

PINELLAS SUNCOAST TRANSIT AUTHORITY

KEY BUDGET ASSUMPTIONS

*FOR FISCAL
YEAR 2017*

Key Assumptions

This section includes a discussion of the sources of information used to develop assumptions for revenues and expenditures that drive the 5 year forecast.

Assumptions and Forecasting

We consistently use the best data and methodologies available; however economic forecasting is dynamic and must be updated when new information is presented. The forecasts in this document are a baseline using past trends, current policies and assumptions about future conditions based on reasonable expectations. This provides a context to view current policy decisions in light of their potential impact on the fiscal stability of PSTA in the years to come.

Revenue Assumptions

The primary revenue sources for PSTA are Ad Valorem Taxes, Passenger Fares, and Operating Assistance from Federal, State and Local Sources.

Property Tax Overview (Approximately \$37.8 million in the FY 2016 budget)

Ad valorem taxes, commonly called property taxes, are assessed on real property. The tax rate expressed is expressed in “mills”. One mill is one dollar of taxes for each thousand dollars of taxable value. For example, a tax rate of 5.9 mills on a taxable value of \$100,000 yields \$590 in taxes. PSTA receives .7305 mills with a statutory cap of 0.75 mills.

The taxable values as of January 1st are established annually by the Property Appraiser and certified for budget purposes by July 1st. Final taxable values, following appeals and adjustments, are certified following the completion of the Value Adjustment Board appeals process.

The PSTA Board of Commissioners approves millage rates annually by resolution as part of the budget process. This process must follow the State’s “Truth in Millage” (TRIM) law, including timing advertisement and conduct of public hearings.

June 1 st	Property Appraiser delivers estimate of table value to PSTA
July 1 st	Property Appraiser delivers Certification of Taxable Value (DR-420) to PSTA
July 27 th	Board approves proposed millage
August 4 th	PSTA returns completed DR-420 to Property Appraiser
August 22 nd	Property Appraiser mails TRIM notice
September 15 th	1 st Public Hearing to tentatively adopt the millage and budget
September 28 th	Adopt final millage and budget

Ad Valorem					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
5.4%	4.8%	4.3%	3.8%	3.3%	3.3%

After five years of decline, countywide taxable values increased by 6.5% in FY 15 and 6.2% in the FY 16 budget. The assumption in the forecast is that growth of 3.8% per year or greater in the next three years will be followed by a slightly lower sustained level of increases. The preceding five years of tax base decline previously mentioned were unprecedented; prior to this the tax base only decreased once since World War II, a small 0.6% dip in FY 93. Prior to the recent recession, increases in the tax base averaged 5.0% per year.

The countywide taxable value is the basis for determining the ad valorem tax revenue and is consistent with the County budget assumptions.

Opportunity for Revenue Increase from Ad Valorem Taxes

If strategically the PSTA Board determines that the millage should be raised to the cap of 0.75 mills the following would be the dollar impact of that increase:

Net Increase to Ad Valorem Taxes at Maximum Millage				
FY 17	FY 18	FY 19	FY 20	FY 21
\$1,057,705	\$1,103,186	\$1,145,107	\$1,182,895	\$1,221,931

Passenger Fare Revenue (Approximately \$14.8 million in the FY 2016 budget)

Passenger Fare Revenue is derived from the fare box revenue, ticket and pass sales, contractual revenue such as from the U-Pass Program and from Transit Disadvantaged (TD) co-pays. The base fare in FY 16 is at \$2.25 for a one way trip. The passenger fare revenue is influenced by the various discount programs offered. In FY 15 the average fare per ride for regular bus service (excluding DART) was \$.89 as compared to the base fare of \$2.00.

Ridership has started to decline, consistent with the national trend with lower gas prices. As a result, we are assuming flat revenue going forward.

Passenger Fares					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
1.9%	0.0%	0.0%	0.0%	0.0%	0.0%

Opportunity for Revenue Increase from Increasing the Base Fare

In the Ernst and Young Financial Study for PSTA, an assumption of fare increases every three years to assist in maintaining financial stability was assumed. Using that model, if the PSTA Board were to look at a 15% increase in the base fare starting in FY 2019, net of lost riders, the impact that would affect all riders would be as follows:

Net Impact on Passenger Fares Based on 15% Increase				
FY 17	FY 18	FY 19	FY 20	FY 21
\$0	\$0	\$1,402,556	\$1,402,556	\$1,402,556

However, based on the American Bus Benchmarking Group statistics, PSTA has one of the highest base fares in the US amongst its peers at this time. Therefore, we will not include fare increases in the five year budget assumptions.

State Grant (Approximately \$7.4 million in the FY 2016 budget)

PSTA receives State Operating funds in the form of Block Grants, TD State Reimbursements, grants for the Regional routes (100X and 300X), as well as other reimbursements. These funds are anticipated to increase at a constant rate.

State Grants					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
2.3%	2.0%	2.0%	2.0%	2.0%	2.0%

Federal Grants (Approximately \$5.5 million in the FY 2016 budget)

PSTA receives formula funding from the Federal Transit Administration in a “5307” grant that may be used for either operational expenses (limited to preventative maintenance labor or parts and tire leases) or capital. PSTA has always used a portion of 5307 funds for operations and after the financial crisis in 2008, PSTA, increased the allocation of the 5307 funding for operations away from capital. Capital costs are more easily deferred or allocated over multiple periods, while operating costs are an immediate need. Since 2011, the dependence on 5307 for operations has decreased, and the budget assumptions assume a constant dollar amount regardless of the grant award amount.

Federal Grants					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
-3.6%	0.0%	0.0%	0.0%	0.0%	0.0%

Other Revenues (Approximately \$1.3 million in the FY 2016 budget)

Included in this category are revenues such as diesel tax refunds, advertising, and interest income.

Other Revenues					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
-1.6%	2.0%	2.0%	2.0%	2.0%	2.0%

Local Beach Trolley & the Central Avenue Trolley (Approximately \$926 thousand in the FY 2016 budget)

The Suncoast Beach Trolley runs from Park Street Terminal in downtown Clearwater to 75th Avenue and Gulf Boulevard and the Central Avenue Trolley (CAT) runs from the beaches to downtown St. Petersburg. The cities of Treasure Island and St. Pete Beach provide operating assistance for these routes and the related DART service. The assumptions are based on anticipated increases in city revenues.

Local Beach Trolley & CAT					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
6.5%	5.0%	5.0%	5.0%	5.0%	5.0%

Federal Grant Metropolitan Planning Organization (MPO) – Pass through funds (\$80 thousand in the FY 2016 budget)

The MPO provides us federal funding for operations at a consistent \$80k a year and no changes are anticipated.

Federal Funds - MPO					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Expenditure Assumptions

Personnel Salaries Including Union Step Increases (Approximately \$29.6 million in the FY 2016 budget)

Salaries					
	FY 17	FY 18	FY 19	FY 20	FY 21
Administration	3.5%	3.5%	3.5%	3.5%	3.5%
Bargaining Unit	3.5%	3.5%	3.5%	3.5%	3.5%

The cost of Personnel salaries and fringes are the largest category of expenses constituting approximately 62% of the Authority's overall operating expenses.

Since the recession in FY 2009 represented employees have had annual increases, including step increases, ranging from 1.02% to 36.09% while administrative employees saw 0% for the first 3 years 1% for 2 years and a 3% merit raise in FY 2015 and FY 2016. The lower increases for administrative employees were a cost savings measure to deal with the dramatic decreases in property tax ad valorem revenue.

All PSTA employees are member of the Florida Retirement System (FRS). Beginning on July 1, 2012, employees are required to contribute 3.0% of their salary to the FRS effectively reducing take-home pay.

Compensation adjustments are included in the forecast for FY 17 through FY 21. Moderate wage adjustments will be required to maintain a compensation structure that can attract and retain quality employees. The net adjustments include pay for performance increases.

A market survey of salaries for comparable transit agencies is anticipated to be conducted prior to fiscal year end FY 2016.

Employee Benefits (Approximately 11.1 million in the FY 2016 budget)

Fringe Benefits					
3 Yr Avg.	FY 16	FY 17	FY 18	FY 19	FY 20
2.6%	7.0%	7.0%	7.0%	7.0%	7.0%

PSTA is responsible for employer contributions to Social Security (FICA), the Florida Retirement System (FRS) State pension fund, and to support various benefits such as health and life insurance, short term disability, workers' compensation and unemployment compensation. The key drivers for employee benefits are health insurance and PSTA's share of the pension.

PSTA is required to participate in the Florida Retirement System, a State public pension plan. From 1998 to 2008, the FRS had been one of the few state systems that had an actuarial surplus. This lowered the required contributions set by the Legislature that are based on an employee's salary and benefit category. As with most pension systems, the financial crisis in 2008 had a significant effect on the value

of FRS investments. As a result, beginning in 2009 the FRS system had an unfunded liability. The FRS investment portfolio which is managed by the State Board of Administration, has now recovered from this setback. As of June 30, 2014, the asset value for the FRS pension plan was higher than the previous peak value it had reached in 2007.

The State Legislature establishes the employer contribution rates for the FRS system. Employees must also contribute to the system as part of a package of Legislative changes enacted in 2011. The 2013 Legislature increased the FRS rates to fully fund the system’s actuarial liability over a multi-year period, and the 2014 Legislature made adjustments to maintain this approach. The actuarial report as of June 2014 indicates that rates may not need to be adjusted for the State’s 2016 fiscal year. The forecast assumes that having reached a fully funded level, the rates should stabilize.

The actual contribution rates beginning July 1, 2016 will not be known until the end of the 2016 legislative session. In FY 2016 the contributions were budgeted at \$2.3 million. The future growth in PSTA’s contributions will be a combination of rate changes, if any and the growth in the salary base to which the rates are applied.

Health Insurance (Approximately \$5.4 million in the FY 2016 budget)

Health insurance costs for PSTA have followed the national trend and outpaced inflation in recent years. These increases have been mitigated by cost containment measures such as wellness programs lowering the utilization rate, and in FY 15 for the first time employees contributing to the increase in costs at approximately 2%. Total budgeted costs for health insurance in FY 16 were \$5.4 million.

The forecast assumes PSTA’s continued emphasis on wellness and cost containment measures.

The Affordable Health Care Act (ACA) passed in 2010 on the national level to restructure and contain health insurance costs could have a significant impact in FY 18 and later years. The forecast does not assume any changes in the current situation.

Diesel Fuel (Approximately \$4.5 million in the FY 2016 budget)

All fuel is purchased as part of a consortium headed by the Hillsborough Area Transit Authority (HART), and approximately 80% of the diesel fuel has been locked in. This is PSTA’s fourth highest cost category behind salaries, fringe benefits and purchased transportation (DART).

The assumptions are based on a trend analysis.

Diesel Fuel					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
-11.3%	3.5%	5.0%	5.0%	5.0%	5.0%

Purchased Transportation Demand Response Transportation (DART) (Approximately \$6.2 million in the FY 2016 budget)

PSTA provides demand response transportation services for people who, because of their disability, are unable to independently use the regular, accessible PSTA buses. This service is outsourced and is going out for RFP for FY 17. As a result of the potential increase in cost in that year, a larger percentage is being applied.

DART					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
12.5%	10.0%	4.0%	4.0%	4.0%	4.0%

Supplies (Approximately \$4.5 million in the FY 2016 budget)

The majority of our supplies expenses are related to bus parts. The assumptions in the near term are based on twice the CPI to account for PSTA's aging fleet and the significant increase in FY 17 will be to ensure we can extend the life of our buses from 12 years to 15 years. The timing of the implementation on this will be dependent on what the budget can support.

Supplies					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
8.0%	10.0%	4.6%	4.6%	4.6%	4.6%

Services (Approximately \$3.7 million in the FY 2016 budget)

The assumptions for contracted services are that costs will increase by the CPI.

Services					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
16.2%	1.6%	1.6%	1.6%	1.6%	1.6%

Insurance (Approximately \$1.7 million in the FY 2016 budget)

PSTA is has self-insured retentions and excess policies for both workers' compensation and third party claims. While the 3 year average is high based on settlement of several large claims, the future costs are increasing based on actuarial reviews. In FY 17 PSTA locked in the prices the previous year for the major insurance components. The percent increase in FY 17 only will be on cyber, pollution and flood insurance policies.

Insurance					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
104.1%	3.5%	3.5%	3.5%	3.5%	3.5%

Utilities (Approximately \$1.2 million in the FY 2016 budget)

It is assumed utilities will increase by the CPI.

Utilities					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
13.0%	1.6%	1.6%	1.6%	1.6%	1.6%

Purchased Transportation TD (Approximately \$749 thousand in the FY 2016 budget)

Based on a new procurement in FY 17 the plan assumes a higher increase in that year.

TD					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
2.2%	10.0%	3.2%	3.2%	3.2%	3.2%

Opportunities for Additional Cost Savings

Administrative cost reductions:

Staff has been working to identify ways to reduce costs and at minimum we anticipated a \$100,000 of savings in FY 16. In fact we are realizing a savings of approximately \$675,000. Based on anticipated inventory procurement savings of approximately \$400,000 in FY 17, we anticipate that will grow by 3% each year.

Administrative Savings					
3 Yr Avg.	FY 17	FY 18	FY 19	FY 20	FY 21
	\$400,000	3.0%	3.0%	3.0%	3.0%