



**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AD-HOC FINANCIAL RECOVERY COMMITTEE**

Wednesday, August 4, 2010

3:00 P.M.

VTA River Oaks Campus
Auditorium
3331 North First Street
San Jose, CA

AGENDA

- 1. CALL TO ORDER/ROLL CALL**
- 2. PUBLIC PRESENTATIONS:** This portion of the agenda is reserved for persons desiring to address the Committee on any matter not on the agenda. Speakers are **limited to 2 minutes**. The law does not permit Committee action or extended discussion on any item not on the agenda except under special circumstances. If Committee action is requested, the matter can be placed on the next agenda. All statements that require a response will be referred to staff for reply in writing.
- 3. CHAIRPERSON'S REPORT**
- 4. Review Recommendations for Financial Recovery.**
- 5. ADJOURN**

NOTE COMMITTEE MEMBERS: In order to establish a quorum for this meeting, members are asked to call Board Office at (408) 321-5680 or E-mail: board.secretary@vta.org before 5:00 p.m. on the day prior to the meeting. Thank you for your cooperation.

In compliance with the Americans with Disabilities Act (ADA), those requiring accommodations or accessible media for this meeting should notify the Board Secretary's Office 48 hours prior to the meeting at (408) 321-5680 or E-mail: board.secretary@vta.org or TDD (408) 321-2330. VTA's Homepage is located on the web at: <http://www.vta.org>

NOTE: THE COMMITTEE MAY TAKE ACTION ON ANY ITEM IDENTIFIED ON THE AGENDA.

VTA Ad Hoc Financial Recovery Committee
Objectives and Process for
Developing Specific Recommendations to Board of Directors

Objectives for Remaining Ad Hoc Committee Meetings:

- Develop revenue and savings targets by expenditure category that total to \$40 million per year
- Committee votes on level of savings to achieve from each category of expenditures (not on specific savings proposals), and submits these savings targets as budget guidance to the Board of Directors
- Committee recommends that Board of Directors adopt a FY2012-13 biennial budget based on this budget guidance
- Board can choose to direct staff to prepare budget based on Committee's guidance
- Staff prepares detailed biennial budget based on Board direction

Process for Remaining Ad Hoc Committee Meetings:

- Review specific revenue and expenditure categories at each Committee meeting. Review and discussion of each expenditure category may take more than one meeting
- Committee votes on level of savings that should be targeted in each category

Topics for August 2010 Ad Hoc Financial Recovery Meetings

Meeting	Topics	FY 2009 Compared To FY 2001	Committee Vote Required
August 4	1. Key Principles		✓
	2. Process for Developing Savings Target Recommendations		✓
	3. Problem Definition – Structural Imbalance (FY01-FY09 comparisons)		
	a. Primary Revenue Sources	Decreased 20%	
	i. 1976 Sales Tax Revenue	<i>Decreased 25%</i>	
	ii. TDA	<i>Decreased 10%</i>	
	b. Operating Expenses	Increased 33%	
	i. Labor		
	1. Average wages per employee	<i>Increased 42%</i>	
	2. Number of employees	<i>Decreased 18%</i>	
	ii. Benefits		
	1. Average cost per employee	<i>Increased 123%</i>	
	iii. Other	<i>Increased 28%</i>	
	c. CPI-U (San Francisco-Oakland-San Jose)	Increased 18%	
	d. Bus/Rail Service		
	i. Revenue hours of service	<i>Decreased 11%</i>	
	ii. Revenue miles of service	<i>Decreased 13%</i>	
	4. Areas of Risk/Exposure		
	a. Expiration of Furlough Days	\$3.5M	
	b. Expiration of Wage Freeze	\$10.2M	
	c. One-time revenues	\$18M in FY10	

Meeting	Topics	Proposed Savings Target Dollar/Percent of Total	Committee Vote Required
	5. Assumption On New Revenues	\$0 0%	✓
	6. Operating Reserve at 15%		✓
	7. Use of Capital Funding for Operating		✓
August 11	Internal Efficiencies	\$5 Million 12.5%	✓
	Examples of areas for internal efficiency savings include: reduction in marketing and communications activities, change in call center services, consolidation of VTA functions; taking advantage of opportunities for achieving savings through outsourcing to agencies with core competency to be outsourced, etc.		
August 18	Employee Expenses	\$23 Million 57.5%	✓
	1. Labor (\$10M – \$20M)		
	2. Benefits (\$16M – \$24M)		
	a. Health insurance		
	b. Pensions		
	3. Work Rules (\$1M – \$2M)		
August 25	Service Delivery	\$12 Million 30%	✓
	1. Service contracting (up to \$5 million)		
	2. Regional Partnerships (≈\$9 million)		
Overall Annual Savings Target		\$40 Million	

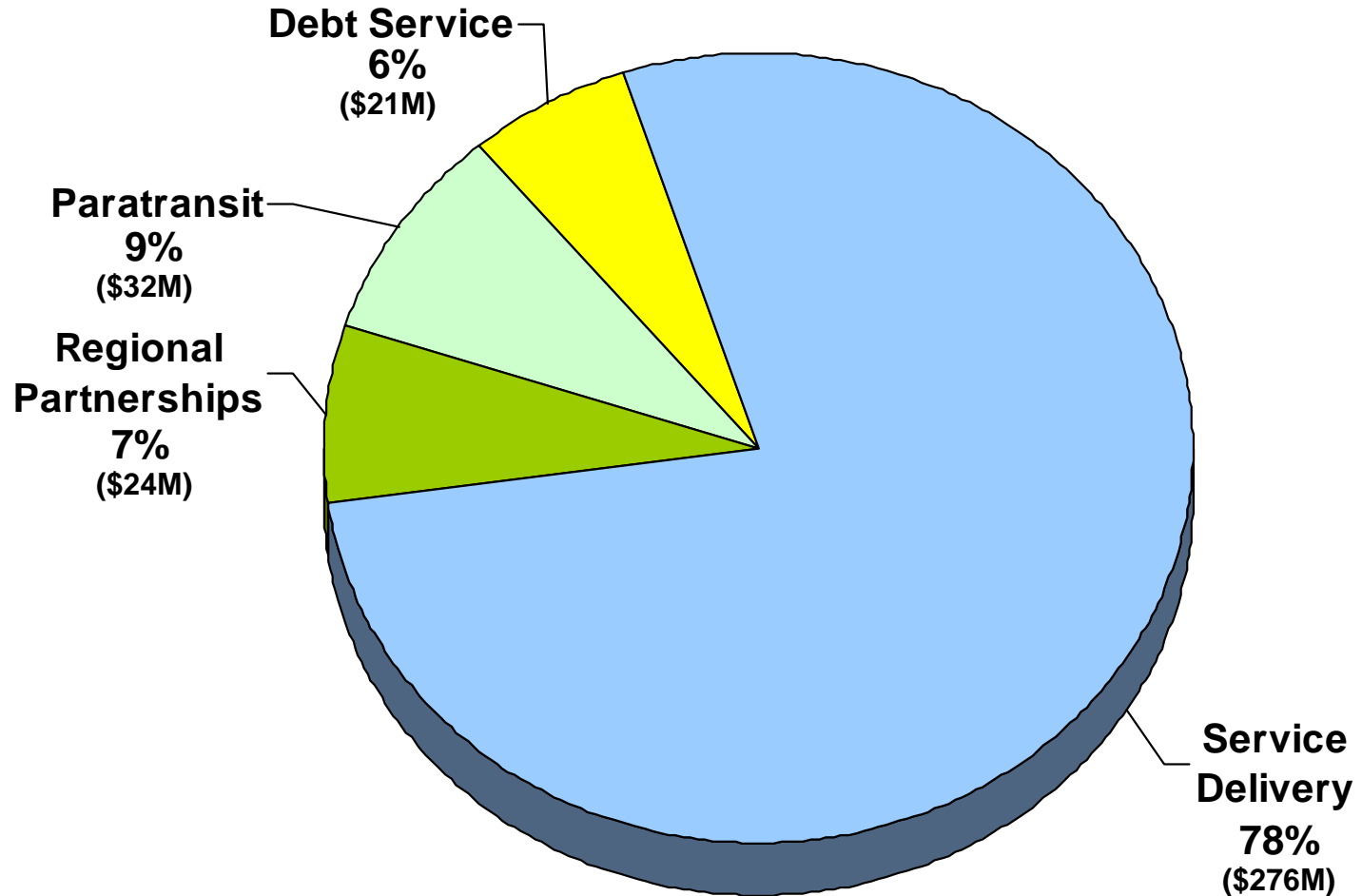
Overview of Structural Deficit

**Ad Hoc Financial Recovery Committee
Santa Clara Valley Transportation Authority
August 4, 2010**

Background on Composition of VTA's Operating Budget

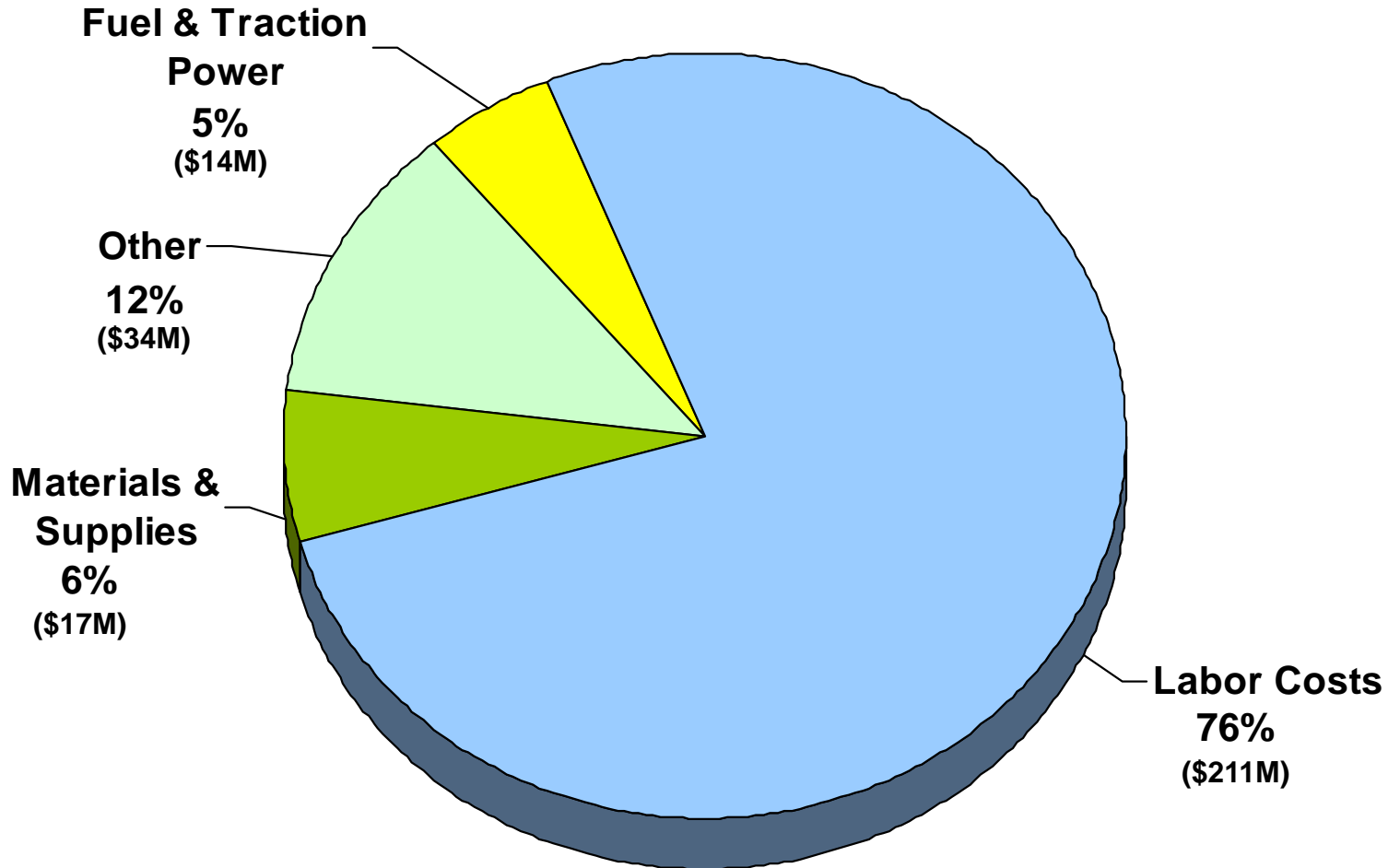
VTA Transit

Budgeted Operating Expenses (\$353M)



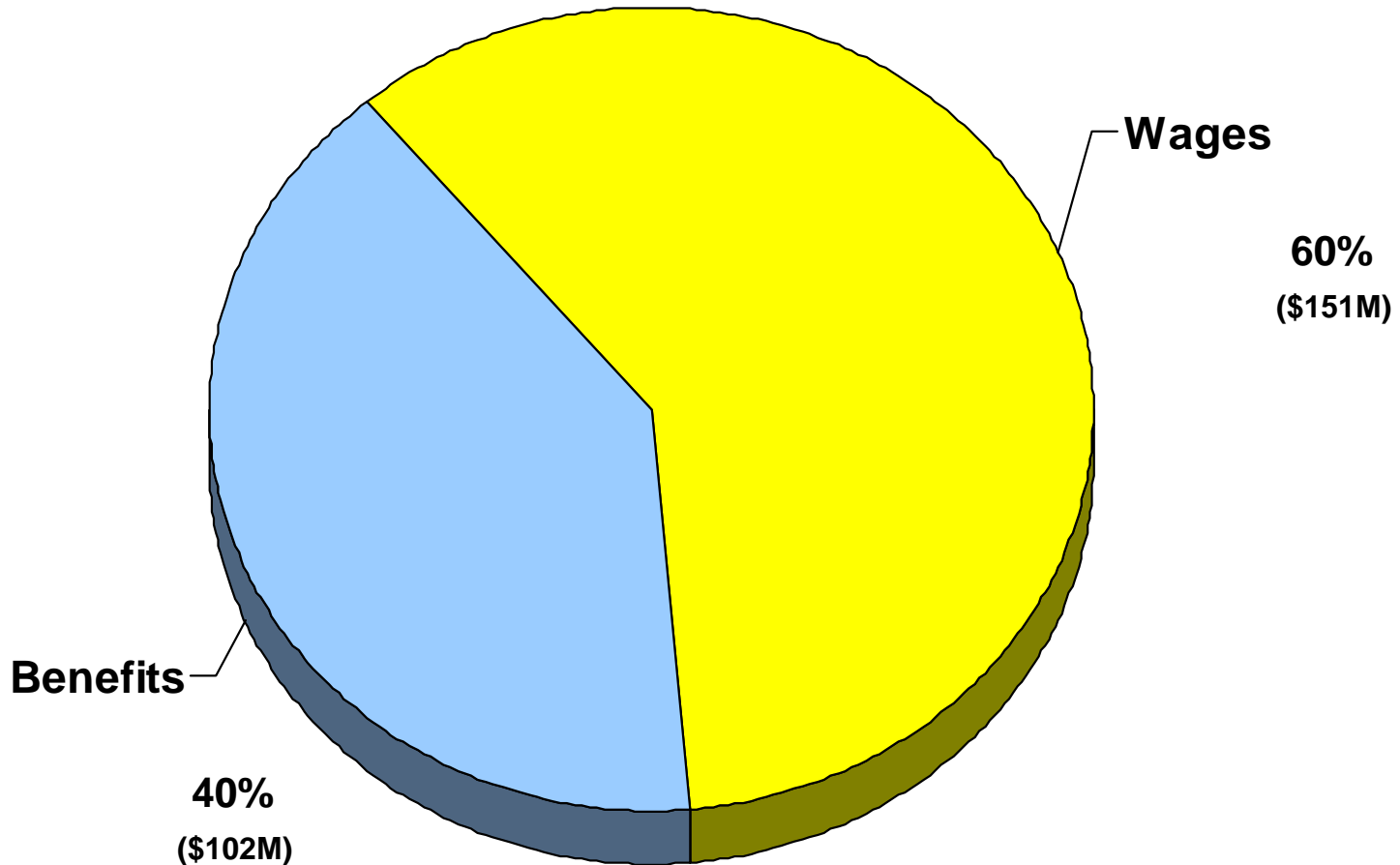
VTA Transit

Service Delivery Budget (\$276M)



VTA Transit

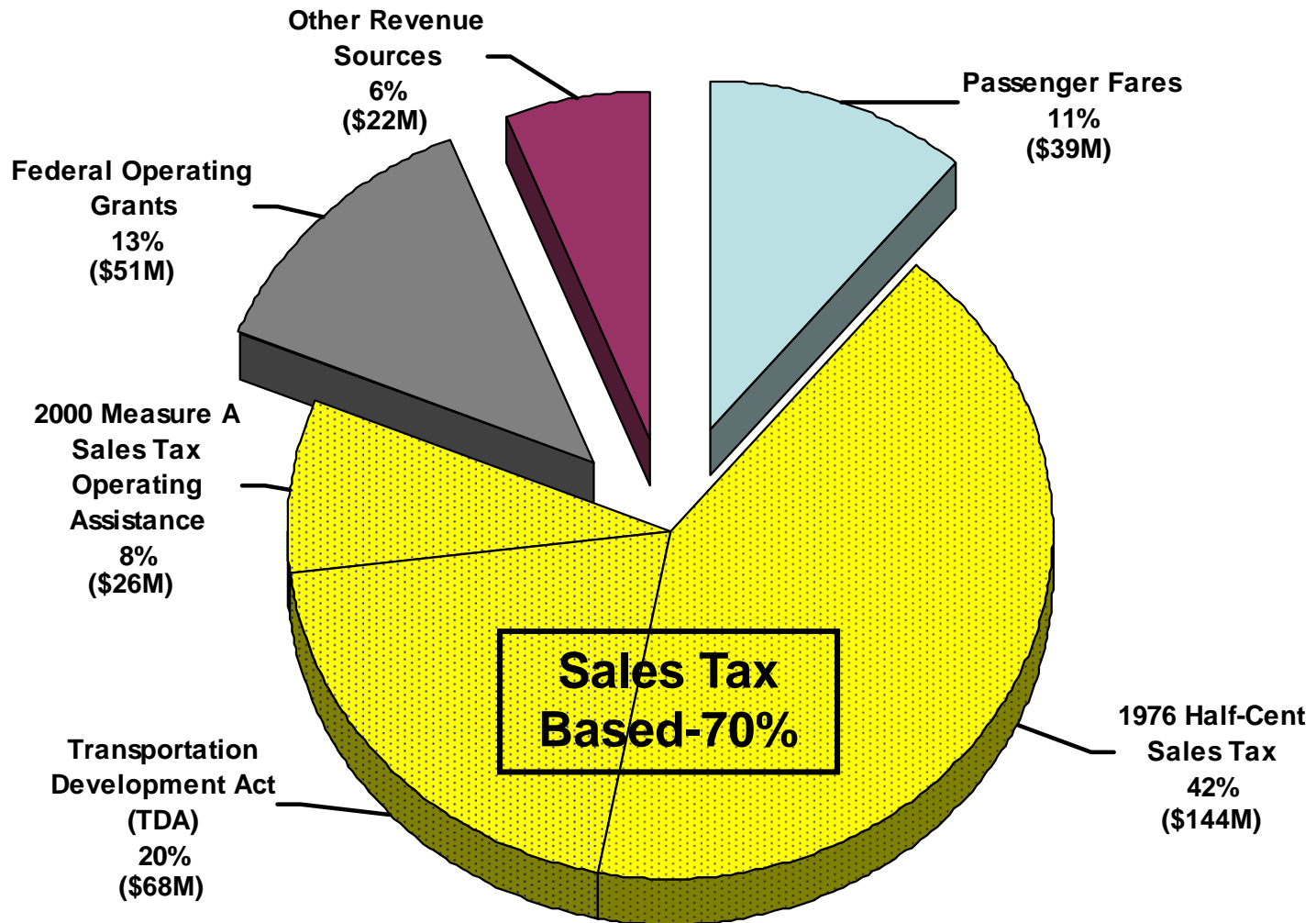
Labor Costs Budget (\$253M)*



* All employees including amounts reimbursed by capital projects

VTA Transit

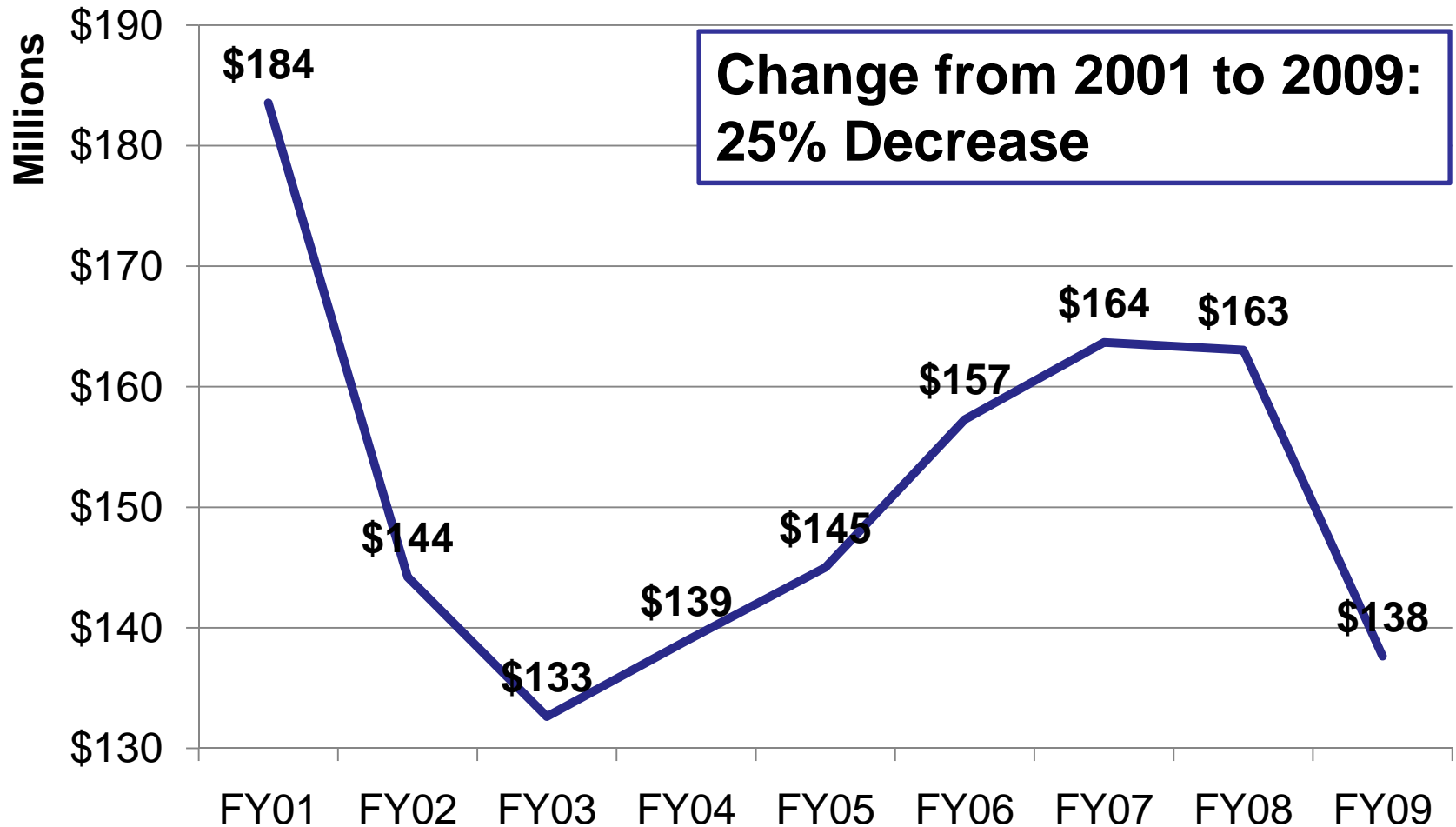
Budgeted Operating Revenues (\$350M)



VTA's Operating Revenues FY2001 - 2009

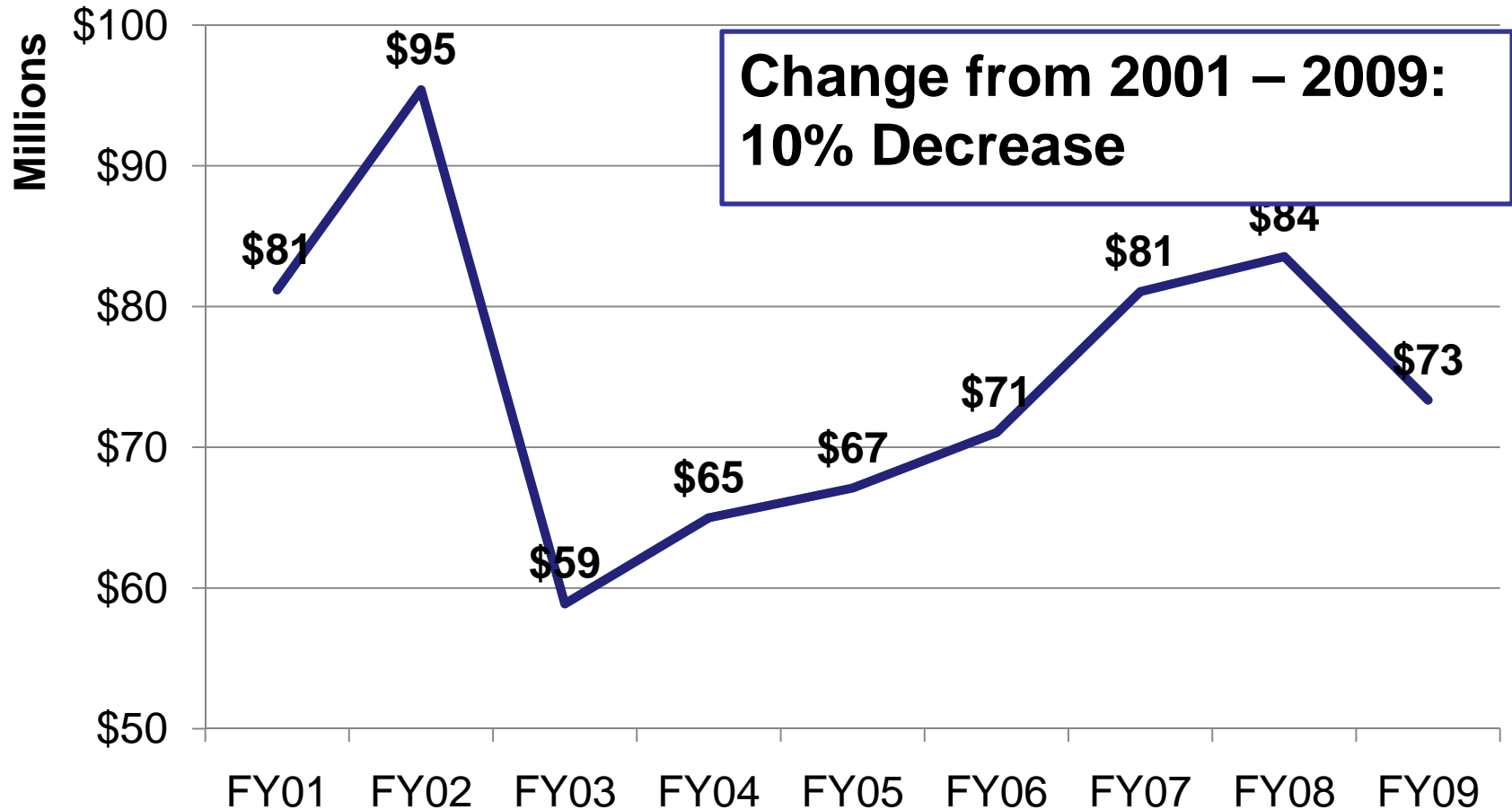
1976 ½ Cent Sales Tax History

(\$ in Millions)



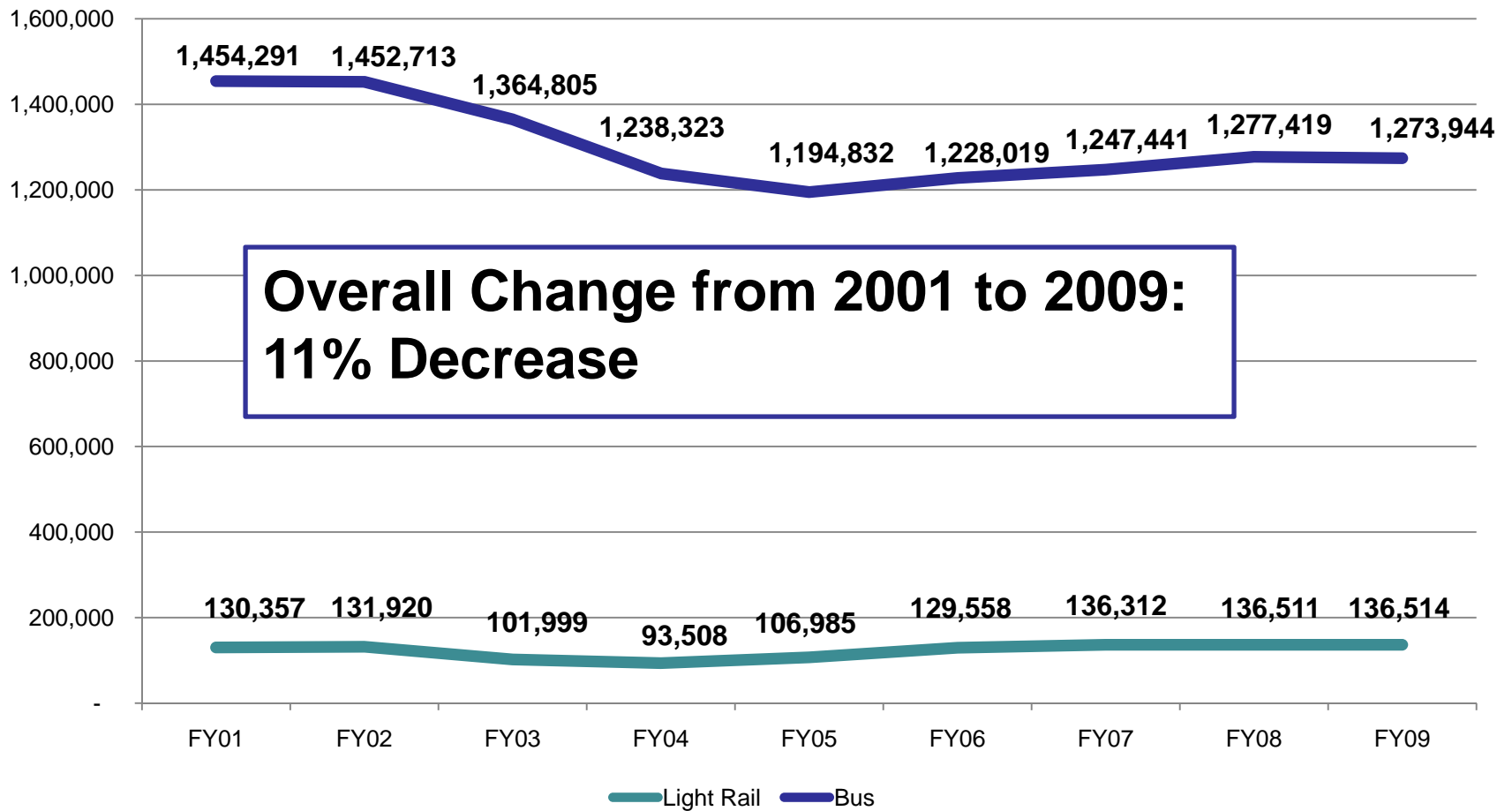
TDA Sales Tax History

(\$ in Millions)

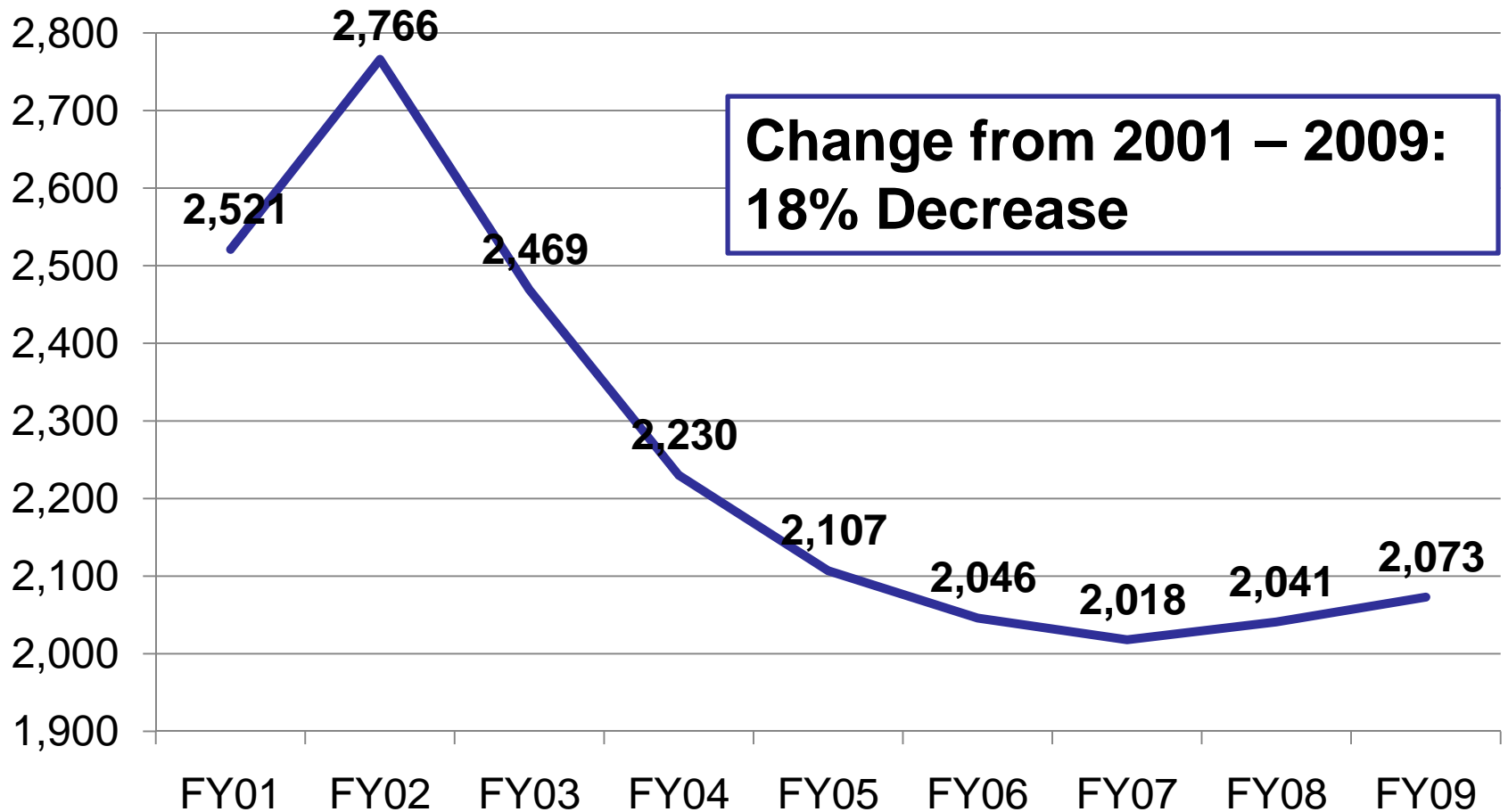


VTA's Operating Expenses, Service Levels and Inflation FY2001 - 2009

Change in Service Levels: Revenue Hours of Service

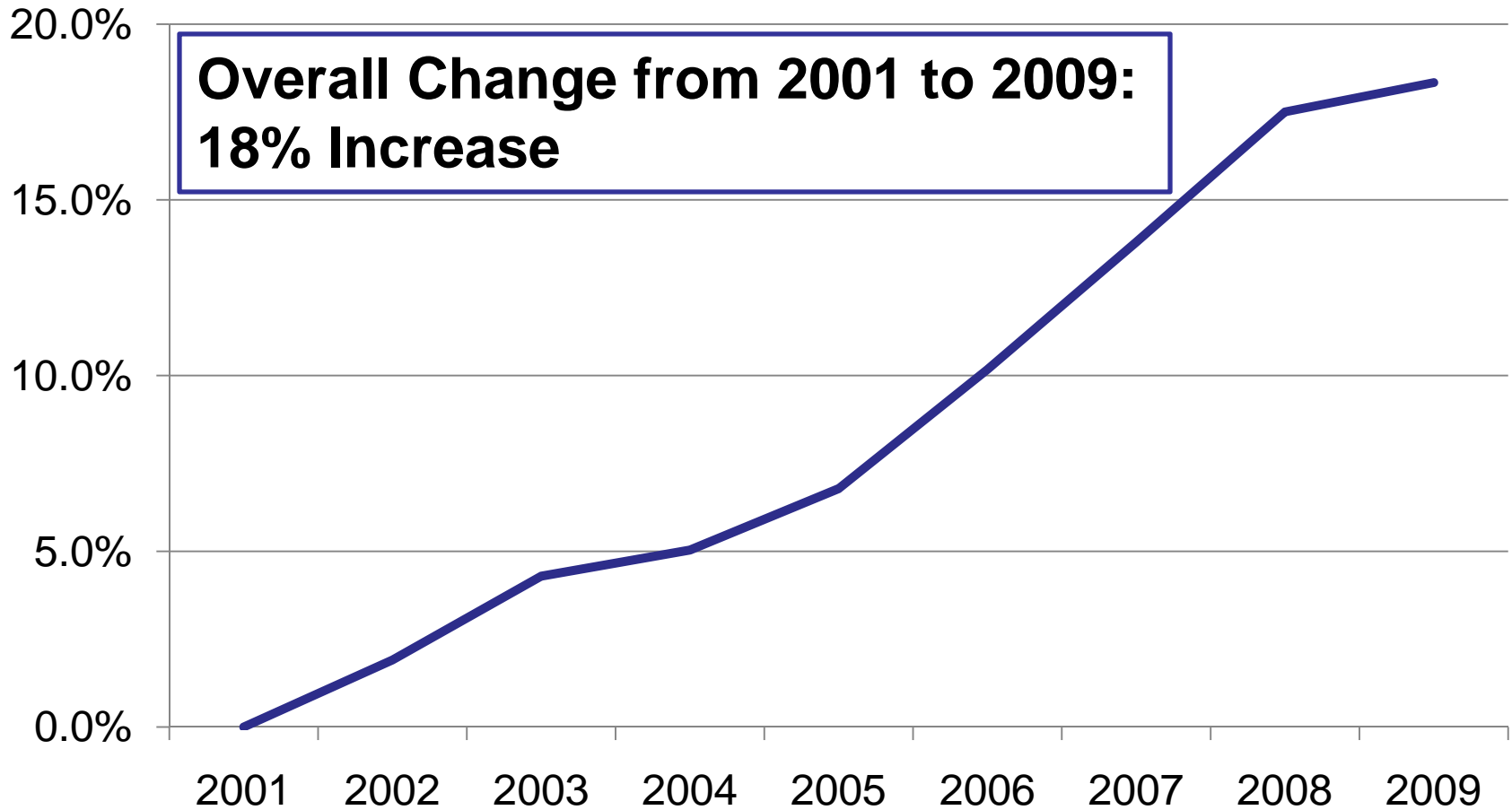


Number of Employees



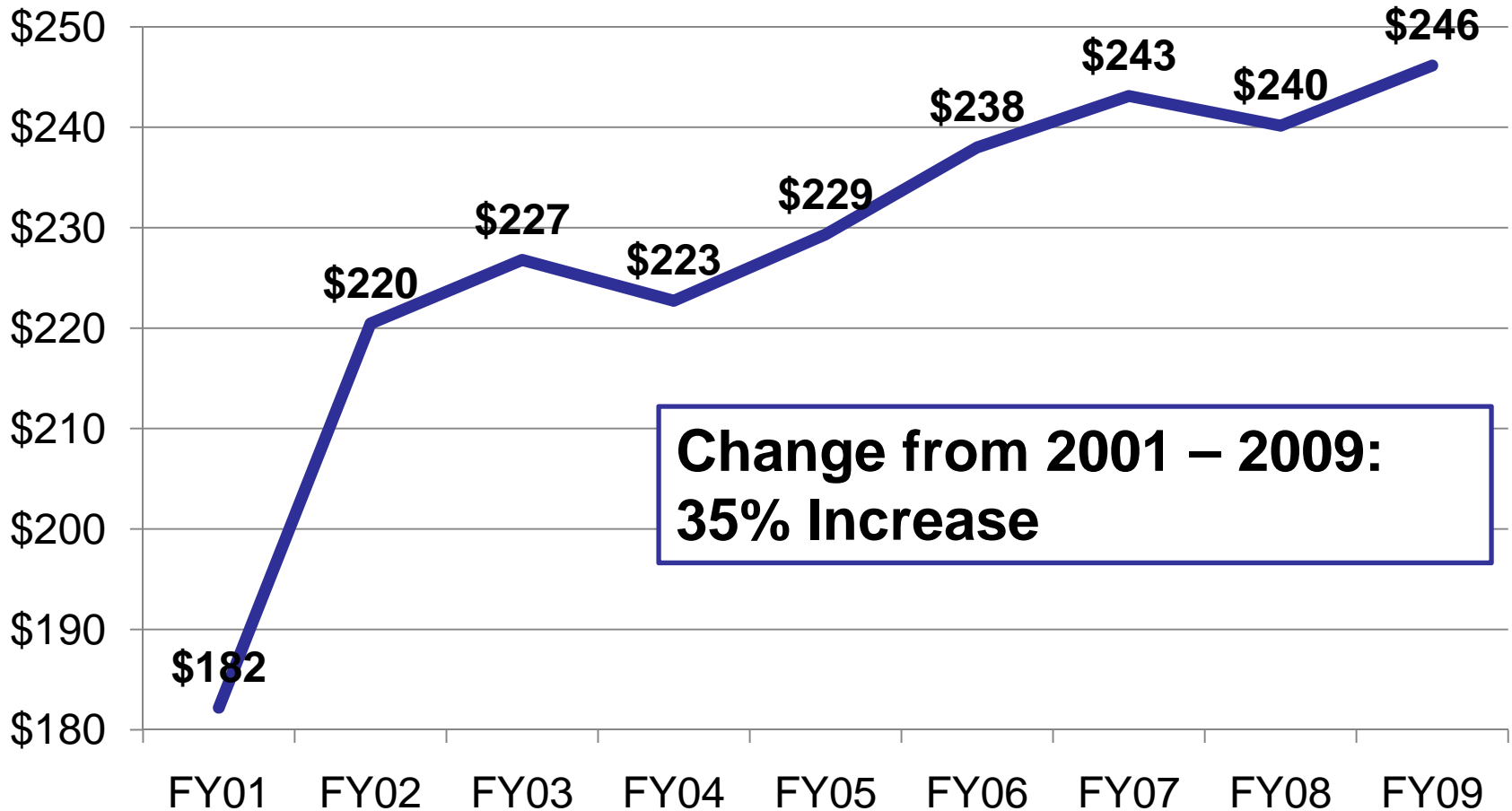
Inflation – 2001 to 2009

(Cumulative Change in Bay Area CPI – All Urban Consumers)



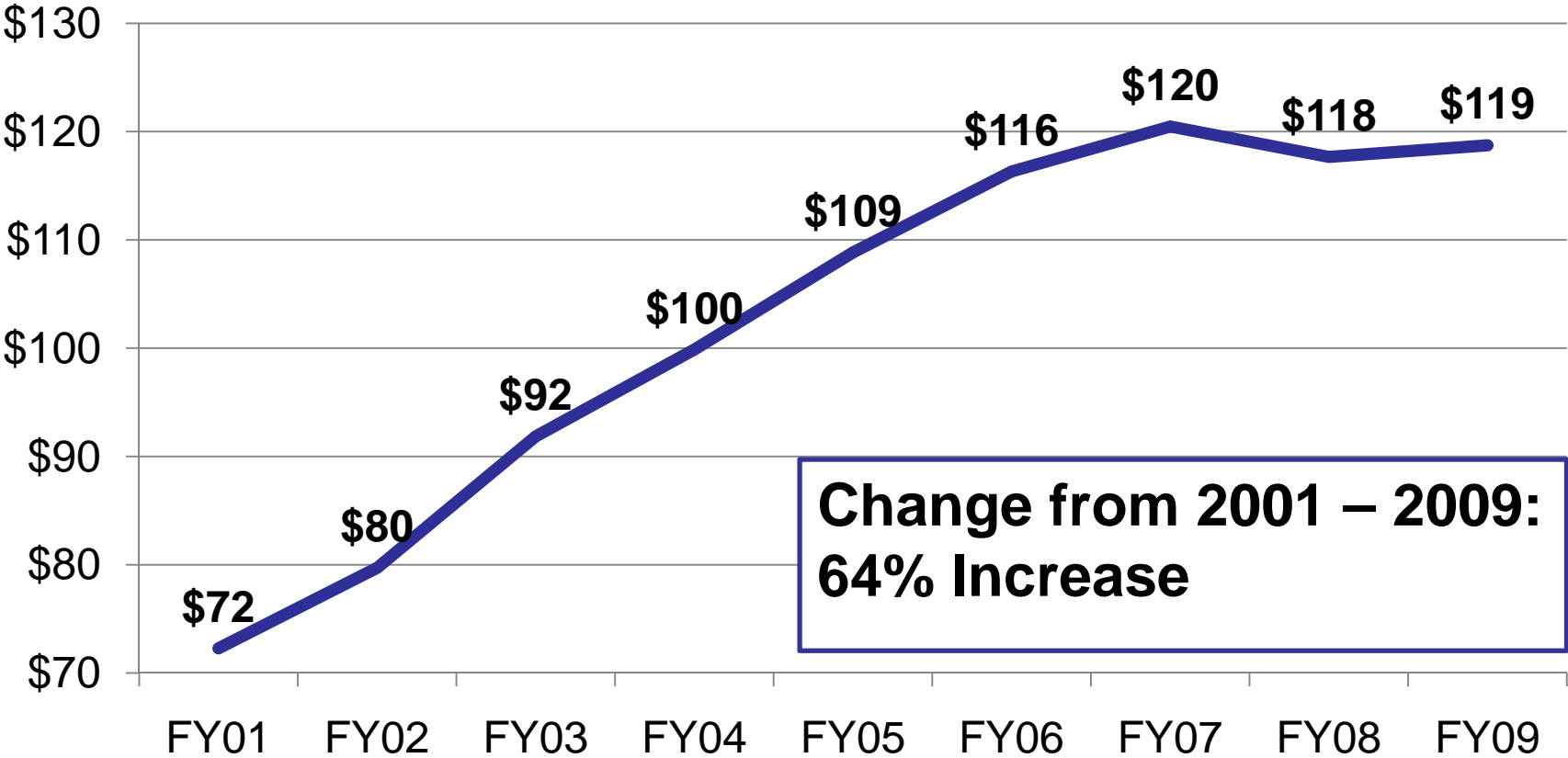
Total Cost of Wages & Benefits

(\$ in Millions)

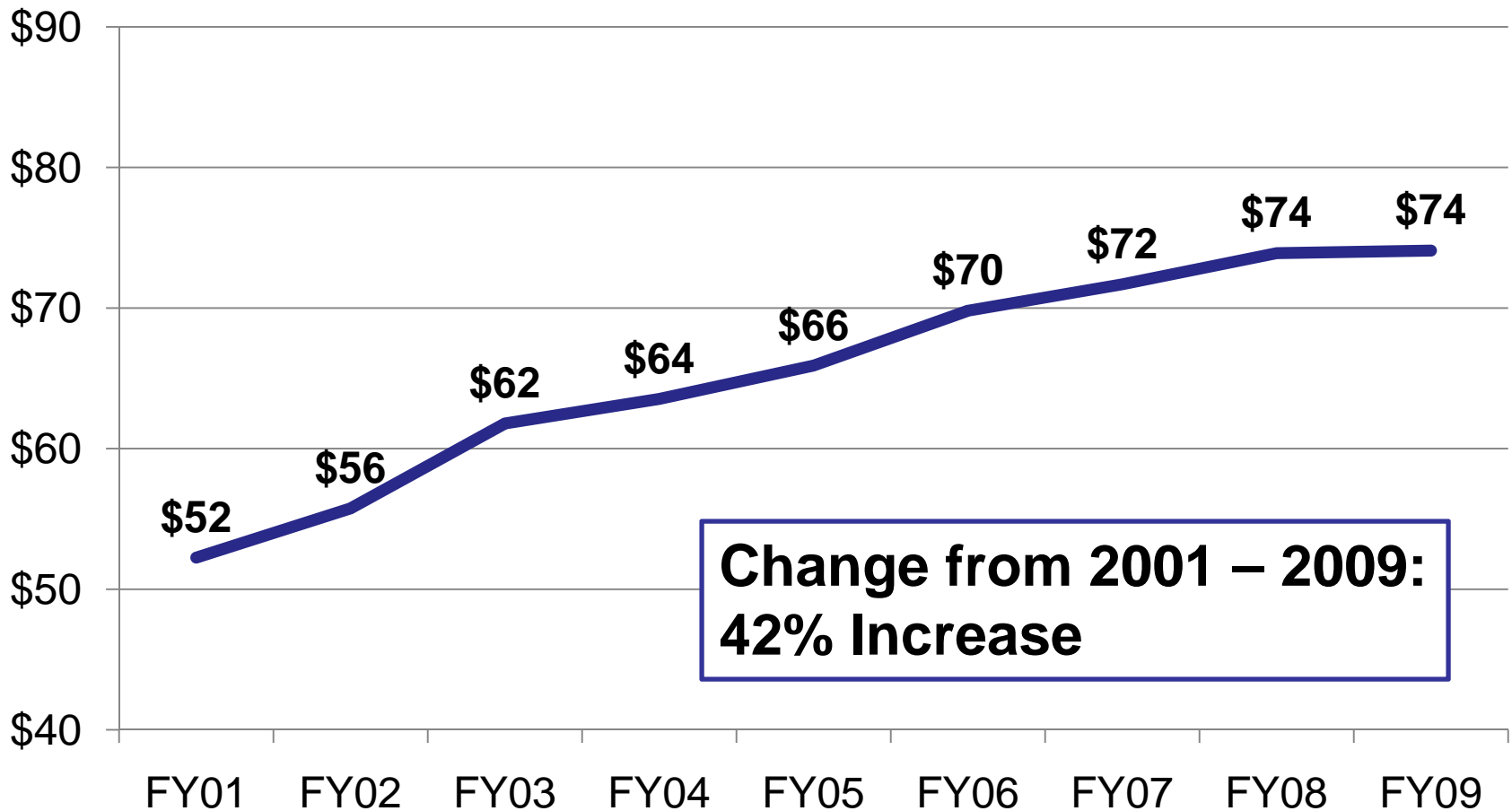


Compensation per Employee

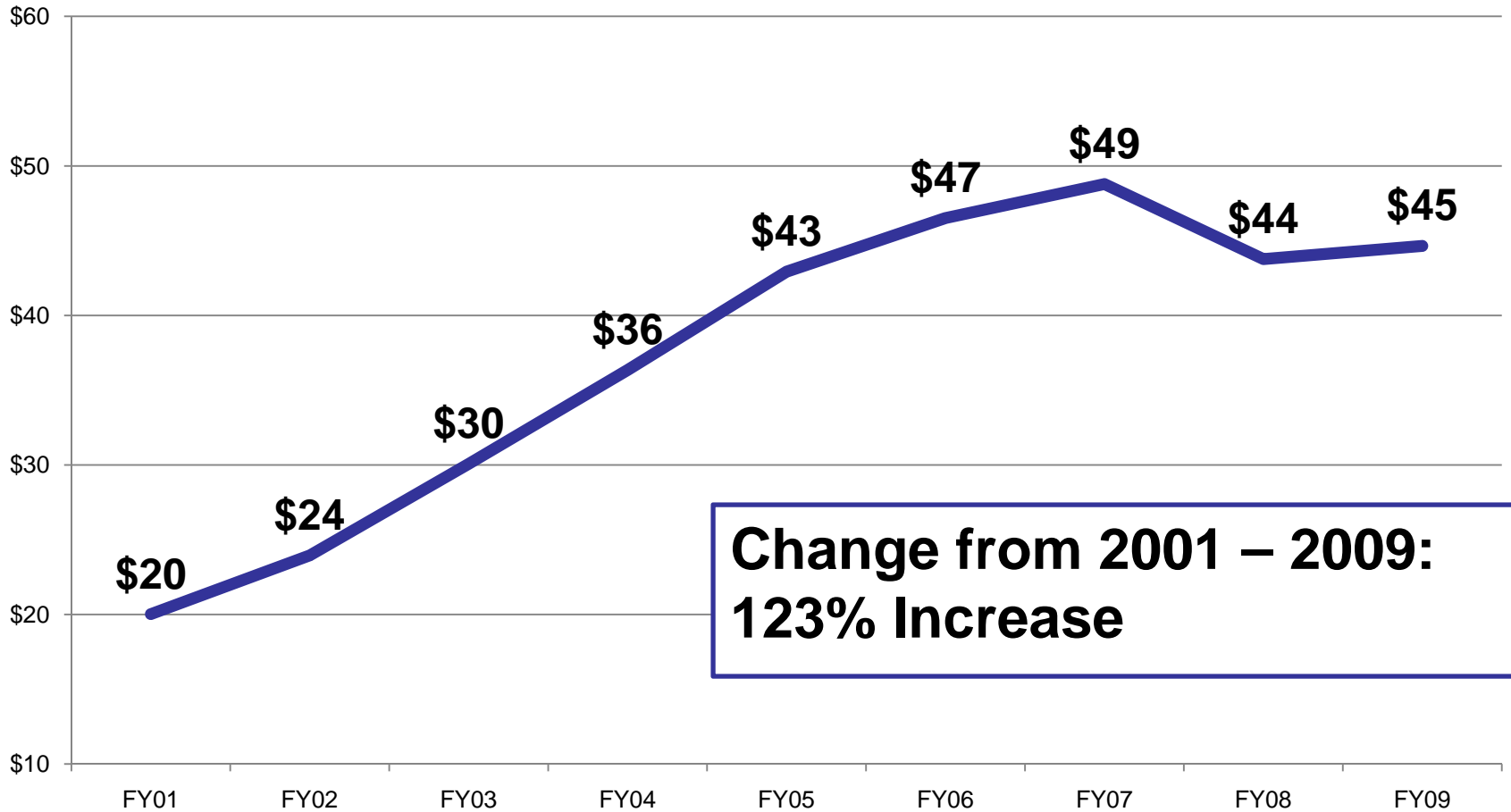
Average Wages & Benefits
(in \$ Thousands)



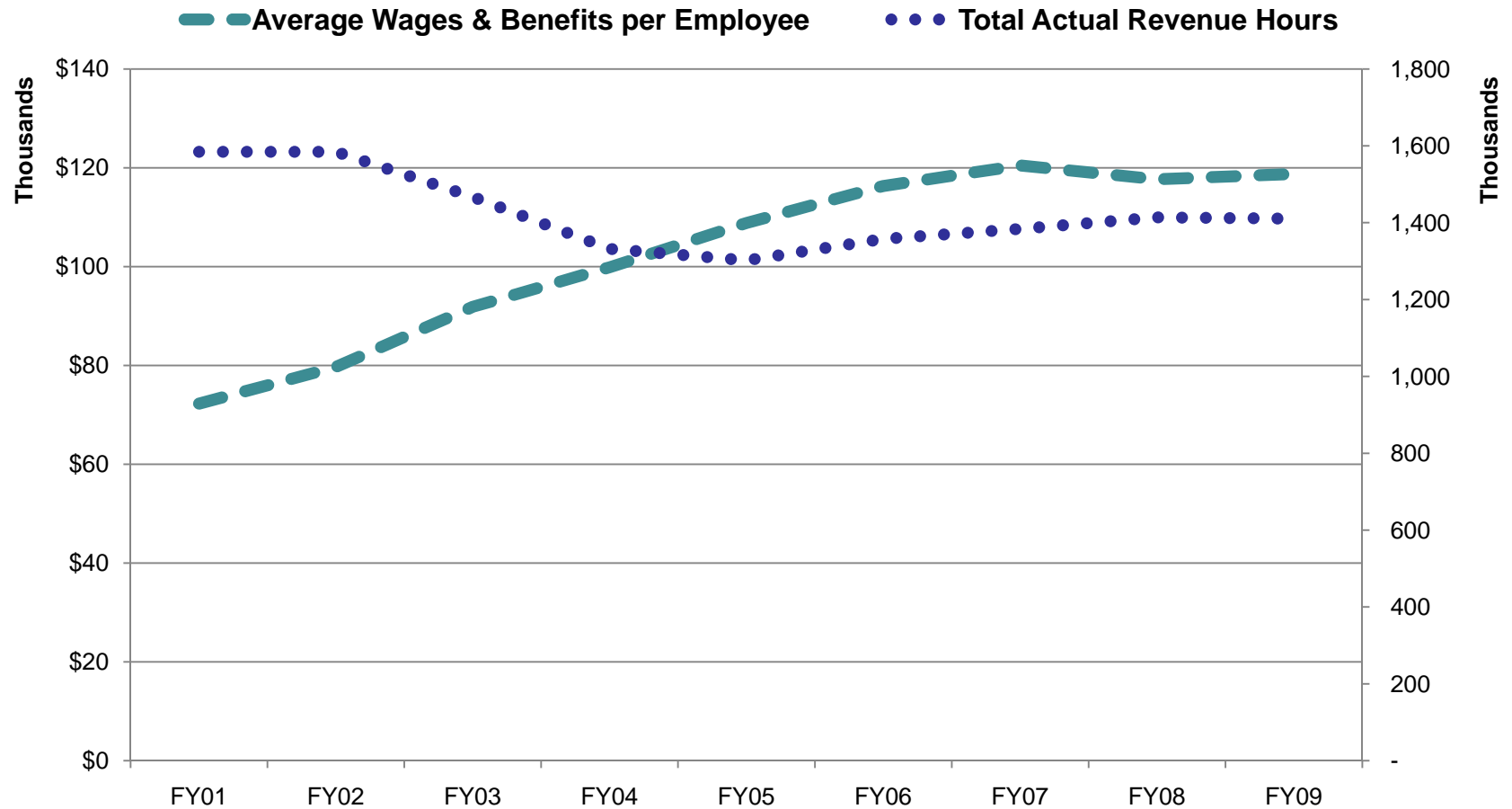
Average Wages per Employee (\$ in Thousands)



Average Benefits Cost per Employee (\$ in Thousands)



Average Wages & Benefits per Employee Vs. Revenue Hours of Service



VTA 10-year Operating Projection (As of May 2010)

Annual Surplus/(Deficit) (\$ in Millions)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Revenues	346.04	322.36	348.07	362.99	368.73	372.91	391.98	400.56	416.96	437.97
Expenses	340.91	348.33	380.10	399.88	401.70	417.71	449.15	465.60	467.35	487.43
Surplus/(Deficit)	5.13	(25.97)	(32.03)	(36.89)	(32.97)	(44.80)	(57.17)	(65.04)	(50.39)	(49.46)

Operating Reserves (\$ in Millions)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Ending Operating Reserves	51.18	25.21	(6.82)	(43.71)	(76.68)	(121.48)	(178.65)	(243.69)	(294.08)	(343.54)
Reserve as % of Operating Expenses	14.8%	7.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Going Forward: Cost Risk

Areas of Operating Cost Risk

- **Expiration of Furlough Days: \$3.5 Million**
- **Expiration of Wage Freeze: \$10.2 Million**
- **One-Time Revenues: \$18 Million in
FY2010**

Conclusions

- ❑ **From 2001 – 2009, VTA used service & employment reductions to offset the impact of significant increases in average employee compensation costs**
 - **Continued service cuts is not a sustainable financial strategy**

- ❑ **Beginning in FY12, VTA must find ways to:**
 - 1) **Replace cost savings associated with furloughs/wage freeze and;**
 - 2) **Replace one-time revenues**

- ❑ **Overall, VTA must identify approx. \$40 Million per year in operating cost savings in order to achieve financial stability**

June 23, 2010

Financial Stability Policy
VTA Transit Enterprise Fund
(Committee Revisions)

This Policy establishes guidance on expenditure prioritization and the key principles that VTA shall use to prudently align its operating costs with its available resources.

Guidance on Expenditure Prioritization

In developing VTA's Biennial Operating Budget and associated financial plans, VTA shall prioritize its activities in the following order. This prioritization guidance shall be used both when budget reductions are required in order to keep spending consistent with available revenues, and when increases in operating revenues permit VTA to devote additional resources to its transit-related activities.

1. Preserving the level of fixed route transit service and paratransit service provided to VTA riders to the greatest extent possible. The service plan shall be developed in accordance with VTA's Transit Sustainability Policy and service design guidelines and in the best interest of the public.
2. Activities that directly support the provision of transit service, i.e., only those core operating, management and administrative functions that are necessary and essential to support the provision of the existing level of transit service, both in terms of the types of functions required and level of resources needed to support service. Measured against industry standards and best practices with consideration of efficiencies achieved by reducing layers of management.
3. Support for Regional Partnerships (e.g. Caltrain, ACE, Dumbarton Express, etc...) provided by VTA in consideration of other partners' contributions.
4. Activities that clearly contribute to increasing and diversifying VTA's operating funding (e.g. fare programs, joint development, advertising, and other opportunities for earned income).
5. Activities that provide information to riders, employees, stakeholders and the public.

Activities that would prudently and strategically expand VTA transit service, when sustainable revenues are available to support the service growth.