TRANSPORTATION MANAGEMENT & DESIGN, INC.

North Central Regional Transit District and City of Santa Fe Transit

System Consolidation Study

Task 3A – Financial Analysis of Consolidation Options

Introduction

This document will utilize the data and findings from the Task 2A analysis and subsequent updates to assess financial opportunities and constraints for consolidation of the North Central Regional Transit District (NCRTD) and Santa Fe Trails (SFT) operations into a single transit agency. The most likely critical consideration in the evaluation of the decision to consolidate will be the ability for these currently independent transit agencies to have a financially sustainable environment over the short and long term.

The basic premise of this document is that the agencies would operate as a consolidated entity under an NCRTD managed organization, with FY2019 serving as the first year of the consolidation for evaluation purposes. However, based on the Task 2A analysis, there are a number of key financial issues that will have to be considered and addressed prior to any final decision to consolidate as well as to facilitate consolidation if such a decision is reached. Given the criticality of this aspect of the analysis, and its complexity given the various funding streams associated with each currently independent transit system operation, an Executive Summary has been provided below followed by a detailed discussion of each of the financial aspects identified in Task 2A and their applicability in a potential consolidation. This report also incorporates discussion pertaining to how prioritized investments in NCRTD's Long Range Strategic Plan (LRSP), which was created to develop a vision and path to the future for transit service in NCRTD's current service area and role, can be fulfilled.

Executive Summary

- Based on financial projections and assumptions detailed in this analysis as currently separate entities, Santa Fe Trails (SFT) is projected to have sufficient operating revenues from Fiscal Year 2018 through Fiscal Year 2022 to support day-to-day operations and service levels. However, in that same five-year time period the North Central Regional Transit District (NCRTD) must rely on drawdowns from their reserve cash balances to sustain a balanced budget. As a result, NCRTD is forecast to fall below its board required 25% reserve requirement level by FY2020 given current revenue and expenditure projections.
- The primary source of operating revenues for NCRTD, the 1/8 cent County Regional Transit Gross Receipts Tax (GRT), is scheduled to sunset in 2023. Approval to extend this tax, at the same or at an increased level, is critical to NCRTD's operations and necessary for any consolidation to be successful. The NCRTD Board, in developing its LRSP in 2015, recommended a series of action steps to remove the sunset provision to achieve the future visions and goals of the agency. Removal of the sunset vision and potential change to the current GRT rate requires voter approval within the four-county region.
- This tax currently generates over $7 million per year in revenues for transit operations, and more than half of it is presently distributed by NCRTD to other regional providers to support their transit services.
- A consolidated transit agency, under the management of NCRTD, would allow for a rational and strategic evaluation of required Capital Improvement needs and priorities and potentially providing over the longer term some economy by taking advantage of the synergy afforded by each other's current separate capital plans. An example would be the procurement of a consolidated modern fixed route scheduling system. Additionally, this approach would facilitate a review of the useful remaining life of existing assets and a transit focused perspective on specific upgrades and replacements that are necessary to improve transit services in the region, particularly with regard to implementation of new technologies, consistent with available funding.
- $941,000 of annual costs were charged to SFT by other City of Santa Fe departments to provide a variety of administrative and support functions. Under a consolidated transit agency, this work would need to be absorbed by NCRTD to align the two separate agencies under a single organization. Similar to the Capital Program above, it is anticipated that a consolidated agency would permit NCRTD to absorb these support expenses at a lower annual cost. An initial assessment of NCRTD hiring requirements to replace the services now

provided to SFT by City of Santa Fe departments indicates that a net total of 9 new positions would be needed for the start of consolidation, at a cost of approximately $470,000 yielding a net savings of approximately $500,000 annually over SFT expenses for these services.

- Over the longer term through FY2035, consolidation outcomes factoring in personnel cost savings (after reinvestment of staff resources currently supplied by City of Santa Fe departments), and/or adoption of revenue generation strategies such as an increased regional GRT, would allow for a financially sustainable combined agency that would have funding available to implement a series of long term strategic initiatives developed by NCRTD in 2015 for the benefit of transit customers throughout the region.

Overview

The first tab of the enclosed spreadsheet (Figure 1) summarizes the revenue and expenditure calculations for NCRTD and SFT as separate entities. This spreadsheet provides the starting point for the merger scenarios. The forecasts through FY2023 are consistent with projections summarized in Task 2A and were updated with the following adjustments:

- All projections have been expanded to extend from an assumed merger beginning FY2019 through FY2035.
- The scenarios assumed a beginning FY2019 reserve fund balance consistent as reflected in the fund balance analysis for the moderate scenario of the NCRTD LRSP.
- SFT operating expenditure growth assumptions have been updated to reflect a 3 percent annual growth rate across all expense categories, consistent with NCRTD growth assumptions.
- SFT capital expenditures have been updated using the newly provided capital cost projections with projected revenues from FTA capital grants as presented in Task 2A for FY2019 – FY2023, and assumed for evaluation purposes in this report to cover 80 percent of fleet replacement costs for FY2024 and beyond (this approach is consistent with the federal grant projections for NCRTD as reflected in the fund balance analysis for the moderate scenario).
- Scenarios were evaluated using the Board reserve balance requirements (25% for FY2017-2020, 20% for FY2021-2025 and 15% for FY2026-2035) and calculated from the reported FY2017 starting fund balance as reported in the NCRTD fund balance analysis for the moderate scenario. A gradual reduction of the current 25% reserve requirement to 15% beginning in FY2026 was programmed into the analysis. This lowering of the reserve is consistent with the larger consolidated organization.

This financial assessment is derived by combining all sources of revenues from both operating and capital funding mechanisms in place, and comparing these revenues against a combined projected total of operating and capital expenses in each fiscal year for the period covering FY2018-2035. This document reviews key assumptions made for revenues and expenses, and highlights risks and opportunities inherent in these projections as they can impact the potential for a successful consolidation. The document also assesses two potential scenarios and outcomes for funding the consolidated agency beginning in FY2019, beyond the base case, which serves as the starting point for the merger forecast.

Table 7 of the Task 2A analysis as prepared by FHU indicated that NCRTD was projected to have a balanced budget for the period covering FY2018 through 2022, as anticipated revenues match combined operating and capital expenditures. However, this calculation does not incorporate any of the proposed strategic investments in NCRTD's LRSP and is based on current service levels. In addition, FHU has noted in the updated forecast for Task 3A that NCRTD budgets, when considered as a separate entity under a base case scenario, are balanced only as a result of drawdowns from the cash balance reserves at amounts that will place reserve balance levels approximately 11% below the Board approved reserve requirement in FY2020.

Following the five-year outlook, SFT subsequently provided their long-range estimates to FY2035 for proposed Capital projects. Those expenditures represent an update from the Task 2A report as well since SFT was only able to provide projected capital revenues for FY2018. For FY2019 and beyond, this analysis assumes that projected revenues from FTA Capital Grants would cover 80% of fleet replacement costs through FY2035. This approach is consistent with the federal grant projections for NCRTD. For this document, SFT provided updated projections on funding related to capital grant revenues in FY2018 only, as well as expenditures for the FY2018 to FY2023 period, in addition to cost projections to FY2035 for Capital investments.

NCRTD Revenues

- Almost 2/3 of NCRTD's gross annual revenues are currently generated by the 1/8 cent County Regional Transit Gross Receipts Tax (GRT) collected in the NCRTD 4-county area. However, NCRTD retains only 35% to 40% of this revenue as a result of intergovernmental agreements to support other transit agencies in the region as elements of this funding, including Rail Runner and Atomic City Transit, as well as approximately $1 million annually or 14% of the total annual GRT received that is transferred to Santa Fe Trails (SFT). The GRT is scheduled to sunset in 2023 unless extended, and given its significance as the primary source of revenue for NCRTD and support to other transit agencies in the region, as noted previously, the sunset issue must be addressed up front as a central part of any merger discussions. Also, the 14% of GRT revenues that are currently transferred annually to SFT would remain available as internal funding under a consolidation scenario of the two agencies. A 3% annual growth rate in GRT revenues has been projected by NCRTD through the FY2035 period.

- The balance of annual revenues is primarily comprised of federal operating grants, federal capital grants, tribal transit grants, state capital outlay appropriations, and local match funds through FY2017. These local match funds are not projected to be received beyond 2017. It is notable that passenger fares comprise less than 1% of NCRTD's annual overall revenue base, given their largely free fare operation. Also, at least 10% of NCRTD's revenue base consists of using cash balances from reserve funds set aside and accumulated annually, for the purposes of meeting capital project match requirements and service enhancements for a three-year period after implementation.
- The projection assumes receipt in FY2021 of approximately $6.1 million in Federal Transit Administration (FTA) discretionary grant funds to construct a new maintenance facility in Espanola. This will require a successful application to receive the grant funds, which is subject to changes in federal funding priorities.
- The anticipated continued reliance on the use of reserve funds to support capital match requirements. This annual drawdown from cash balances will put pressure on NCRTD's ability to maintain its Board required commitment of a 25% cash reserve level. The NCRTD financial reserve policy outlines practices that govern the management of the District's financial reserves. This includes a commitment to seek to maintain at all times an amount equaling 25% of its operating revenue as an unrestricted cash reserve. The cash reserve policy includes four specific categories of use of the reserve fund: for operations, capital and capital replacement, service enhancements and debt service. It should be noted that this 25% cash reserve level as imposed by the NCRTD Board is three times the required cash reserve imposed by the New Mexico State Department of Finance and Administration (DFA) for minimum reserve balance requirements. DFA requires at all times a minimum of one month (approximately 8.3%) of operating revenue as a cash reserve to meet their requirements. As will be noted later in this document, the 25% reserve requirement may serve as a substantial impediment to achieving a successful consolidation effort, particularly in the near term, if not relaxed or supplemented with significant new revenues. Use of these cash balances results in NCRTD falling below the FY2020 board approved reserve requirement level of 25%, and reserve fund balances are in a deficit position the following year in

FY2021, based on FHU's updated analysis reflected in the revenue and expenditure comparison tab of the attached spreadsheet.

SFT Revenues

- Similar to NCRTD, SFT relies primarily on a separate ¼ percent Municipal Gross Receipts Tax (MGRT) to provide revenues for transit operations. In the annual budget, the MGRT generally accounts for more than half of all revenues, except in select years where SFT received a substantially higher amount of federal capital funding (5309) for large facility projects. As a result of a local ordinance in effect as of January 2016, SFT began to receive a more favorable and predictable allocation of GRT revenues from the City of Santa Fe. The ordinance guaranteed SFT 89% of the ¼ percent gross receipts received; prior to implementation of the ordinance SFT received approximately 80-85% of MGRT receipts, with the balance used to fund other City of Santa Fe priorities. This ordinance does provide the Transit Division the opportunity to obtain up to 100% of the ¼ percent GRT if it can show justification for the need of these funds; however, the ability of this to occur may change with a consolidation.
- SFT also receives approximately another $1.0 million revenue per year (about 10% of their total revenue base) resulting from the NCRTD transfer of the County Regional Transit Gross Receipts Tax. This revenue source would presumably remain available for transit use under a consolidated transit entity. With a combination of higher MGRT revenues generated and the NCRTD transfer of funds, SFT actually is projected to have an operating funds surplus over the FY2018-22 period averaging $400,000 per year over the five year period. This is the net result of revised assumptions outlined in this analysis for projected revenues from FTA capital grants and operating expenditure growth. In fact, based on the revised capital revenue assumption that 80% of fleet replacement costs will be covered by Federal funding through FY2034, surpluses are forecast for all years through FY2034. FY2035 includes a placeholder for a $2.5 million CNG facility upgrade and, as a result, that final year of the analysis reflects a one year deficit.
- The balance of SFT's revenue base as included in the approved Task 2A report for FY2017-18 is comprised of federal operating grants ($1.6 million) (approximately 15% of total revenue), federal capital grants ($3,000,000), primarily for the Downtown Transit Center construction, passenger fares (approximately $400,000 combined fixed route and paratransit), a special use Lodger's Tax ($300,000) and advertising ($160,000). Passenger fares only represent 3-4% of the entire revenue base. It must be noted that if the assumptions made for capital grant expectations for funding capital projects are not met, this will represent a very significant risk to SFT's overall financial

position, and the resulting impact on its operations. The ability of SFT' to successfully plan and implement capital projects is substantially hindered by the lack of certainty regarding long term funding. This results in a year to year process for SFT to secure capital funding approvals, and can result in delays for necessary asset replacements and upgrades.

NCRTD Expenses

- Personnel costs (salaries and wages plus fringe benefits) account for about 73% of all operating expenses. The balance of annual expenses is attributable to materials, contracts, fuel, tires and other miscellaneous costs. Going forward through FY2035, operating expenses are projected to increase by 3% per annum in all categories without any consideration of a consolidation. Capital expenses through FY2035 represent mainly fleet replacement purchases, with the exception of the proposed new maintenance facility, as well as automatic passenger counter and annunciator installations on the vehicle fleet. These are detailed in the agency's Long Range Strategic Plan (LRSP) as shown in Figure 6.

SFT Expenses

- Direct Personnel costs including benefits represent 72% of operating expenses. However, this amount excludes almost 10% of total expenses (over $900,000) charged annually to SFT from other City of Santa Fe departments that perform support services on behalf of SFT. These support functions include Human Resources, Purchasing, Janitorial services, Facility Maintenance, Legal, Payroll, Information Technology (IT) and Telecom services; services that would need to be provided directly by NCRTD under a consolidation scenario.
- Projected Capital expenses peak during FY2018 as a result of two major facility projects, the Downtown transit center and the Southside transit center, totaling a combined $5.0 million in planned and funded expenditures. Beyond these two projects, FY2018-2023 Capital expense projections are limited in scope, largely due to uncertainties regarding the current City of Santa Fe requirement to have dedicated funding in place for each proposed project. The only other funded Capital projects in the FY2017/2018 period are replacement of two fixed route buses and two paratransit vans. Other projects proposed in the next five years of the SFT Capital plan (bus stop upgrades, paratransit van and importantly fixed route vehicles) are seeking funding sources. In recent years the lack of definitive funding approvals for proposed capital investments impedes SFT's ability to improve their transit operations in an effective way.

- It should be noted that SFT has indicated that it expects to issue an RFP shortly to design, construct, operate and finance the upgrade of their existing CNG facility. They anticipate that the capital costs of this proposed upgrade would be repaid over an 8-year period through the use of a gas compression fee, and that these costs would be shared with the City of Santa Fe's Environmental Services Division. SFT states that there is no anticipated upfront capital costs with this arrangement, therefore this project was excluded from all financial calculations in this document SFT also projects that for FY2035, this same CNG facility will require another upgrade. This proposed expense of $2.5 million is included in the analysis as unfunded.
- SFT also incurred an annual expense in 2016 and 2017 of approximately $342,000 for debt service for a New Mexico Finance Authority bus loan due in 2026. The analysis projects annual payments of $280,000 going forward until the loan is retired in 2026.
- The recent ordinance ensuring SFT with a guaranteed minimum of 89% of MGRT will result in an improved revenue picture to support operating costs. This analysis projects operating expenses to increase 3% per annum in all expense categories, similar to the NCRTD projection.
- It will be very important for NCRTD and SFT to carefully assess the fiscal implications of a pending City of Santa Fe contract settlement with their current labor organization (assuming a new contract is reached prior to any merger) against the current financial projections for SFT, as the current SFT contract expires in June 2017.
- Current SFT projections reflect a surplus averaging approximately $1 million per year starting in FY2023 until FY2034, after operating costs and debt service payments. This can serve as a cushion or hedge against revenue shortfalls or higher than anticipated expenses in future years, and also can be used to fully fund their proposed capital requirements if expected Federal funding does not materialize at forecasted levels.

Analysis of Scenarios

In addition to the baseline case scenario, which represents Scenario 1, two other future financial scenarios were explored to determine what mix of new revenues, cost savings and elimination of revenues might serve to place a consolidated transit agency on a fiscally sustainable path, starting in FY2019. A brief definition of the three scenarios and associated assumptions is as follows:

Scenario 1 – consolidation with no cost savings – baseline.

Scenario 2 - consolidation with \$500,000 operational savings beginning in FY2019 and growing by 3 percent annually, \$0 capital savings and elimination of the Lodgers' Tax as a revenue stream beginning in FY2021.

Scenario 3 – consolidation with \$500,000 operational savings beginning in FY2019 and growing by 3 percent annually, \$0 capital savings, removal of SFT GRT, implementation of 1/3 cent Regional GRT across the four-county NCRTD Region, and elimination of the Lodgers' Tax as a revenue stream beginning in FY2021.

Assumptions for All Scenarios

- Scenarios were evaluated using the Board reserve balance requirements as modified over the full-time period as agreed to by NCRTD (25% for 2017-2020, 20% for 2021-2025 and 15% for 2026-2035) and calculated from the reported FY 2017 starting fund balance as reported in the NCRTD fund balance analysis for the moderate scenario. *The exception relates to the FY2017 opening fund balance which comes from the Audited FY2016 "Ending Fund Balance" as reported in the Fund Balance Analysis Moderate (Capital Plan FY2017-FY2028 for budget FY18 v2).*
- Consistent with Task 2A, sources for revenue/expenditures are from NCRTD Long Range Financial Strategic Plan and Fund Balance Analysis – Moderate Scenario (FY2017 Final Corrected v2), City of Santa Fe FY2016/17 Proposed Budget, Santa Fe Trails NTD data
- Scenarios were also evaluated using the State of New Mexico DFA 8% cash reserve balance requirement.

The series of attached spreadsheets (Figures 1 thru 6) outline the annual detail for each scenario on separate tabs at the end of this document for projected revenues, expenses and assumptions inherent in the individual calculations. In addition, a summarized tab outlining the annual revenues and expenses for both agencies from FY2017 to FY2035 is included.

A summary of the financial implications and key findings from each of the three scenarios is depicted in Table 1 below. NCRTD and SFT acknowledge that if revenue shortfalls occur from the assumptions in the study, then mitigating actions would be taken to reduce the resulting deficits.

Table 1: Comparison of Financial Consolidation Scenarios, FY2019-2035

Comparison of Financial Consolidation Scenarios, FY2019-2035			
Scenario	**1**	**2**	**3**
Total Revenues	$373,253,909	$368,759,909	$471,500,624
Total Expenditures	$381,427,921	$370,547,127	$453,524,093
Total Surplus/ (Deficit)	$(8,168,013)	$(1,787,219)	$17,976,532
Annual Surplus (Deficit)	$(480,471)	$(105,131)	$1,057,443
Average Reserve Balance %	2%	14%	34%
Meets Board Reserve Requirement	No	FY2019, FY2033-34 only	No: FY2019-22 Yes: FY2023-35
Meets New Mexico DFA Requirement	FY2019-21 only	Yes, all years	Yes, all years

Scenario 1 – consolidation with no cost savings – baseline

- Average annual deficit of $480,000 (revenues – expenditures).
- At the 8% State of New Mexico DFA cash reserve balance, consolidated systems maintain district reserve requirement through FY2021.
- For board reserve requirements (initially 25%, dropping to 15% by 2026) consolidated systems will fall of the board reserve requirement for all years evaluated (the unrestricted fund balance hits a deficit in 2028).
- No additional funding for District Long Range Strategic Plan (LRSP) initiatives would be available.

Scenario 2 - consolidation with $500,000 operational savings beginning in FY2019 and growing by 3 percent annually, $0 capital savings and elimination of the Lodgers' Tax as a revenue stream beginning in FY2021

- Operate with a deficit between 2019 and 2022, requiring use of cash reserves to supplement revenues.
- At 8% State of New Mexico DFA cash reserve balance, consolidated systems maintain district reserve requirement through 2035.
- For board reserve requirements consolidated systems fall short of board required reserve between FY2020 and FY2025 (board reserve requirements met for FY2026 through FY2035) and the reserve balance is projected to grow thru FY2034; reserve balance drops in FY2035 to fund the projected FY2035 $2.5M CNG Fueling Facility project.

- No additional funding for LRSP initiatives would be available.

Scenario 3 – consolidation with $500,000 operational savings beginning in FY2019 and growing by 3 percent annually and $0 capital savings, removal of SFT MGRT (approximately $7.4 million), implementation of 1/3 cent Regional GRT across the 4-county NCRTD Region, and elimination of the Lodgers' Tax ($300,000) as a revenue stream beginning in FY2021

- Annualized all LRSP initiative costs; included a 1.5% annual growth in cost estimates to reflect inflation but not growth in expenditure levels (estimates were in 2015 dollars).
- Federal Funding for LRSP capital investments have been assumed at a 70/30 split across the board.
- Overall, the capital portion of the LRSP initiative accounts for approximately 23 percent of the total budget estimated ($98.4 million) to implement all of the LRSP initiatives through 2035.
- To offset the removal of ¼ cent SFT MGRT and to fund the LRSP initiatives, increase the NCRTD County Regional Transit Gross Receipts Tax (GRT) within the four counties to approximately 1/3 cent from the present 1/8 cent levy.
- At 8% State of New Mexico DFA cash reserve balance, consolidated systems maintain district reserve requirement through 2035.
- For board reserve requirements consolidated systems fall short of reserve through FY2022. After FY2022 with the reduced proposed reserve level of 20%, reserve levels easily meet the new thresholds through FY2035.

Options: Risks and Opportunities

There are many important considerations to address if NCRTD and SFT were to consolidate their currently separate transit systems. While many of these issues will be addressed in the other sections of Task 3 documents, each issue is likely to have financial implications that can impact the implementation and ultimate success of a consolidation. The following will outline key short, medium and long-term merger aspects to address under a consolidation scenario from a revenue and expense perspective, and incorporating outcomes from the three scenarios.

- Currently, both NCRTD and SFT rely on a form of a gross receipts tax to provide the largest single portion of their revenue base. The single most important factor for future sustainability of a merged transit agency is the continuation of the County Regional Transit Gross Receipts Tax (GRT) also known as the NCRTD GRT, collected in the four counties, currently scheduled to sunset in 2023. Not only is a long-term or permanent extension of this tax critical, but it is also important to emphasize during sunset discussions prior to any public vote within the four-county region how an increase in the amount of tax assessed from the current 1/8 cent value would represent a substantial boost to the merged transit agency's ability to enhance service for the region. Scenario 3 of this analysis imposes a proposed 1/3 cent County Regional Transit Gross Receipts Tax in place of the current NCRTD GRT and would permit full elimination of Santa Fe's MGRT and Lodger's tax revenues, as well as implementation of NCRTD's prioritized LSRP investments over the FY2019 to FY2035 period. The scenario 3 use of a County Regional Transit Gross Receipts Tax rate of 1/3 cent was calculated to start in FY2021 for this forecast, to establish a rate in which necessary additional revenues were generated to offset FY2021 expenditures and establish surpluses beyond FY2021. GRT revenues were then grown using the 3 percent annual growth rate. It is important to note that under this methodology, revenues begin to exceed expenditures in FY2021, resulting in a rapid growth of the fund balance beyond required levels.

- Alternatively, it may be important to revisit the agreements to provide the current percentage of GRT funds transferred to the Rail Runner and Atomic City Transit (approximately 50% of total annual GRT revenues) once a consolidation scenario is agreed upon, if there is resistance to increasing the level of GRT as suggested in Scenario 3.
- While the Santa Fe Trails MGRT does not sunset, and SFT is now guaranteed a minimum of 89% of the gross revenues from one of the six ¼% increments, the remaining 11% of MGRT revenues (presently valued at approximately $800,000 annually) that is used by the City of Santa Fe to fund non-transit programs/ initiatives represents a significant portion of the tax diverted from transit purposes. This is also an important area to consider in any negotiations for a merger under Scenario 1 or 2.
- One other revenue source, contributions from Los Alamos County to NCRTD, has steadily declined in recent years. In fact, projections in the Task 2A document of this study reflect no further contributions from Los Alamos beginning in 2018. This is another source of revenue that could be part of the discussion if consolidation talks advance, since the consolidated entity may need all potential revenues to cushion any revenue shortfalls (especially if overall economic conditions deteriorate and impact GRT revenues) or unanticipated expenses such as fuel or benefit cost increases, or potential legacy payments to employees separating from service after a merger.
- The final major sources of revenue for both agencies are federal operating and capital grants. Fortunately, the annual level of federal operating grants received by NCRTD and SFT has remained fairly consistent and stable in the

recent past. Federal capital grants are timing dependent based on specific project requirements and asset useful life considerations, and the grant amounts received annually can vary greatly from year to year. It may be more challenging to project federal funding levels for transit initiatives since new federal transit priorities are not clear yet.

- One area that can have wide ranging impacts, in a consolidation scenario is the imposition of fares where none exist today, and/or an increase in fare levels on routes where they are presently charged. This action will aid in establishing the premise that enhanced service and operational performance is dependent on customers paying a nominal price for the service. It is estimated that this would generate approximately $200,000 in farebox revenue annually based upon current NCRTD ridership and SFT fare levels. However, in New Mexico, per NMDOT procedure, agencies that receive FTA 5311 awarded funds, receive a reduction in subsidy equal to the amount of the fare revenue annually. This affects only NCRTD and Atomic City Transit. This policy should be revisited. In addition, NCRTD estimated that there would be a $38,000 annual added operating cost less any potential offset in fare related subsidy. It also provides the basis for regional consistency with the current larger SFT service which has an established flat rate fare structure for all of its services. Establishing at least some level of fare on all routes also permits a merged agency to charge accordingly for paratransit services as well. Additionally, if a higher than fixed route fare is charged for paratransit as permitted by federal regulations, there is potential for managing demand for this very specialized and costly service which will otherwise continue to significantly grow in a consolidated regional service. Lastly, as SFT is a headway based operation rather than the general trip based current NCRTD service, the charging of a fare reduces the potential for vagrancy impacting customer quality of life. This issue is also discussed in greater detail in the Task 3D report.
- With regard to expense levels, projected operating expenses for NCRTD and SFT are anticipated to grow at a 3% rate each year of the analysis. A 3% growth rate in expenses is reasonable and supportable given recent trends.
- Capital expenses reflect estimated project costs for all projects in their ten-year Capital Improvement Plan (CIP). These projects may be in the application, design or construction phase. Over the longer term in a merger scenario, as all capital needs would be carefully reviewed to ensure they would fit with the overall strategic plan for a consolidated transit agency.
- Given the greater uncertainty of capital funding, combined with the direction of a single management overseeing both agencies after consolidation, it would be very beneficial to identify or reprogram capital funds to develop an asset management system that is fully integrated into business and operational processes. Effective maintenance of joint assets, based on accurate data will

result in more prioritized investment decisions, and reduce costs while improving productivity. This should be a very high project priority in a consolidated operation.

- Other expense areas that must be carefully reviewed in a merger include a detailed assessment of what specific functions are currently being performed for SFT by other City of Santa Fe departments. It must be determined what functions can immediately be absorbed by NCRTD staff, and whether additional headcount is needed to support the increased functional activity. As shown in Table 3, the preliminary recommendation is that NCRTD would increase the net number of positions to their headcount levels by an equivalent of 9 positions to accommodate the added support functions. Based on an approximation of salaries and benefits for this staff increase, it is estimated that annual costs would be approximately $470,000 in the first full year of hiring. However, this cost would be more than offset by the elimination of annual City of Santa Fe agency support costs of $941,000 for SFT in FY2017. Therefore, it is estimated that an annual approximate savings of $500,000 can be generated by NCRTD for this aspect after a consolidation is implemented.
- A high-level organization chart, representing the NCRTD Executive Director, and two levels of reports (direct reports and their subsequent direct reports) is included as Table 2 at the end of this document. Table 3 represents the preliminary assessment recommendation on net personnel additions to be incorporated into the consolidated transit organization in place of the current City of Santa Fe departments supporting SFT, reflecting net staff costs.
- Technology differences between systems can be an impediment to a quick transition of functions, and not all SFT supported functions may be able to be absorbed on day one of a potential consolidation by NCRTD. An example would be Payroll and Timekeeping. A phased transition approach to these functions may be necessary, but the overall objective must be to deliver these services internally at a lower cost and improved delivery of services. A complete technology assessment of SFT systems will be important to unify various administrative and support functions, as well as fleet and facility requirements, in an expedited manner.
- In a consolidated agency, where SFT would represent 60-65% of current expenses and revenues, it will be imperative for NCRTD to evaluate maintaining their existing reserve guidelines, given the much higher dollar value that 25% of combined operating revenues represent. This is particularly necessary if, for example, the merged agency has to deal with sizable legacy costs for employees who may opt to separate from SFT at the time of merger rather than join a new organization, or if technology needs require additional funding to implement both entities operating on common platforms. A gradual reduction to 15% from the current 25% is utilized in the scenario calculations,

but it is also suggested that the DFA requirement of one-month cash reserve be explored as well, particularly if Scenario 3 with a higher regional GRT cannot be implemented.

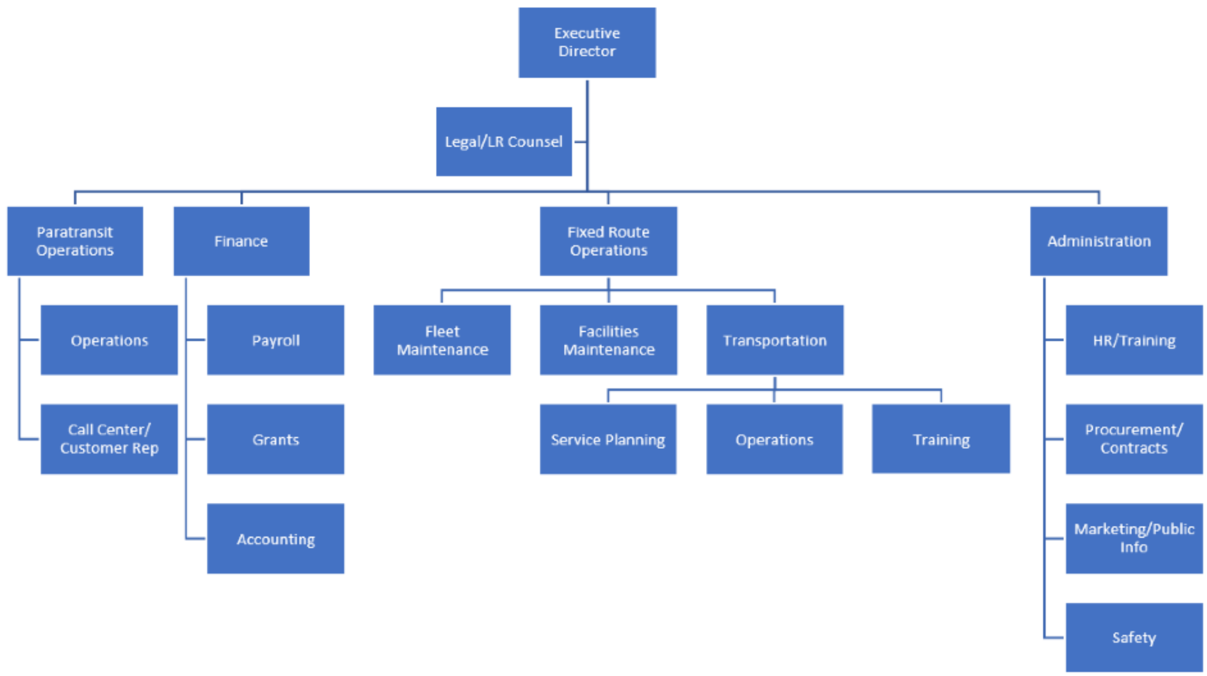
- NCRTD will also have to review the legal and financial aspects of Santa Fe's remaining debt service (Transit bus loan) expense. Currently it is projected in the Task 2A analysis to be paid off in annual principal payment increments of $280,000, and is due in 2026. Sufficient funding will have to be set aside to retire this loan on time or NCRTD may opt to retire the loan in an accelerated fashion if a more reliable yielding revenue stream is implemented.
- Given the relatively significant costs currently charged to SFT as a result of other City departments performing certain non-operating functions, it is reasonable to assume that NCRTD can handle this work at a lower cost and generate some level of savings as a result. When combined with the more reliable MGRT revenues to be received by SFT as a result of the ordinance assuring a floor of 89% for transit, NCRTD may be able to offer to the City of Santa Fe a complete phase out within a 2-3 year period of the Lodger's Tax revenue source provided now to SFT ($300,000/year) as a consolidation item, totaling $4.5 million over the FY2021 thru FY2035 period. This tax is shown as eliminated beginning in FY2021 in a consolidated agency under both scenarios 2 and 3.
- Additional information on a variation of Scenario 3 was requested in the form of evaluation of service levels without the SFT GRT; specifically, evaluation of the potential impacts on transit services (high level) of the loss of the $8 million in City MGRT without being replaced by a County Regional Transit Gross Receipts Tax. The SFT GRT provides $7.12M in revenues in FY2017, growing to roughly $12M by FY2035.

  If the SFT GRT were to be removed and the revenues were not recovered through any modification to the Regional GRT, under a consolidation scenario:

  - No LRSP initiatives could be funded.
  - The projected combined revenues would fail to meet the combined operating expenditures alone.
  - If no significant service reductions were made, -the entire cash reserve would be consumed in year 1 of the consolidation to meet the shortfall.

Table 2: Consolidated North Central New Mexico Regional Transit District

Consolidated North Central New Mexico Regional Transit District*



**The Fixed Route and Paratransit Transportation and Maintenance boxes include all current NCRTD and SFT supervisory, drivers and maintenance budgeted positions in a combined structure.*

Table 3: Recommended Position Increments

Recommended Position Increments for Consolidated North Central New Mexico Regional Transit District		
Position	**Net Change**	**Annual $ Cost**
Procurement/Contracts	1	$61,503
Human Resources	1.5	$87,661
Transit Planner	1	$73,996
Payroll	1	$46,753
Custodian	1	$30,385
Mechanic	3	$145,628
Service worker	1	$41,360
Marketing specialist	(0.5)	$(36,685)
IT Contract	-	$20,000
Total	**9**	**$470,601**