

Rochester Genesee Regional Transportation Authority
Minutes of
AUDIT COMMITTEE MEETING
February 7, 2013

Audit Committee Board of Commissioners:

Present:

Commissioners Jankowski (Chairman), Redmond, Battaglia

Absent: Commissioner Vitagliano

RGRTA Staff:

Bill Carpenter, CEO; Scott Adair, CFO; Chris Dobson, VP of Finance; Sharon-Muir-Eddy, Senior Budget Analyst

Commissioner Jankowski (Chairman) opened the meeting at 10:30am.

Overview of the agenda.

Mr. Adair

- December Financial Report
- Multi-Year Financial Projection

Recognized Mr. Dobson and Ms. Muir-Eddy for their efforts on the December Financial Report and Multi-Year Financial Projection and how critical these tools are to the organization as a whole.

December Financial Report

Mr. Adair

- Referred to the Committee to view the financial report in their meeting packet.

- Overview
 - End of year projection as of this report is \$932,000
 - Insignificant change from the prior presentation to the Board in October
 - Overall positive to budget of \$1.8 million; \$1.4 million on the revenue side; \$.4 million on the expense side
 - Revenues
 - Locally Generated
 - Two largest components are customer and special transit fares. The positive variance is due to cash ridership being up and increases in subsidy agreements
 - Other revenues are up as a result of one-time revenues from insurance recoveries, warranty work, etc. In addition gasoline fuel reimbursement for the City of Rochester that is offset in expenses.
 - Mortgage Tax

- Projected to be \$1 million greater than what was projected at the beginning of the year – more detail will follow in the Multi-Year discussion.
 - Expenses
 - Personnel
 - As previously communicated at Audit Committee meetings as well as the Board meetings the variance is \$565,000 negative. Largely due to projections in the bus operator area at RTS that didn't pan out as well as increase in subsidized service and for the ridership growth initiative.
 - Non-Personnel
 - Favorable variance to budget of \$900,000 with the biggest piece being the annual maintenance fee for TIDE less than budgeted, a decrease in bus parts and consumables, and others such as natural gas utilities, and a slight increase in overall diesel and gasoline fuel costs.
 - Overall favorable on the expense side of \$400,000 combined with the \$1.4 million on the revenue side is a total positive variance to budget of \$1.8 million and a projected \$900,000 positive overall.
- Discussion Items
 - Commissioner Jankowski requested further clarity on the specific assumptions that didn't pan out in the personnel area. Mr. Dobson clarified that we had assumed different mix on the full time and part time personnel and missed some hours in the budget calculation, in addition the ridership growth initiative added expenses.
 - Commissioner Redmond inquired as to the rough split of the budget variance between the ridership growth initiative and the other assumptions. Mr. Dobson advised that about 20% of the variance is from the ridership growth initiative.
 - Commissioner Jankowski inquired if the variance in fuel is from the actual fuel costs or from us having to pay out on the SWAP contracts. Mr. Adair stated that the SWAP is \$9,000 positive to date and that the projection is \$20,000 positive by year-end. In addition, that the variance is due to an increase in fuel consumption and not the price per gallon.
 - Mr. Adair stated that as we get closer to year end the numbers will continue to be honed in on and wouldn't expect significant changes. However we do monitor a number of change factors that could move and that we will continue to watch these and report back to the Audit Committee and full Board as necessary.
 - Commissioner Redmond stated that a while back considerable savings occurred from improvements in the Workers' Comp area and inquired if we should go back and take a look at this area to see if further savings can be realized. Mr. Adair responded that we do continue to monitor this area and that savings moving ahead are likely to be smaller than the significant savings we have seen. Mr. Dobson

spoke to the reduction in the cost per one hundred of payroll dropping from around \$9 to \$3.50 through the active management Ms. Muir-Eddy stated that the focus from the point of large savings forward is now on prevention of claims through wellness, occupational health, light duty, and return to work efforts. Mr. Carpenter echoed the comments by reiterating that the large savings in the past has been the reduction in the reserves necessary and that now the reserves are lower the savings will be smaller but in the form of reduced activity.

Multi-Year Financial Projection

Mr. Adair

- Stated that the Multi-Year Financial Projection is an interesting snapshot of where the Authority sits, and where the Authority is headed, from an overall financial perspective.
- Overview
 - From an overall perspective there are significant challenges that the Authority faces as we move forward.
 - There are approximately \$27 million in net assets at the end of this year.
 - It is anticipated during the projection period to use slightly over \$20 million of the net assets, which would reduce the net assets available for investment beyond 2016-17 to \$5 million.
 - There are some conservative assumptions inside of the projection such as a number of revenues remain flat.
 - Mortgage Tax continues to see movement and we continue to project a 3% annual increase in this plan.
 - Expenses are broken down into the broad categories of personnel and non-personnel. Seventy-five cents of every dollar is on salaries and benefits for our employees, therefore a significant cost.
 - The one most significant change in the multi-year projection from previous projections is the addition of the full time operation of the Transit Center in downtown Rochester. This facility is anticipated to come on-line on a full time basis in the 2015-16 fiscal year at a cost of approx. \$2.5 million.
- Detail Review
 - Revenues
 - Broken down into three main categories; locally generated, government subsidies, and Mortgage Tax
 - Locally Generated
 - Customer Fares are stable from year to year with no net increase projected, Special Transit Fares are anticipated to increase 3% each year and all existing agreements are maintained.
 - Also included in this category are investment earnings whereas the investment portfolio recently established is anticipated to remain.
 - Governmental Subsidies
 - Stated that this is an area of uncertainty.
 - State Aid is projected to remain flat from the \$32.7 million level proposed in the Governor's Budget.

- Aid received from Counties that we serve will not increase.
 - Federal Aid will be relatively flat with some decreases as more aid is used for capital purposes.
 - Mortgage Tax
 - A 3% increase is assumed in each year of the plan; as noted earlier this is a revenue that is growing at this point in time.
- Expenses
 - No significant changes to service are anticipated in the projection and a stable workforce is assumed.
 - Personnel
 - Again stable workforce and health insurance premiums growing 10% and all employees continue to share in the premium.
 - Non-Personnel
 - Discretionary spending areas are limited to a 2 to 4% growth.
 - Fuel and lubricants grow 5% annually where it is important to note that the SWAP will control price for 70% of supply for 2013-14 and 50% for 2014-15. As we move forward there is question as to whether or not we can enter into future SWAP's as a result of recent federal regulations.
 - Downtown Transit Center operating cost is made up of key assumptions regarding personnel in customer service, facility management, and operations, in addition security.
- Conclusion
 - Stated that he would highlight that while everything looks positive for the end of the fiscal year, there are challenges that the Authority faces as we move into the out years and that management of the Authority will need to continue to monitor and attempt to close the gap so that as Comprehensive Plans are approved the Board is comfortable with the use or non-use of the reserves.
- Discussion Items
 - Committee members inquired as to the reason why RGRTA may not be able to enter into a SWAP agreement as stated in Mr. Adair's remarks. Mr. Adair and Mr. Carpenter explained that Dodd/Frank legislation would preclude entities that have less than \$50 Million in discretionary investments from entering into SWAP agreements.
 - Commissioner Redmond inquired as to the overall SWAP position since we began hedging whereas Mr. Dobson indicated he would get the exact figure and follow up. Mr. Carpenter reminded the Committee that the objective of the SWAP is not to make money but rather to provide surety of cost for budget purposes.
 - Commissioner Battaglia inquired as to whether not the 5% annual increase in the cost of diesel fuel is adequate. Mr. Adair explained that we have historical data

back almost 10 years and that based on the trends the 5% estimate is within the mean of what we should expect.

- Commissioner Jankowski inquired as to how the security component of the future downtown transit center will be handled. Mr. Carpenter stated that it will likely be a mix of contracted security and City police in the form of a MOU.
- Commissioner Jankowski stated he was encouraged that at the end of the projection period a \$4.8 million balance exists and that management will continue to monitor risks and address it.
- Commissioner Battaglia stated that during his time on the Board the five year projection has already shows these kinds of numbers and then always a positive is pulled off. He commented how realistic can the projection be when you're going out five years. In addition stated that the Multi-Year should be presented in a best case/worst case view. Mr. Carpenter stated that his commitment is to always bring a budget that is balanced so that two years out we do not have a budget that shows a \$7 or \$8 million deficit and in addition a commitment to the Finance team to get the tools of a new financial software system and business intelligence datawarehouse solution so those scenarios can be run with much more accuracy. In addition Mr. Carpenter stated that as we move ahead with these new tools scenarios will be available and the conversation with the Committee will be around for example what does state aid have to go up or federal or what impact does a 6% ridership growth without additional miles have on the Multi-Year projection.
- Commissioner Jankowski reiterated that twice per year the Audit Committee will review the Multi-Year Financial Projection and on the alternate two meetings they will review the year-end financial projection.
- Commissioner Redmond inquired as to how this Multi-Year compares to the one that will be in the Comprehensive Plan. Mr. Adair stated that they will be the same.
- Mr. Adair reiterated that Mr. Carpenter is driving the organization to balanced budgets so that when the Board considers the Comprehensive Plan at its March meeting it knows that we are actively reviewing the Multi-Year and that action will be taken to reduce or eliminate the projected deficits. Commissioner Battaglia commented that it is a good way to present it and glad that additional tools are going to be available.

Motion to receive the December Financial Report and Multi-Year Financial Projection into record

- Commissioner Battaglia made a motion; Second Commissioner Redmond; All voted in favor

Other Business

Internal Auditor Discussion

- Commissioner Jankowski reintroduced the discussion on whether or not the Authority should have an Internal Auditor for the benefit of Mr. Adair (recently joining as CFO).
- Mr. Carpenter reiterated his comments from the last time which was that with all the compliance requirements that the Board has to sign off on for the Authorities Budget Office and Office of the State Comptroller he would feel better if the direction was not having the CFO acting as responsible for internal compliance and internal audit. In addition noted that in the interim of Mr. Adair coming up to speed on the topic the Authority has invested resources in compliance with Sheila Popowych serving as Medicaid Compliance Officer as well as supporting the Procurement Department with MWBE compliance.
- Commissioner Jankowski commented that it would be good if over the course of the year, management could test different areas/functions and report to the Audit Committee and the results could be captured in the minutes.
- Commissioner Battaglia inquired if a compliance area is added has management considered who it would report to in the organizational structure.
- Mr. Carpenter stated that he has had preliminary discussions with In-House Counsel and Ms. Popowych but before he decides he would like Mr. Adair to come up to speed and offer his thoughts. In addition Mr. Carpenter stated his appreciation of the Committee for underlining to Mr. Adair the priority of the Committee with regards to this matter.
- The Committee agreed to reserve further discussion until Mr. Adair has had time to consider the matter and would expect a proposal from Mr. Carpenter at a later date.

Calendar

- Commissioner Jankowski reminded the Committee that three more meetings are scheduled for the year with the next one in June that will focus on the Independent Audit review. Subsequent to that another one in October before the Board meeting where we will go over the Multi-Year Financial Projection again, and a final one in December.
- Commissioner Jankowski requested that management remind Bonadio to send an email request out to the Board to see if they have any specific questions or areas of interest for the year-end audit.

Commissioner Jankowski (Chairman) adjourned the meeting at approximately 11:30am.

Attachments to these minutes include the PowerPoint presentation.