COTA

MEETING: STRATEGIC AND OPERATIONAL PLANNING COMMITTEE

DATE: WEDNESDAY, NOVEMBER 3, 2021

TIME: 9:00 AM – 10:30 AM

LOCATION: WILLIAM G. PORTER BOARD ROOM

MEETING MINUTES

1. CALL TO ORDER

Marlon Moore called meeting to order at 9:00 AM.

2. ROLL CALL

Board Members Present	Board Members Absent
Marlon Moore, Chair Steve Gladman Doug McCollough	Tim Skinner

3. APPROVAL OF THE MAY 5, 2021, JULY 7, 2021 AND SEPTEMBER 8, 2021 STRATEGIC AND OPERATIONAL PLANNING COMMITTEE MINUTES

Doug McCollough motioned to approve the May 5, 2021 Strategic and Operational Planning Committee minutes. Steve Gladman seconded the motion. Motion carried.

Steve Gladman motioned to approve the July 7, 2021 Strategic and Operational Planning Committee minutes. Doug McCollough seconded the motion. Motion carried.

Doug McCollough motioned to approve the September 8, 2021 Strategic and Operational Planning Committee minutes. Steve Gladman seconded the motion. Motion carried.

4. NEW BUSINESS

2022 BUDGET – ANGEL MUMMA, CHIEF FINANCIAL OFFICER

Angel Mumma, Chief Financial Officer, presented the 2022 Budget. The executive summary of the Preliminary 2022 Operating Budget is:

- COTA continues to be financially healthy; however, it is largely due to one-time revenue sources which have increased our reserve levels.
- Our ongoing sustainability cannot be dependent on one-time revenue.
- We advocate to continue to use those funds in a fiscally responsible manner to continue providing services to the community; this results in expenses exceeding revenue.
- Services to the community will be provided through our traditional fixed-route and ADA service, but also services driven by our focus on innovation.
- 2022 Budget developed with the goal of understanding operating expenditures versus project (and generally one-time) expenses; minimizing the growth in ongoing operational expenses.

Having said that, today we sit in a position where we are going to recommended using our reserves to continue providing services to the community. So the budget in front of you this morning reflects expenses exceeding revenue and we will walk through each of those components. We propose coming up with solutions that better serve the community. The services that we offer today, like COTA//Plus, is part of our standard offering now. That was just an innovative thought a couple of years ago. So, we want to continue down that path and not be frightened and hold back on exploring new ways to better serve the community. Finally, that we approach this budget a little differently.

As you know, in 2021 we established our first five-year Capital Improvement Program. When we segregated out our capital projects into a separate fund and presented to the Board. The next step was really getting a handle or a better understanding on our operational expenses that are ongoing in nature versus those that are more project based and generally one-time in nature. So, when we come to the Board with a recommendation to have a deficit for the year, we feel it's incumbent on us to explain how much that is a one-time use of reserves versus how much is ongoing year-to-year to keep the lights on day in and day out. This isn't perfect. This first go around, we will continue to improve on this process as we develop future budgets, but just wanted to give the context as we dive into the budget itself.

Before we get into the numbers, just want to provide some historical contention, especially for the newer members as to how we got in this position where we are so financially strong.

Historical Context

- Reserves have grown over time such that COTA now has approximately 122% of expenditures in reserves.
- What lead to that growth:
  - Reserves started growing in 2007/2008 with the addition of the .25% sales tax.
  - Between 2009 and 2016, sales tax revenue grew on average 4% annually; that has decreased to 0% through 2020.
  - Service hours increased during that time as a result of new revenue, TSR.
    - Tipping point has been reached in which the cost of those services has exceeded the revenue growth rate.
  - Recent one-time revenue sources.
- There was no strategy as to how to fund a service model in which growth in services (and expenses) outpaced revenue.

We have been fortunate in the past two years, we have received over $100 million in one-time revenue from the federal government due to the Cares Act and that has certainly helped our bottom line. Having said that, there was no real long-term strategy as to how to fund that service model where revenue hours continue to grow year over year over year.

Before we discuss 2022, I want to give you an update about where we stand year to date this year. So from the expense standpoint, the original budget approved by the Board last December was nearly $172 million. We brought forward a revised appropriation earlier this year which resulted in an annual budget for 2021 of almost $176 million. Through September, we had spent about $114 million, meaning that with 75% of the year having lapsed, we had spent just 65% of the total budget. So based on that spend level through September and playing that out for the rest of the year, generally expect our actual spend to come in at about $152 million. This is a reduction in expenditures as compared to 2021 expenditures.

We are in the process of converting to a cash baseless accounting structure where we are going to report on a month to month basis actual revenues and actual expenditures as they occur. We will be moving to a more traditional fund accounting, governmental accounting basis where we encumber funds. While our actual expenditures may be $152 million at year end, contractual commitments we have in place and carry those over into the next year, so that next year's budget and be used for next year's initiatives. That's a traditional government way of handling budgetary spend throughout the course of the year.

Trustee Moore, just so I'm clear, our expenses are actually below what we revised, which is good. What were they the year before? Angel replied, that's based on our year end estimate. So last year, we spent $154.3 million based on where we were through September. Expecting about $152 million dollars. Trustee Moore, so that suggests to me we're doing a fairly good job of managing our expenses year over year.

On the revenue side, we had originally planned on receiving $146 million in operating revenue, and year to date through September, we had received almost $172 million. So had we not received any other revenue for the remainder of the year, we're at 117% of our budgeted revenue. Of course, as mentioned previously, this does not include 2021 revenue from the Cares Act of $51.6 million. But on top of that, as explained to the Board in different meetings, we have seen a tremendous growth in our sales tax revenue this year. Year to date receipts are 14% over 2020 receipts and we're 13% over budget. Similarly, because we were very conservative in our revenue estimates in terms of passenger revenue that has come in better as well. With all of these facts, it was difficult to know what to expect especially on the pass inner revenue extent. We will receive almost $218 million in revenue as compared to the $146 million we originally planned on. When you put both of those areas together, revenue and expense, we had originally planned a deficit of $25.6 million. Part of that deficit was attributed to the first time having 10% of our sales tax revenue dedicated to the capital fund. However, based on our year to date spend and where we expect to be at year end and the revenue, we actually expect our revenues to exceed expenditures by nearly $66 million.

Some historical perspective about where we've seen the areas of growth since 2018.

Expenditures
Recent growth in expenses driven by labor and fringe benefits, purchased transportation, and services.

Four-year average growth in expenditures is 6%.

- Services 25%
- Purchased Transportation 15%
- Other 10%
- Labor & Fringe Benefits 5%
- Utilities 4%
- Materials & Supplies 1%
- Fuel -4%

When we look at expenses as a service organization, it is important to know that other expenses are tired to the services we can provide to the community. When we look at our total vehicle hours as we reported back to the NTD over the past ten years, you can see that growth in revenue hours, year over year. Our average growth pre-pandemic was 4.7% each year. Our revenues, specifically the sales tax, dipped down to a 0% growth in the late 2010s. So, we were growing at this pace but the revenues were flattening. To the extent that we cut expenditures, that translates into cutting services to the community.

Preliminary 2022 Operating Budget

Our preliminary 2022 Operating Budget has total expenses of $182.3 million. This amount represents a 3.7% or about a $6.5 million increase over the 2021 revised budget. The distribution of dollars are as follows:

- $118,302,000 – Labor & Benefits: makes up 65% of expenditures
- $12,022,000 – Material & Supplies: makes up 7% of expenditures
- $4,043,000 – Fuel: makes up 2% of expenditures
- $12,947,000 – Purchased Transportation: makes up 7% of expenditures
- $27,886,000 – Services: makes up 15% of expenditures
- $3,306,000 – Utilities: makes up 2% of expenditures
- $3,814,000 – Miscellaneous: makes up 2% of expenditures

Service Delivery

- Continue serving the community based on our staffing availability with nearly 9.7% million boardings anticipated
    - Assumes 5% increase in boardings over 2021
- 940,825 fixed route service hours
    - Based on January 2022 anticipated service change
    - Includes:
        - Bus-it-to-the-Buckeyes
        - Red, White and Boom
        - Service to Columbus Zoo (summer)
- Considers new operator classes beginning in December 2021 though each month in 2022
- Continuation of COTA//Plus services
    - Grove City
    - Westerville
    - Southside
    - Hilltop/Franklinton
- New contract for Mainstream services; reflects a $2.4 million increase in the contract but more technological advances, benefits to customers.

Trustee Moore, with the new operator classes beginning in December, do we think with those new classes that it will help us get closer to the operator level that we're aspiring to be at? Yes, so when looking at the personnel budget, what we've done is take our average attrition rate that we have, and we've planned for that to continue throughout 2022. And then offset that by new operator classes each month. About half way through the year, we get to a place where we are in a position where we have to operate in order to provide the service level that we would like to serve.

Trustee Moore, yes, I guess that would be why we were doing them every month. I imagine the schedule is different under normal circumstances. Yes. Training ranges from 6 to 9 weeks.

Preliminary 2022 Operating Bugdget

So looking specifically at labor and benefits, that total cost is $118.3 million. This represents 7.1% or $7.8 million increase over the 2021 revised budget.

- Baseline of 1,107 employees (current headcount)
    - Adjusted for anticipated operator attrition
    - Funding included for new operator classes each month 2022
    - Includes funding for 24 open positions $2.2 million
    - Includes funding for 24 new positions $2.2 million
    - Includes funding for 21 interns $367,500
- 3% annual wage increase per the negotiated contracts with TWU; Step increases.
- 3% increase for non-union employees
- Includes PIC bonus (based on performance)
    - 3% for Represented Employees (per contract)
    - 5% for Non-Union Employees
- Continuation of a self-insured medical, RX program
    - Blended rate for all employees of $19,975 (assumes an 80% utilization)
    - Employee contributions range from 8% - 25% based on biometric results

Does these step increases impact the operator attrition at all? Or are they not impacting each other? Are the wages pre-negotiated, so you're following along with that? But, is there any impact with the attrition? Is it related at all? Typically, they are not related but from a budgetary standpoint, certainly those employees that leave COTA due to retirement are generally at their highest step. And then when we have new operator classes starting, they're coming in at the lowest step.

When you look at other component offices, the operating budget you see that our services, again, those are contract services that we engage in and they have decreased by 6.6% in this budget. Our fuel is about the same at 3%. Materials and supplies has a decrease of 18%. Purchased transportation, as alluded to earlier, went up 24% and miscellaneous expenses went up 11.8%. It is important to note when you look at fuel and miscellaneous expenses, overall, those are a very small percentage of the budget.

Revenues

Similarly, we wanted to provide you a historical view of our growth rate. Since 2018, our recent growth in revenue has been driven by federal assistance.

Federal Assistance

2020 – CARES Act Funding (one-time)
2021 – CARES Act Funding (one-time)
Federal Grant Reimbursements – All dedicated to capital

Excluding federal revenue, there has been no growth in revenue (on average over last four years)

Our expenses have continued to increase while our revenue has flattened with the exception of this one-time revenue. Looking specifically at 2022, we are expecting $175,399,576 in revenue. Of that mount, we take out 10% of the sales tax dedicated to the Capital Improvement Program, which leaves $159,726,506 to operations. The largest component of that is the sales tax making up 81% of our revenue that is attributable to the operating fund. Based on the 5% increase in passenger fares revenue, that's the second largest component of our revenue and it pales in comparison to the sales tax.

Key Assumptions

- Sales Tax
  - 5% growth rate over 2021
    - Conservative estimate based on an estimated 12% increase in 2021 over 2020
    - Assumes 0% increase in November, December
- Passenger Fares
  - $12.2 million in revenue
  - Considers a reduction in revenue as a result of fare capping
  - Ridership increase estimated at 5%
  - 9.7 million boardings
- Federal Assistance

- Assumes additional amount in formula funding (from Transportation bill) is allocated to the Operating Fund; baseline amount continues to be allocated to the Capital Investment Fund
- Based on 50% of increase originally anticipated in September (as a result of the bill not being approved by Congress and associated uncertainty) ~ $2 million in additional revenue

- Investment Income
  - Substantial reduction based on rate decrease (approximately $3 million below what was budgeted for 2021)

In summary, when you put the two components together, we are going into this budget with a projected $23.6 million variance due to ongoing operational expenses. Again, we are going to finish the year about $65 million to the positive. As mentioned earlier, this was our first year trying to segment the operating budget into two components. What are our ongoing expenses and what are truly one-time project expenditures? There are many projects that take place here that don't result in capital expenditures, but its one-time investment to get a program started. Our list of projects are estimated to cost about $10 million. These projects help COTA implement the Strategic Plan and are brought forward for Board approval. In total, our budget would be a $33.6 million deficit. We are proposing this budget based on the money that we have available in our reserves, the revenues we have received for the purpose of continuing services to the community.

<u>Impact on Reserve Levels</u>

- Assumptions for 2023 – 2030:
  - 3% annual increase in expenditures
    (four year average increase 7.9%)
- 2.5% annual increase in revenue
  (four year average increase 0.0%)
- Fund balance falls below minimum reserve level (per policy) in 2025; is negative by 2028

Trustee McCollough, the assumptions for sales tax, you're showing a 5% increase from 2021. Are you about at that level? Is that up to about that level because before that, it's pretty flat each year? The past two years I wonder if the assumption is we're going to go back to 2019. Angel replied, our 2019 sales tax revenue was about $135 million and we're projecting almost $156 million in total sales tax revenues. Despite the pandemic, we have seen this continued upward trajectory. In 2020, we were only down about $2 million from 2019 and we've made up so much ground here in 2021. I do think that we'll continue to see that growth, but not nearly at the rate we've seen it in 2021, thus far.

Trustee McCollough, thank you for your explanation. Because if you had just said deficit, it would have been confusing. Is it more reasonable to say that because of your conservative projections, that the deficit we're talking about is more planned than projected? That's difficult to say because the past few years have been anything but ordinary. There have been so many circumstances that have been different on the revenue and expenditure sides. The one-time revenues keeping us strong compounded by reserves that had grown previously, but the expense side and transportation labor shortage has suppressed the services we have provided. So, we don't have a really good baseline to go off of. In general, in most organizations, you don't spend 100% of the dollars budgeted.

Trustee McCollough, one of the things that's a little challenging to look at is the reserves projection. Looking at this year or next year, it's reasonable to say, we certainly don't know what is going to happen in the next year or two, but the line heading towards 2028, is that assuming that this deficit based budget would continue year over year? Is that the assumption there? That is correct. What that assumes is a 3% average increase in expenditures. This could be impacted by different things. Our average increase in expenditures has been 7.9% annually. Our average increase in revenue has been 0% over the past four to five years. So the numbers used for this model definitely show us trying to taper back expenditures in a suppressed revenue growth. But certainly, this could change either way, but regardless, expenses are continuing to grow at a pace that is outpacing our revenues.

Trustee Moore, one more question. As a Board of Trustees, we will have additional opportunities to change the trajectory of the fund balance going forward. So this is kind of – if you did nothing, if all of these conditions remain today the same across several years, including labor shortage, sales tax at a very conservative level, not accounting for one-time expenditures which we're likely not to see again, then these would be the conditions? I want to make sure that we're not setting up a future for, you know, that is difficult to get out of, but rather we are reflecting something we knew was coming, especially with services that we knew there would be a revenue hit. And we accepted that a long time ago. But we're not expecting that by 2028, we will have a deficit in our fund balance. We are just projecting all things remaining the same. Is that a fair assessment? That's fair. We really started engaging in this discussion and really highlighting it during last year's budget presentation as well. We are fiscally strong today. And we can afford the deficit spending that we proposed last year and we're proposing given this year, but without the context of what the future trajectory looks like, it's not he full picture. It's a very unique position that COTA finds itself in. We sit here and say we're financially strong, and we absolutely are. But that has been, as mentioned at the beginning, we hit that tipping point years ago. If it had not been for COVID, we would have hit that point earlier and brought up these conversations sooner, but we are at a pivotal point where one: the community need is real, especially coming off of COVID that makes it difficult to say let's cut services to balance the budget and not eat into reserves when you have 122% of your expenses sitting in reserves. But also, not doing it to the point where it's to the detriment of the long-term sustainability of the organization. We can't ignore that long-term sustainability.

Trustee Gladman, if I may, I have another question about the sales tax. Is that remitted on a monthly basis? Or how do you track that? Monthly? It is remitted to us monthly and it reflects essentially two months prior sales activity. I guess I'm concerned with the 5% assumption. I'm not that optimistic we're going to get to that level. And think we just need to track that and you can look year over year, because I know it's not flat. Essentially, what we are asking for – is we're planning to end $66 million to the positive this year. We want to use half of it to continue our services and continue doing the great things that we've been doing to further mobility in Central Ohio.

Joanna M. Pinkerton, I would like to follow on Trustee McCullough's questions, but also you made a comment there at the end, and I – it helped me reflect on the fact that I appreciate that this committee is structured today the way it is. It's called the strategic and operations right, so this is a very operationally intense conversation about what to do for one year. I appreciate, too, that our CFO is able to give us the history, because this is a financial sustainability issue that I was asked to tackle when I first accepted this role because we've known that the growth in service hours outpaces revenue, period. There will be inflection points and thankfully because of one-time stimulus cash from the federal government, those X's you saw with the depletion of the reserves shifted out a little bit. Those were at a different year mark when you, Trustee Moore and Trustee Gladman, first joined the Board. So, it's trajectory influenced by this particular budget. It is a one-time issue, absolutely, but the trajectory that we're showing is this financial model of COTA in its current state. This operational conversation becomes very much a strategic conversation next month and the coming months in the beginning of 2022 about how to change our revenue streams in a significant way so that we not only can maintain existing operations, but continue to grow and to continue to grow and become the size we need to be to serve a community that is now the largest and most economically successful in the state of Ohio. So, I appreciate the questions and the discussion today because it's going to pivot from this what do we do for next year to what do we do for ten years or 20 years or maybe even a permanent state.

Trustee Moore, thank you Angel for a detailed presentation and the helpful historical context. To Trustee McCullough's point, just to see a deficit is somewhat concerning. But, you did help us to understand how we got here, the service levels, and how that really impacts what we see on paper.

LINKUS UDPATE – KIM SHARP, SENIOR DIRECTOR OF DEVELOPMENT

Kim Sharp, Senior Director of Development, presented the LinkUS update. Executive Summary: W. Broad & E. Main – FTA accepted both corridors into Project Development (PD phase), as of October 25, 2021; COTA efforts – multiple fronts for due diligence; Peer Cities Exchange took place on October 19, 2021; and LinkUS Steering Committee Topics.

We are working with MORPC and really engaging the municipalities and townships. As we advance LinkUS in the various elements, we want to ensure the appropriate legislative authority exists. With that, we're working closely with Patrick Harris and our legislative consultants. Financial modeling is under way. Understanding what a complete transit system would cost. One that reflects many of the next GEN goals and the community's needs such as high capacity transit corridor, fixed route improvement, the connection and frequency, and 12 to 15 additional on demand zones. Technology and specific capital improvements. We're working closely with our consultant teams in the PFM financial consultants to model these assumptions with potential revenue sources to understand potential outcomes. We're working on intergovernmental agreements such as an MOU with the City of Columbus and working with the corridors. That's for decision-making, etc. The last item, understanding public sentiment. As part of our normal COTA community survey work and participating in the regional engagement strategy that will help us understand what parts of the LinkUS program resonates with the broader community.

A few highlights of the Peer Cities that took place on October 19, 2021. It was an all-day event.

Charlotte, NC

- Taiwo Jaiyeoba, Assistant City Manager and Director of Planning
- They will have an item on their 2022 that goes toward this whole package of bus rapid transit, greenways, bicycle and new road ways.
- Charlotte Moves
    - 140 miles of bus rapid transit
    - 115 miles of greenway
    - 75 miles of bicycle network

  - Connecting everyone to within a half-mile of the overall network with pedestrian infrastructure
  - 60 miles of new roadways
- Successes
  - Clearly established the baseline and goals
  - A Task Force with representation and support
  - Regional buy-in for a multi-modal system
- Challenges
  - Political climate

Austin, TX

- Sharmila Mukherjee, Executive Vice President Planning and Development
- Austin 'Project Connect'
  - Rail, BRT, Premium Transit Network, sidewalks, bikeways and trails, Vision Zero Safety Projects, Safe Routes and School Projects, affordable housing (Displacement Mitigation)
- Successes
  - Learned lessons from earlier fails
  - Massive community engagement
  - Needs clearly articulated – mobility and affordable housing
- Challenges
  - Ensuring equitable investments
  - Explosive growth

Indianapolis, IN

- Brooke Thomas, AICP, Director of Strategic Planning, IndyGO
- Successes
  - 2016 referendum passed by focusing on moving the workforce
  - Red line constructed through FTA CIG process
  - Transit Oriented Development Strategic Plan (2015); affordable housing integrated into new development around stations – through partnerships
- Challenges
  - Suburban development; infill with mid-range TOD is met with nimby
  - Meeting goal of affordable housing within new TOD being developed along the corridor

The LinkUS Steering Committee has been meeting since August, this represents 35 plus community leaders. The items they have been focusing on are: understanding the previous documents that have led into LinkUS; that the mobility, with the development typologies, is where we're headed for success. This has been really laid out pretty clearly in the Inside 2050 documents; the corridor consent, etc. The priority networks include transit, but also bicycle, pedestrian, greenway, and safety improvements towards vision zero and safety improvements along the high capacity transit areas. The transit components for the LinkUS package include the high capacity transit. A lot is focusing on the cost ranges and the types of funding mechanisms. All meeting presentations and rosters are available online.

Trustee Moore, when you all met with the team from Austin, Texas, it mentioned that voters just approved or voted to spend $7 billion on transportation revolution. Did they provide any context in there as it relates to their strategy? Howe did that go? What were key things that they felt put that over the top to gain so much approval for a favorable vote? Kim replied, there were a couple of things that we focused on in that conversation with them. One was the close relationship between the city of Austin and Cap Metro, and how they truly worked together on these strategies and what went before the voters were two measures on the ballot. One measure was the transit portion. That included some affordable housing initiatives in it. The second measure on the ballot was for all of the other mobility options such as bikeways and greenways.

Trustee Moore, when you think about the financing modeling piece, I know we have multiple partners as a part of this initiative, but is LinkUS considered in the 2020 budget? Angel stated, as of right now, we've established the financial model separate from our general operating budget model as well as capital budget model. But the model itself – because what we want to see is how all of these pieces fit together on its own. But that model does include operating expenses related to these capital investments. So new services and what we're looking at now is what are those secondary and tertiary services we would want to provide to the community beyond just the core infrastructure related to the corridors. All of those are factored in along with a revenue source. It's separate from our two traditional budgets that we have here at COTA.

5. ADJOURNMENT

Trustee Moore motioned to adjourn the Strategic and Operational Planning Committee meeting. It was moved the Steve Gladman, seconded by Doug McCollough. Meeting adjourned at 9:52 a.m.

Next Meeting: 9:00 AM, Wednesday, December 1, 2021

Adopted: December 1, 2021

Signed: ____________________

Chair, Strategic and Operational Planning Committee

Attest: ____________________

President/CEO

BOARD STRATEGIC AND OPERATIONAL PLANNING COMMITTEE:

Marlon Moore, Chair
Steve Gladman
Doug McCollough
Tim Skinner