S A C O G

Item #12-5-2

Government Relations & Public Affairs Committee **Action**

April 30, 2012

The Final Fiscal Year 2012-2013 SACOG Budgets

Issue: The Final Fiscal Year 2012-13 budgets and policy actions are ready for Board action.

Recommendation: To review and recommend adoption of the Fiscal Year 2012-13 budgets, including the (1) SACOG Operations Budget, including the Indirect Cost Plan; (2) Board of Directors and Advocacy Budget; and (3) actions relating to the SACOG's Personnel Rules.

Discussion: SACOG must annually prepare an Overall Work Program (OWP) that is the primary budget and project reference for the fiscal year. The OWP contains both project details and a budget which covers the agency's basic operations. Action Item #3 on the Committee agenda covers the project details of the Final OWP.

The OWP or Operations Budget is funded mainly through several continuing federal and state revenue sources and is supplemented by short-term specific discretionary and non-discretionary grants and contracts. The second budget is much smaller, and covers Board costs, such as per diem and mileage expenses, as well as the agency's state and federal advocacy efforts. Consistent with federal and state requirements, it is primarily funded by annual dues payments from SACOG member cities and counties, and a portion of SACOG's interest earnings.

As was noted when the initial draft was presented to the Committee and Board in March, for the first time in three years, SACOG staff is pleased to present an Operations Budget that, except for a technical accounting adjustment for indirect expenditures discussed below, balances current year revenues with current year expenditures.
Since the Board released in March the draft OWP and SACOG budgets for a 30-day public review, there have been a few project refinements, cost adjustments, and revenue revisions. The changes have had a negligible impact in the combined SACOG Operations Budgets for FY 12/13. No public comments have been received to date.

The achievement of this Budget is due to a variety of actions that were initiated over the past six years, with particular emphasis in the last three budget cycles, and is largely attributable to four main factors: cost containment measures relating to staffing, overhead cost and legal expenses; concessions from a cooperative Employee Association; discretionary grant awards through Staff's entrepreneurial efforts with state and federal agencies; and some modest increases in federal and local funds.

By way of background, in FY 2010/11, for the first time the Board authorized the use of $1 million out of SACOG's approximately $6 million in reserve funds to cover costs in the FY 2010/11 Operations Budget. At that time, staff estimated that the sunsetting of earmarks/grants and the reduction in Local Transportation Fund (LTF) planning and administration due to the decline in sales taxes likely also would require SACOG to draw on approximately $500,000 in reserves in each of FY 2011/12 and FY 2012/13.

In fact, rather than using up to $2 million in reserves over the three fiscal years—FY 2010/11, FY 2011/12, and FY 2012/13—staff is now projecting to use no reserves, with a slight increase in fund balance (approximately $250,000) over the three years. A brief recap of each year is presented below.

- FY 2010/11: While the original Operations Budget projected reserve spending of just over $1 million, year end fund balance actually increased by $987,395. It should be noted that $386,012 of this amount was due to surplus recovery of indirect costs which, as noted below, is being adjusted in FY 2012/13.
- FY 2011/12: While the original Operations Budget projected reserve spending of approximately $850,000, the projected reserve spending after the Board's adoption of OWP #3 in February 2012 is under $400,000. Staff continues to track year-to-date progress on the current year budget. Due largely to the Agency's focus on the MTP/SCS, expenditures for some grant funded projects are occurring more slowly than anticipated. This could modestly increase reserve spending this year. However, any such increase should be immediately offset by an increase in grant revenues in FY 12/13, as SACOG completes those grant funded projects.
- FY 2012/13: The draft Operations Budget balances current year revenues and expenses except only for an indirect cost or overhead adjustment from FY 2010/11. Essentially, SACOG received excess revenues for indirect expenses in FY 2010/11 that it is adjusting for in FY 2012/13. As a result, the draft Budget utilizes approximately $370,000 in reserve funds—e.g., the excess funds received in FY 2010/11. As noted, the overall result over three years is a positive fund balance with no use of reserve funds.

Notwithstanding the foregoing, due largely to expiration of several grants, very preliminary projections for FY 2013/14 forecast a deficit of just over $1 million. It should be noted, however, that no additional contract or grant revenues not already in hand are included in the revenue part of that forecast, almost certainly an overly conservative assumption. In the past, we have substantially closed or eliminated gaps of that size during the 15 months that transpire before the next year's budget is adopted. As discussed below, the Agency should have increased flexibility to reduce staff costs if at some point in the future it is warranted for financial reasons.

As always, we will continue carefully to monitor federal, state and local government actions, and the overall state of the economy, so that if we need to come to the Board for mid-year changes to the proposed FY 2012/13 Operations Budget, we will be ready to do so quickly. We will also continue to pursue entrepreneurial opportunities for new revenue sources.

(2) Board and Advocacy Budget

The Board of Directors and Advocacy Budget is much smaller than, and separate from, the Operations Budget because it funds activities that cannot be funded with state and federal funds, including Board per diem and other expenses, as well as state and federal advocacy work. The budget remains the same from the draft version in March.

For FY 2009/10, we provided a 20 percent reduction in member dues in recognition of the challenging economic times, and we have not increased member dues over the subsequent two budget cycle. This draft Budget continues the dues reduction for FY 12/13, but this is only possible due to the following cost reduction strategies implemented over the last several years:

1. A reduction in professional association membership dues.

2. Continuing the significant restructuring of both our state and federal advocacy contracts. Over the last several years, the contracts were reduced by over 60 percent, as the agency has relied on its strong internal resources at the state and federal levels.

3. Projected savings of approximately $30,000 in the current fiscal year.

These cost reductions are especially essential this year because it is the fourth year of the member dues reductions. As with the last three budget cycles, this draft budget also utilizes modest reserves from the Board and Advocacy Fund. However, the balance of the reserves in that fund is not projected to change from what was authorized in this fiscal year. Specifically, for FY 2011/12 the Board authorized use of approximately $38,000 in reserves, which would leave the projected Board and Advocacy Fund balance at approximately $60,000 on June 30, 2012. Due to savings in the current fiscal year, the draft budget utilizes $30,000 in Board and Advocacy Fund reserves, but projects the same fund balance at June 30, 2013.

(3) Actions Relating to SACOG's Personnel Rules

The agency is fortunate to have benefited from a fiscally sound labor MOU that the Board approved five years ago. Additionally, management and staff continue to work together to provide for the financial sustainability of SACOG over the past three years. In amendments to the MOU in 2009 and 2010, the Employees Association agreed to immediate cost reduction measures and long-term cost containment measures, including a gradual increase in the employees' contributions to CalPERS. In 2011, the Employees Association agreed to implement future year cost reductions, including a two-tier retirement system, with employees hired after July 1, 2011, or the earliest date thereafter on which SACOG can implement the new tier with PERS, receiving a 2 percent at 55 benefit. Also in 2011, the Employees Association agreed to a modification to the two-tier system to reduce the formula for calculating retirement benefits from final compensation to a three-year average compensation.

The March Board memorandum recommending adoption of the draft budget indicated that we were working with the SACOG Employee Association (EA) to provide "the CEO additional flexibility to reduce staff costs if at some point in the future he determines that it is warranted for financial reasons." I am pleased to report that we have reached agreement with the EA to explicitly add performance considerations to the criteria that the CEO must consider if he determines that staff reductions are necessary due to a fiscal emergency (currently the relevant section of the Personnel Rules focuses exclusively on seniority). This Board action to adopt the FY 2012/13 budget includes the charge to the CEO, after consulting with the EA, to amend the Personnel Rules to implement this additional flexibility no later than December 31, 2012.

The current base MOU, adopted in 2006, included the agreement that management and EA would conduct a "study of the feasibility of performance-based pay and alternative compensation systems." In general, SACOG has widely been seen to be a very high performing organization over the last several years. Among the steps we have taken to emphasize strong individual performance has been to gradually move the top 11 salaried employees, representing 35% of the gross payroll of the agency, to at-will performance-based contracts. Performance evaluation standards have been tightened with the other employees, with the assistance of Management Partners, and additional progress in this area is underway. Adding performance explicitly to the criteria for staff reductions during a fiscal emergency will complete the commitment in the 2006 MOU and further assist the agency to maintain high performance during challenging financial times.

Approved by:

Mike McKeever
Chief Executive Officer

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Attachments:
Attachment A: Summary of Revenues and Expenditures, which is a summary of the Overall Work Program activity, Board and Advocacy Budgeted costs, and the expected equipment costs.

Attachment B: Summary of Overall Work Program (OWP) Revenue Sources which provide more revenue detail broken out in various categories, like federal, state, local, etc.

Attachment C: FY 2012-13 Total Overall Work Program Direct Services and Pass Through Project Revenue Estimates that identifies revenue sources by certain categories, and formatted for the benefit of our federal and state funding agencies.

Attachment D: FY 2012-13 Total Overall Work Program Direct Services and Pass Through Project Cost Estimates that identifies costs by budget category, and formatted for the benefit of our federal and state funding agencies.

Attachment E: Indirect costs information used and applied against the projects in the OWP. It also reflects the proposed indirect rate used for FY 2012/13.

Attachment F: Board and Advocacy Budget for FY 2012/13.

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