 for fleet purchases and then funded by $3.0 million each year beginning in 2022. This fund is projected to reach a balance of $6.0 million in 2023. Per the 2017 Amended Budget, the capital replacement fund was replenished to $2.7 million in 2017 after having been used in its entirety in 2016 for fleet acquisition. (Lines 21 and 34)
- The Fiscal Policy Statement in Fund Balance Policy 4 allows for the designation of an unrestricted operating fund used to respond to unanticipated events, including revenue shortfalls. The unrestricted operating reserve was established in 2017 and funded with available cash flow. Staff recommends that the unrestricted operating fund be funded at a minimum of $5.0 million each year in 2018-2019, drawn by a total of $19.7 million in 2020-2021 to help balance the SBP, and then funded with available cash flow in 2022-2023. The SBP will apply available dollars toward the operating fund such that it reaches nearly $29 million in 2022 and reaches over $59 million in 2023. (Lines 22 and 35)
- The total of these three funds is projected to be nearly $92 million in 2023.

➢ A transfer to FasTracks for Base System support of FasTracks operations is not anticipated to be necessary over the course of this six-year SBP. (Line 23)

➢ Financing proceeds represent COPs issued for bus and light rail vehicle acquisition in accordance with fleet schedules, net of grant funding and use of capital acquisition fund. No new debt is issued during the SBP term in order to maintain required debt service coverage. (Line 25)

- Principal payments on debt are derived from individual debt instruments outstanding during each year (for current debt and future debt as applicable) by using debt amortization schedules. Principal payments are forecast only on existing debt balances. (Line 26)
- Other line items consist of the roll-over of the unrestricted fund ending balance at 12/31/17, estimated changes to restricted reserves, and the use of previously-issued COP-bond proceeds for future year capital expenditures. (Lines 29, 30, and 31)
- The SBP is balanced during the six-year period as shown by the positive unrestricted year-end fund balance. The objective is to maintain a minimum unrestricted year-end fund balance of $2 million each year through 2023 while supporting a minimum critical level of capital and expense projects and building reserve fund balances. (Line 32)

Exhibit II
Exhibit II attached to this document is a detailed listing of planned capital projects during the SBP period in uninflated 2017 dollars.

Exhibit III
Exhibit III attached to this document is a detailed listing of planned operating and maintenance projects during the SBP period in uninflated 2017 dollars.

Exhibit IV
Exhibit IV attached to this document is a listing of capital and operating projects (not including minimum projects or fleet) in uninflated 2017 dollars that were submitted for consideration during the SBP development process and are deferred from the six-year term 2018-2023 to a future period. The SBP was balanced in part by postponement of these non-critical projects. Projects may be selected from this list based on available funds generated by the SBP in 2018-2023 after all other objectives are met.

Exhibit V
Exhibit V attached to this document is a chart of (minimum) capital projects by type for the current and last three SBP periods.

Exhibit VI
Exhibit VI attached to this document is a chart of (minimum) operating and maintenance projects by type for the current and last three SBP periods.

The 2018-2023 SBP planned capital and expense projects are totaled below, inflated at the area CPI rate starting in 2018:

(in millions $)

Capital and Operating Projects	2018	2019	2020	2021	2022	2023
Capital Projects	$83.7	$48.7	$48.5	$45.8	$23.6	$82.4
Operating & Maintenance Projects	$13.7	$9.5	$12.2	$19.6	$17.6	$11.8
Total SBP Projects	$97.5	$58.2	$60.7	$65.3	$41.1	$94.2

As required by the Federal Transit Administration (FTA), RTD must review its SBP for any Title VI impacts (disproportionate impacts on minority and low income communities). Any service changes specified in the SBP will be reviewed for Title VI impacts during the service planning process prior to final recommendations on service changes. For the capital component of the SBP, Title VI impacts are reviewed on improvements that are over and above the state-of-good-repair elements (repairs, replacements and rehabilitations) of the capital program. The Title VI review will be provided and a statement from the Planning Department to this effect is attached.

Annual Program Evaluation

The underlying assumptions for the 2017 Annual Program Evaluation (APE) are consistent with those used in the SBP:

- Fare revenues are projected using the same fare revenue model and fare increase assumptions, adding revenue for new lines at their projected opening dates
- Sales and use tax projections for the 0.4% sales and use tax incorporate the September 2017 CU-Leeds forecasts
- Grant revenues are based on existing grant agreements and past trends, adjusted at CPI as appropriate
- Interest income on available balance is projected using the same methodology as for the SBP.
- The cost allocations to FasTracks from the SBP and the FasTracks "rubber tire" service increase feed directly from the SBP.
- Operating and maintenance costs for the Eagle Project are derived from the Concession Agreement.
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The total FasTracks project budget through 2020 included in the APE is approximately $5.6 billion. Project-by-project costs and the changes from the 2016 APE are included as **Exhibit VII**.

The major changes between the 2016 and 2017 APE involve the North Metro Project. The proposed APE assumes RTD operation and maintenance of the corridor, with DTP maintaining the vehicles, and includes mobilization and startup costs to support RTD operations. Additional funding also is required to complete the current scope of construction of the corridor to 124th Avenue. Specific changes are detailed below:

- Additional funding to cover the current scope to complete - $52.7 million
  - Additional RTD overhead
  - Head-end tie-in
  - Risk associated with scope gap/betterments
  - Riverside grade crossing elimination
  - Additional parking at end-of-line station
- Capital costs for mobilization for corridor operations - $19.9 million
- Other costs for mobilization for corridor operations - $12.8 million

The average annual operating and maintenance cost for the first ten years of North Metro operations is projected at $25.9 million in 2017 dollars.

Outside of the North Metro Project, the project cost changes to this APE are relatively small. These changes primarily reflect updates to project scope and timing, or work that has been completed under budget. These changes result in a net savings of $12.2 million through 2020, as summarized below.

- Additional funds required for project closeout staffing and extension of project closeout to 2020 - $5.4 million
- Savings from projected completion of the I-225 project under the 2016 APE budget - $15 million savings
- Reduce remaining budget for the Free Metro Ride to the $1.5 million required for City and County of Denver capital improvements - $1.8 million savings
- Reduction in program wide capital costs - $0.7 million savings

Future implementation of projects not included in the current APE would require identification of funding sources for construction and operations, and would require approval of the Board. Therefore, the APE is a dynamic tool, which is updated annually as projects move towards completion and any changes approved by the Board are incorporated.

The projected APE cash flow through 2023 does not require Base System funding to support FasTracks corridor operations and maintenance. However, the FasTracks Capital Acquisition Fund is drawn down in 2021, and funding from the FasTracks Internal Savings Account (FISA) will be needed between 2021 and 2023, to fund FasTracks corridor operations and maintenance. The cash flow by year through 2023 is presented as **Exhibit VIII**.

FINANCIAL IMPACT

The staff-recommended SBP and APE provide RTD with a plan for maintaining a positive unrestricted year-end fund balance in each year of the SBP while growing reserve fund balances. However, uncontrollable economic factors, such as sales tax revenue, cost of fuel, materials, and supplies, as well as economic conditions will continue to have an impact on the SBP and APE, and may challenge staff to present new options and solutions during the 2018 budget period.

Current key financial (fund balance) indicators for the SBP are:

(in millions $)	2018	2019	2020	2021	2022	2023
Unrestricted Year-End Fund Balance	$33.8	$11.0	$2.0	$2.0	$2.0	$2.0
Board-Appropriated Fund Balance	$20.4	$23.4	$23.4	$16.4	$21.4	$26.4
Capital Replacement Fund	$0.0	$0.0	$0.0	$0.0	$3.0	$6.0
Unrestricted Operating Reserve	$14.7	$19.7	$10.5	$0.0	$28.8	$59.4
Balanced in Budget Year	Yes	Yes	Yes	Yes	Yes	Yes

Current key financial indicators for the APE are:

(in millions $)	2018	2019	2020	2021	2022	2023
Board Appropriated / Capital Replacement / Operating Reserves	$33.3	$44.3	$48.3	$30.2	$30.8	$32.2
Unrestricted Year-End Fund Balance	$162.0	$76.7	$14.8	$2.0	$2.0	$2.0
FasTracks Management Reserve Balance	$15.9	$15.9	$15.9	$15.9	$15.9	$15.9
FasTracks Internal Savings Account (FISA) Balance – Year-End	$67.1	$80.4	$95.8	$92.2	$73.8	$21.7

ALTERNATIVES

1. It is recommended that the RTD Board of Directors adopts the 2018-2023 Strategic Budget Plan (SBP) and the 2018-2023 Annual Program Evaluation (APE).

2. Defer the adoption of a 2018-2023 SBP and 2018-2023 APE to a later date. This is not recommended because the SBP and APE identify the capital programs, expenditures, and service guidelines for the 2018 budget process and adoption of the plans serves as a confirmation of the Board of Directors' vision for the 2018 Budget.

3. Provide staff additional direction in the selection of assumptions for the projected 2018-2023 SBP and 2018-2023 APE. This is not the desired action and will result in delay of the SBP and APE adoption and possible delay in the 2018 budget process.

ATTACHMENTS:

- Exhibit I-2018-2023 SBP (PDF)

- Exhibit II-SBP Capital Projects (PDF)
- Exhibit III-SBP O&M Projects (PDF)
- Exhibit IV-Deferred Projects (PDF)
- Exhibit V-Capital Projects by Type (PDF)
- Exhibit VI-O&M Projects by Type (PDF)
- Exhibit VII-2017 APE Project Costs (PDF)
- Exhibit VIII-2017 APE Cash Flow (PDF)
- Title VI Guideline-SBP Attachment (PDF)

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Heather McKillop, CFO/AGM, Finance & Administration 10/12/2017

EXHIBIT I

Regional Transportation District
Strategic Budget Plan Cash Flow
Base System Capital and Operations
2018-2023 (Rounded Millions)
FINAL

#	Line Item	Adjusted Amended Budget 2017	2018	2019	2020	2021	2022	2023
	CU-Leeds Baseline forecast (Sep-17)	5.9%	4.9%	3.5%	2.9%	2.9%	4.0%	4.1%
	Revenue and Other Income							
1	Fare Revenue	114.2	115.2	127.7	128.5	129.3	142.9	143.7
2	Sales and Use Tax	358.1	375.7	388.9	400.1	411.6	428.1	445.7
3	Grant Revenue	150.4	91.4	93.7	93.6	96.1	98.7	136.6
4	Other Income	8.1	8.4	8.6	8.9	9.1	9.3	9.6
5	**Total Revenue and Other Income**	**$ 630.9**	**$ 590.7**	**$ 618.9**	**$ 631.0**	**$ 646.1**	**$ 679.0**	**$ 735.6**
	Adjustment to Balance		-	-	-	-	-	-
6	Operating Expenses Excluding Depreciation	(398.0)	(400.8)	(409.9)	(421.4)	(432.9)	(444.3)	(455.9)
7	Service Increase	(2.4)	(2.4)	(2.5)	-	-	-	-
8	FT Operations Allocation	35.7	37.3	42.4	43.6	44.8	46.0	47.2
9	CBA - Bus/Rail	(113.0)	(116.2)	(119.7)	(123.1)	(126.5)	(129.8)	(133.2)
10	Fuel Expense (diesel + gasoline)	(22.5)	(24.4)	(25.2)	(25.8)	(26.5)	(27.1)	(27.7)
11	Expense Projects (O&M)	(12.1)	(13.7)	(9.5)	(12.2)	(19.6)	(17.6)	(11.8)
12	FT Service Increase	17.9	18.4	18.9	19.5	20.0	20.5	21.0
13	**Total Operating Expenses**	**$ (494.5)**	**$ (501.9)**	**$ (505.4)**	**$ (519.5)**	**$ (540.6)**	**$ (552.3)**	**$ (560.3)**
14	**Income Before Interest Income / (Expense)**	**$ 136.4**	**$ 88.8**	**$ 113.5**	**$ 111.5**	**$ 105.5**	**$ 126.7**	**$ 175.3**
	Interest Income / (Expense)							
15	Investment Income	1.3	1.8	1.8	1.8	1.3	2.4	3.5
16	Interest Expense	(26.0)	(21.8)	(19.4)	(16.8)	(14.4)	(12.1)	(10.3)
17	**Total Interest Income / (Expense)**	**$ (24.6)**	**$ (19.9)**	**$ (17.6)**	**$ (15.1)**	**$ (13.1)**	**$ (9.7)**	**$ (6.7)**
18	**Change in Net Assets / Income**	**$ 111.8**	**$ 68.8**	**$ 95.9**	**$ 96.5**	**$ 92.4**	**$ 117.0**	**$ 168.6**
19	Capital Expenditures	(95.7)	(83.7)	(48.7)	(48.5)	(45.8)	(23.6)	(82.4)
	Use of / (Increase to) Funds							
20	Board Appropriated Fund	(7.0)	(3.0)	(3.0)	-	7.0	(5.0)	(5.0)
21	Capital Replacement Fund	(2.7)	2.7	-	-	-	(3.0)	(3.0)
22	Unrestricted Operating Reserve	(9.7)	(5.0)	(5.0)	9.2	10.5	(28.8)	(30.6)
23	Transfer to FT	-	-	-	-	-	-	-
24	**Total Funds Change**	**$ (19.4)**	**$ (5.3)**	**$ (8.0)**	**$ 9.2**	**$ 17.5**	**$ (36.8)**	**$ (38.6)**
25	Financing Proceeds	-	-	-	-	-	-	-
26	Principal Payments	(50.0)	(59.0)	(62.6)	(65.8)	(64.7)	(58.2)	(47.0)
27	**Net Increase / (Decrease) to Debt Balance**	**$ (50.0)**	**$ (59.0)**	**$ (62.6)**	**$ (65.8)**	**$ (64.7)**	**$ (58.2)**	**$ (47.0)**
28	**Increase / (Decrease) Fund Balance**	**$ (53.3)**	**$ (79.2)**	**$ (23.4)**	**$ (8.7)**	**$ (0.6)**	**$ (1.6)**	**$ 0.6**
29	Beginning Unrestricted Net Assets / Fund Balance	43.5	82.1	33.8	11.0	2.0	2.0	2.0
30	+/- Restricted Reserves + Other Reconciliation	24.6	(0.5)	0.6	(0.4)	0.6	1.7	(0.6)
31	Bond Proceeds Used for Capex	67.3	31.5	-	-	-	-	-
32	**Unrestricted Year-End Fund Balance / (Deficit)**	**$ 82.1**	**$ 33.8**	**$ 11.0**	**$ 2.0**	**$ 2.0**	**$ 2.0**	**$ 2.0**
33	Cumulative Fund Balance - Board Appropriated Fund	17.4	20.4	23.4	23.4	16.4	21.4	26.4
34	Cumulative Fund Balance - Capital Replacement Fund	2.7	0.0	0.0	0.0	0.0	3.0	6.0
35	Cumulative Fund Balance - Unrestricted Operating Reserve	9.7	14.7	19.7	10.5	0.0	28.8	59.4