

BOARD OF DIRECTORS REPORT

To: David A. Genova, General Manager and CEO

From: Heather McKillop, CFO/AGM, Finance & Administration

Date: November 8, 2017

Subject: 2018 Recommended Budget

Date: November 8, 2017
GM
Board Meeting Date: November 28, 2017

RECOMMENDED ACTION

It is recommended by the Financial Administration and Audit Committee that the Board of Directors adopt Resolution No. ____, Series of 2017 for the adoption of the 2018 Budget, Resolution No. ____, Series of 2017 for the 2018 Budget Appropriation and Resolution No. ____, Series of 2017 for the appropriation of 2018 Previously Appropriated Capital.

The 2018 Recommended Budget includes the following summary of operating and non-operating revenue, and operating expenses, debt and reserves, capital expenditures, and fund balances. The attached Fiscal Year 2018 Recommended Budget and Fiscal Year 2018 Recommended Budget-Fund Balance (Exhibit I) provide the supporting detail for the Base System, FasTracks Project (Construction) and FasTracks Operations.

The 2018 Recommended Budget includes projected operating and non-operating revenue below (in thousands) which are estimated, not appropriated. The following amounts are summarized from relevant data in Exhibit I.

<i>Operating Revenue, Non-Operating Revenue</i>			
	2017 Amended Budget \$000s	2018 Recommended Budget \$000s	Change
BASE SYSTEM (0.6%)			
Farebox Revenue	\$ 114,230	\$ 115,223	\$ 993
Other Operating Revenue	4,941	5,079	138
Sales/Use Tax	351,632	375,705	24,073
Grant Revenue	150,398	146,961	(3,437)
Investment Income	1,320	1,838	518
Other Income	3,192	3,256	64
Base System Revenue	\$ 625,713	\$ 648,062	\$ 22,350

FASTRACKS PROJECT (0.4%)	2017 Amended Budget \$000s	2018 Recommended Budget \$000s	Change
Farebox Revenue	\$ -	\$ -	\$ -
Other Operating Revenue	-	-	-
Sales/Use Tax	166,000	175,980	9,980
Grant Revenue	276,924	267,487	(9,437)
Investment Income	2,877	5,440	2,563
Other Income	8,221	8,821	600
FasTracks Project Revenue	\$ 454,022	\$ 457,728	\$ 3,706

FASTRACKS OPERATIONS	2017 Amended Budget \$000s	2018 Recommended Budget \$000s	Change
Farebox Revenue	\$ 28,270	\$ 31,562	\$ 3,292
Other Operating Revenue	1,082	587	(495)
Sales/Use Tax	68,421	74,490	6,069
Grant Revenue	-	-	-
Investment Income	-	-	-
Other Income	1,000	1,000	-
FasTracks Operations Revenue	\$ 98,773	\$ 107,639	\$ 8,866
Total FasTracks Revenue	\$ 552,795	\$ 565,367	\$ 12,572

DISTRICT-WIDE	2017 Amended Budget \$000s	2018 Recommended Budget \$000s	Change
Farebox Revenue	\$ 142,500	\$ 146,785	\$ 4,285
Other Operating Revenue	6,023	5,666	(357)
Sales/Use Tax	586,053	626,175	40,122
Grant Revenue	427,322	414,448	(12,874)
Investment Income	4,197	7,278	3,081
Other Income	12,413	13,077	664
District-Wide Revenue	\$ 1,178,508	\$ 1,213,430	\$ 34,922

The 2018 Recommended Budget appropriation includes projected operating expenses, debt and reserves, capital expenditures, and fund balances below (in thousands). The following amounts are summarized from relevant data in Exhibit I.

Operating Expenses, Debt Service, Capital Expenditures, Fund Balances

	2017 Amended Budget \$000s	2018 Recommended Budget \$000s	Change
BASE SYSTEM (0.6%)			
Operating Expense	\$ 494,462	\$ 520,426	\$ 25,964
Interest Expense	23,217	21,784	(1,433)
Capitalized Interest	2,739	-	(2,739)
New Capital	67,517	58,921	(8,596)
Debt Payments	49,982	59,020	9,038
FasTracks Internal Savings Account	-	-	-
Contingency Reserve	-	5,000	5,000
Board Appropriated Fund	17,400	20,400	3,000
Capital Replacement Fund	2,700	-	(2,700)
Unrestricted Operating Reserve	9,700	14,700	5,000
Unrestricted Fund	9,995	31,382	21,387
Base System (0.6%) Appropriation	\$ 677,712	\$ 731,633	\$ 53,921
Base System Previously Approved Capital	\$ 130,234	\$ 104,826	\$ (25,408)
Total Base System Appropriation	\$ 807,946	\$ 836,459	\$ 28,513

	2017 Amended Budget \$000s	2018 Recommended Budget \$000s	Change
FASTRACKS PROJECT (0.4%)			
Operating Expense	\$ 68,786	\$ 49,284	\$ (19,502)
Interest Expense	132,274	131,464	(810)
Capitalized Interest	30,242	21,400	(8,842)
New Capital	234,795	128,876	(105,919)
Debt Payments	8,083	5,680	(2,403)
FasTracks Management Reserve	15,890	15,890	-
FasTracks Internal Savings Account	40,614	71,520	30,906
Board Appropriated Fund	5,732	4,107	(1,625)
Capital Replacement Fund	5,732	4,107	(1,625)
Unrestricted Fund	5,732	4,107	(1,625)
FasTracks Project (0.4%) Appropriation	\$ 547,880	\$ 436,435	\$ (111,445)
FasTracks Project Previously Approved Capital	\$ 590,312	\$ 638,722	\$ 48,410
Total FasTracks Project Appropriation	\$ 1,138,192	\$ 1,075,157	\$ (63,035)

FASTRACKS OPERATIONS	2017 Amended Budget \$000s	2018 Recommended Budget \$000s	Change
Operating Expense	\$ 98,719	\$ 105,857	\$ 7,138
Interest Expense	-	-	-
Capitalized Interest	-	-	-
New Capital	-	-	-
Debt Payments	-	-	-
Board Appropriated Fund	8,227	8,821	594
Capital Replacement Fund	8,227	8,821	594
Unrestricted Fund	8,227	8,821	594
FasTracks Operations Appropriation	\$ 123,400	\$ 132,320	\$ 8,920
FasTracks Operations Previously Approved Cap.	\$ -	\$ -	-
Total FasTracks Operations Appropriation	\$ 123,400	\$ 132,320	\$ 8,920
Total FasTracks Appropriation	\$ 1,261,592	\$ 1,207,477	\$ (54,115)

DISTRICT-WIDE	2017 Amended Budget \$000s	2018 Recommended Budget \$000s	Change
Operating Expense	\$ 661,967	\$ 675,567	\$ 13,600
Interest Expense	155,491	153,248	(2,243)
Capitalized Interest	32,981	21,400	(11,581)
New Capital	302,312	187,797	(114,515)
Debt Payments	58,065	64,700	6,635
FasTracks Management Reserve	15,890	15,890	-
FasTracks Internal Savings Account	40,614	71,520	30,906
Contingency Reserve	-	5,000	5,000
Board Appropriated Fund	31,359	33,328	1,969
Capital Replacement Fund	16,659	12,928	(3,731)
Unrestricted Operating Reserve	9,700	14,700	5,000
Unrestricted Fund	23,954	44,310	20,356
District-Wide Appropriation	\$ 1,348,992	\$ 1,300,388	\$ (48,604)
District-Wide Previously Approved Capital	\$ 720,546	\$ 743,548	\$ 23,002
Total District-Wide Appropriation	\$ 2,069,538	\$ 2,043,936	\$ (25,602)

BACKGROUND

In accordance with State law, the District submitted its proposed budget to the governing body on October 17, 2017. By legal notice, the governing body presented the proposed 2018 Requested Budget for public review on October 18, 2017. A public hearing to solicit formal public comment is scheduled for the November 28, 2017 regular meeting of the Board of Directors.

DISCUSSION

The total proposed current year appropriation for the 2018 Recommended Budget (combined Base and FasTracks) is \$1,300.4 million. This includes an operating expense budget of \$675.6 million, interest expense of \$153.2 million, capitalized interest of \$21.4 million, new capital expenditures of \$187.8 million, debt payments of \$64.7 million, FasTracks management reserve of \$15.9 million, FasTracks Internal Savings Account of \$71.5 million, contingency reserve of \$5.0 million, Board-appropriated fund of \$33.3 million, capital replacement fund of \$12.9 million, unrestricted operating reserve of \$14.7 million, and estimated unrestricted fund balance of \$44.3 million. The previously approved capital (capital carry-forward) is \$743.5 million. The sum of the budget appropriation and capital carry-forward is \$2,043.9 million.

Overview of the 2018 RTD Recommended Budget

Revenues of \$1,213.4 million on a combined basis are expected to increase \$34.9 million (3.0%) in 2018 from the 2017 Amended Budget. This is due to 1) an increase in farebox revenue of \$4.3 million, 2) an increase in sales/use tax revenue of \$40.1 million, 3) an increase in investment income of \$3.1 million, and 5) an increase in other revenue of \$0.3 million, offset by a decrease in grant revenue of \$12.9 million.

- Combined (Base System and FasTracks) farebox revenue of \$146.8 million is budgeted to increase 3.0% over the 2017 Amended Budget. Farebox revenue is forecasted on the basis of a fare revenue model now being used to estimate and allocate fare revenue between Base and FasTracks and within FasTracks service corridors. The model uses ridership forecasts and current data on average fare paid per boarding. Based on the model, in 2018 a higher proportionate amount of fare revenue is allocated to Base and a lower amount is allocated to FasTracks than in previous periods.
 - On the Base System, farebox revenue is forecast to increase almost 1% over the 2017 Amended Budget to \$115.2 million in 2018.
 - For FasTracks, farebox revenue is forecast to increase 11.6% to \$31.6 million over the 2017 budgeted amount.
 - Ridership growth is expected to be flat on Base with ridership increases attributed to FasTracks. Total revenue ridership is projected to grow 4.4% in 2018 over that projected for 2017.
- Sales and use tax revenue of \$626.2 million in 2018 is expected to increase 4.9% over the 2017 projected level according to the most recent September quarterly forecast by the CU-Leeds School of Business. The same forecast was used in the 2018-2023 Strategic Budget Plan (SBP).
- Total grant revenue, including new and carry-forward amounts, is estimated at \$414.4 million, a decrease of \$12.9 million from the 2017 Amended Budget. Total Base System grants are estimated to total \$146.9 million in 2018; of that amount, \$90.0 million is new grants while projected carry-forward grant funding is \$56.9 million. Base System grants are projected to decrease \$3.4 million from the 2017 Amended Budget. The decrease reflects grant draws for LRT overhaul work and Civic Center that were made in 2017 instead of 2018.

- FasTracks grants are budgeted at \$267.5 million, which is a decrease of \$9.4 million from the 2017 Amended Budget largely due to lower final draws on the FFGA and decreases in certain CMAQ grants.
- Combined investment income of \$7.3 million is projected to increase \$3.1 million over the 2017 Amended Budget due to expectation of somewhat higher interest rates on investable fund balances.
- Other operating income and other income together will increase by \$0.3 million from the 2017 Amended Budget generally due to CPI increases on recurring income such as rental and joint venture income. The Build America Bonds subsidy of \$8.8 million for FasTracks Project is not increased at the CPI. Other income also includes full-year payment by the University of Colorado for naming rights on the A Line (FasTracks Operations) and DUS rental income (Base).

Operating expenditures are budgeted at \$675.6 million on a combined basis in 2018 (excluding depreciation), which is \$13.6 million higher compared to the 2017 Amended Budget. Base System operating expenses are budgeted to increase \$25.9 million, FasTracks Project operating expenses are budgeted to decrease \$19.5 million, and FasTracks Operations operating expenses are budgeted to increase \$7.1 million. On the Base System, departmental operating expenses are targeted amounts derived from the SBP, plus operating and maintenance projects approved in the 2018-2023 SBP, plus operating/expense projects carry-forward from 2017, and other miscellaneous increases unknown at the time of the SBP. For FasTracks Operations, the increase is generally due to both direct costs and full allocation from Base to FasTracks of costs of operating the new service corridors, including additional security services, and a higher estimated service payment to Denver Transit Operators for Eagle operations and maintenance. For FasTracks Project, the decrease is due to completion of several FasTracks projects and capitalization of certain costs to the uncompleted corridors. For FasTracks, operating expenses are derived from the Annual Program Evaluation (APE).

The operating/expense project carry-forward to 2018 is \$19.0 million for Base System, \$20.9 million for FasTracks Project, and \$0.9 million for FasTracks Operations. New operating and maintenance projects approved in the SBP (Base System) for 2018 total \$13.3 million (in 2017 dollars). It should be noted that reductions were made overall to departmental operating budgets including expense projects to bring expenditures into alignment with the SBP and APE.

Diesel fuel is budgeted at an estimated price of \$1.80 per gallon, compared to a lock price of \$1.69 per gallon in the 2017 Amended Budget, resulting in an incremental higher cost of approximately \$1.1 million over 2017. Senior staff is reviewing opportunities to lock diesel at a favorable price for 2018. Gasoline is budgeted at \$2.65/gallon, which is the same price as in the 2017 budget for no change.

The major changes in operating expenses comparing the Recommended Budget to the posted Requested Budget are shown in Attachment A. The majority of the changes from the Requested Budget consist of additions for approved SBP expense projects and expense projects carry-forward, as well as start-up costs for North Metro operations not determined in the Requested Budget.

The 2018 Recommended Budget includes funding for the first year of start-up costs related to future RTD operation of the North Metro commuter rail line. The expense budget of \$3.9 million

covers staffing, consumables and spare parts to be purchased for maintenance of the infrastructure and passenger facilities, and training and other support needed to prepare for revenue service. The capital budget of \$13.4 million covers the first year of facilities modifications and heavy equipment to be purchased to support revenue service.

Interest expense in 2018 is budgeted at \$153.2 million on a combined basis, a decrease of \$2.2 million from the 2017 Amended Budget. The decrease is due to the effect of refundings and rescheduled amortization. Of total interest expense, \$21.8 million is budgeted for Base System and \$131.5 million is budgeted for FasTracks. FasTracks interest expense includes the TABOR interest expense of \$34.4 million which is paid with the DTO service payment.

Capitalized interest (combined) is budgeted at \$21.4 million, all of which will occur in FasTracks Project for the North Metro debt. Capitalized interest will be part of the actual cash outlay for interest payments in 2018.

Principal payments on debt are estimated at \$64.7 million on a combined basis, which is \$6.6 million higher than the 2017 Amended Budget. Base System principal payments of \$59.0 million are \$9.0 million higher due to re-scheduled amortization of debt through refundings. FasTracks principal payments of \$5.7 million are \$2.4 million lower due to re-scheduled amortization of debt through refundings. No new debt issuances are planned in 2018 for either the Base System or FasTracks. Both will draw from previously issued debt to fund major capital purchases and construction in 2018.

Capital expenditures are comprised of both the capital carry-forward from 2017 (previously approved capital) arising from timing of project completion, and new capital for 2018. The capital carry-forward will be \$743.5 million made up of \$104.8 million on the Base System and \$638.7 million on FasTracks.

New capital spending of \$187.8 million on a combined basis will decrease \$114.5 million from the 2017 Amended Budget due mainly to project completion in FasTracks. New capital spending for FasTracks will decrease \$105.9 million to \$128.9 million in 2018 due to on-going project completion, mainly North Metro, offset by an increase to the East corridor for reconciliation of finance charges. For the Base System, new capital spending will decrease \$8.6 million from the 2017 Amended Budget to \$58.9 million. Of this amount, the Base system will spend \$5.6 million less on facilities construction and maintenance (mainly Customer Care Center relocation, Blake entryway remodel, and fire protection), \$6.2 million less on bus Infrastructure (16th Street Mall reconstruction), \$1.4 million less on Park-n-Rides (US36 & Sheridan station), \$0.9 million less on rail transit and infrastructure (several projects), and \$12.7 million less on fleet modernization and expansion (all vehicles except for ADA). These decreases will be offset by \$10.4 million more on capital support projects (Burnham Yard land purchase, Colfax 15L Route Improvement project, and blank out screens on Welton Street), \$4.6 million more on rail construction (downtown track and switches replacement and Central corridor rail replacement), and \$3.2 million more on capital support equipment (support and service vehicles and in-plant equipment). The Base System new capital was approved as part of the Strategic Budget Plan in October 2017 and is the amount identified for minimum "must have" projects within SOGR priorities.

Regarding the Colfax 15L Route Improvement project, capital funds were approved in the SBP as \$4,638,103 in 2018 and \$1,625,000 in 2019. In this 2018 Recommended Budget, the project funding will be revised so that funds from 2019 will move to 2018 to allow for a bid on the

construction contract in early 2018. Thus, the project amount for 2018 will be \$6,263,103 (in 2017 dollars) and the amount for 2019 will be \$0.

New capital expenditures for 2018 and the change in new capital in the 2018 Recommended Budget over the 2018 Requested Budget are shown in Attachment B. The capital carry-forward expenditures for 2018 and the change in the capital carry-forward in the 2018 Recommended Budget over the 2017 Amended Budget are shown in Attachment C.

Notable designated fund balance and reserve changes include an increase in the Base System year-end unrestricted fund balance from the 2017 Amended Budget to \$31.4 million. This projected fund balance is in alignment with the SBP target after incorporating all revenue and expense adjustments. The actual amount realized, however, may be lower (or higher) than that projected due to lower (or higher) fare revenue and sales tax revenue in 2017 (this will become evident in the 2018 amended budget). Also on the Base System, the Board-appropriated fund is projected to increase by \$3.0 million to \$20.4 million, the capital replacement fund is projected to decrease by \$2.7 million to \$0, and the unrestricted operating reserve is projected to increase by \$5.0 million to \$14.7 million.

A \$5.0 million contingency reserve is created for the first time for the Base System. The purpose of this reserve is to cover unanticipated needs that may arise through the fiscal year. The funds will be used at the General Manager's discretion to fund unbudgeted inflationary increases, respond to emergencies, new regulations, and cover cost overruns.

In FasTracks Project and FasTracks Operations, the reserve funds are maintained at 3 months of operating expenses. Additionally, the FasTracks management reserve is budgeted at \$15.9 million and the FasTracks Internal Savings Account (FISA) is budgeted at \$71.5 million.

On a District-wide basis, the total of the Board-appropriated fund, the capital replacement fund, the unrestricted operating reserve and the unrestricted fund balance is projected to increase \$23.6 million over the 2017 Amended Budget. These increases are in minimum accordance with fiscal policies for each of the District entities (Base System, FasTracks Project and FasTracks Operations) per Fund Balance Policy below.

Cost Recovery Ratio

The 2018 Recommended Budget meets the cost recovery ratio mandated by the Colorado General Assembly. The estimated SB154 recovery ratio (all non-tax revenue except ADA farebox revenues divided by all expenditures, including depreciation, except ADA expenditures and expenditures incurred for long-term planning and development of rapid transit infrastructure) exceeds the annual target of 30% mandated by the General Assembly.

Fund Balance Policy

The Fund Balance Policy for 2018 requires fund balances to consist of a Board-appropriated fund, a capital replacement fund, and the remaining unrestricted year-end fund balance for both the Base System and FasTracks, as well as an additional unrestricted operating reserve currently for the Base System. The objective is for the total of these funds excluding the capital acquisition fund to equal approximately three months of operating expenses excluding

depreciation for both Base System and FasTracks. The 2018 budget reflects maintenance of a FasTracks management reserve at a level deemed sufficient to fund adjustments to the FasTracks construction schedule.

The total of these fund balances (excluding the management reserve) for 2018 on a District-wide basis is projected at \$105.3 million, comprised of 1) the Board-appropriated fund of \$33.3 million, 2) the capital replacement fund of \$12.9 million, 3) the unrestricted operating reserve of \$14.7 million, and 4) the remaining unrestricted year-end fund balance of \$44.3 million. The Base System portion of these fund balances listed for 2018 is projected to total \$66.5 million.

Basis of Accounting Used in Budgeting

The accounts of the District are reported using the GAAP accrual basis of accounting with two exceptions:

- Capital outlays and payments of bond principal are treated as expenditures.
- Gains and losses on disposal of property and equipment are excluded.
- The non-cash portion of the long-term unfunded pension accrual is excluded.
- Asset sale proceeds and debt issuance proceeds are included.

Attachments

As noted above, please refer to the attached Fiscal Year 2018 Recommended Budget and Fiscal Year 2018 Recommended Budget-Fund Balance (Exhibit I) which shows the operating/non-operating sources, debt and reserves, and capital sources as well as operating uses, capital expenditures, and fund balances of the District, and a reconciliation of net assets. Also attached is the Program Capital Summary including previously approved capital, an Operating Budget Changes Since Posted Budget summary (Attachment A), a New Capital Projects summary (Attachment B), and Capital Carry-Forward Expenditures (Attachment C).

ALTERNATIVES

1. Adopt the 2018 Recommended Budget. This is the recommended action.
2. Revise the 2018 Recommended Budget and adopt with Board-directed revisions.
3. Do not adopt the 2018 Recommended Budget. This is not recommended since the District will not be in compliance with State regulations that require the District to adopt a budget by December 31, 2017. If the District does not adopt a budget before December 31, 2017, State statute (29-1-108 (3) C.R.S.) specifies the following penalty:

"Only ninety percent (90%) of the prior year's appropriation for operations and maintenance purposes and objects is deemed re-appropriated."

ATTACHMENTS:

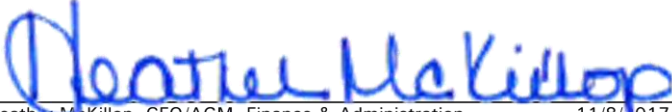
- Board Resolutions-2018 Adopted Budget (DOCX)
- Exhibit I (PDF)
- Attachments A, B, C (PDF)
- Program Capital (PDF)

Prepared by:

Heather McKillop, CFO/AGM, Finance & Administration

Jannette Scarpino, Senior Manager, Budget and Financial Analysis

Approved by:



Heather McKillop, CFO/AGM, Finance & Administration

11/8/2017