

2016 PROPOSED OPERATING BUDGET

Metra's proposed operating budget, which covers the day-to-day costs of running the railroad, will increase \$15.1 million or 2 percent compared to the 2015 budget, from \$744.7 million to \$759.8 million. Historically, Metra's operating costs have increased an average of 3 percent per year.

Train service levels are unchanged in both years, therefore, the budgeted increase represents projected cost increases in wages and benefits, rents, materials and other costs associated with operating existing service and meeting the maintenance and inspection requirements related to the equipment and infrastructure.

Contractually obligated wage and benefits account for the largest expense growth – particularly those related to pensions and health care costs. Ninety percent of Metra employees are represented by labor unions (including purchase-of-service carriers). These increases are partially offset by \$5.7 million in budget efficiencies identified as part of the 2016 budget process.

The proposed budget also includes \$3.3 million in new PTC operating costs, and a projected net increase in revenues of \$11.8 million, assuming there will be no change in state funding policy.

The proposed 2 percent net fare revenue increase is less than the 5 percent we originally projected because of our budget efficiencies, lower gas prices and higher sale tax receipts. If not for the added PTC operating costs and our critical capital needs, Metra would not seek a fare increase for 2016.

Key drivers of 2016 expense changes include:

- \$23.2 million increase in wages and benefits, mostly due to collective bargaining agreements with our employees, about 90 percent of whom are represented by labor unions (including purchase-of-service carriers).
- \$6 million in reduced capital project billings. (When we do fewer capital projects, some of our overhead costs that we bill to projects – and therefore to the capital budget – have to be covered out of our operating budget.)
- \$5.9 million in other cost increases
 - \$1.5 million in snow removal costs
 - \$1.4 million in new information technology software and system enhancements
 - \$1 million in increased maintenance costs due to aging fleet
 - \$800,000 in added police costs for video surveillance monitoring
 - \$700,000 for new safety equipment and new positions to enhance safety functions and training regulations
 - \$500,000 for new marketing initiatives aimed at growing ridership
- \$3.3 million in higher PTC operating costs (We expect those costs to go up each year as we ramp up to full implementation.)
- \$1.8 million in price changes for materials and utilities; increases in rent, maintenance and utility costs at downtown stations and joint facilities; changes in credit card and bank fees; and other changes.
- **\$40.2 million total**

Those increases are partially offset by:

- \$5.7 million in budget efficiencies
- \$19.4 million in lower diesel fuel prices
- **\$25.1 million total**

\$40.2 million
<u>-\$25.1 million</u>
\$15.1 million net expense growth

Train Operations

Seventy-five percent of Metra's operating budget is comprised of the agency's train operations, specifically, the Transportation, Maintenance of Equipment and Maintenance of Way sections:

The Transportation section consists of train service, dispatching, tower operations, crew management, station agents, customer service, ticket services, GPS operations and police services. The transportation budget includes approximately \$1 million in savings from 2016 efficiencies by lowering overtime hours related to station operations, a planned reduction of outside police services and the elimination of a safety-related 401k plan.

The Maintenance of Equipment section coordinates and oversees the repair, inspection, cleaning and maintenance of 1,164 pieces of rolling stock and is responsible for Metra's fleet of 463 trucks and automobiles. The maintenance of equipment budget includes approximately \$0.6 million in savings from 2016 efficiencies resulting from the elimination of a safety 401k plan and lower materials charges related to the delivery of new Metra Electric Highliners and rehabilitations on diesel trailer cars.

The Maintenance of Way section is responsible for building and maintaining the majority of Metra's fixed assets, such as buildings, bridges, track, electrical, communications and signal systems. The maintenance of way budget features \$1.3 million in efficiencies resulting from the elimination of positions and furlough of some seasonal employees and the elimination of a safety-related 401k plan.

The 2016 budget for train operations, including the three categories above, is projected to increase by \$35.5 million, including:

- \$21.8 million for wage and benefits increases in 2016, mostly due to collective bargaining agreements with our employees, about 90 percent of whom are represented by labor unions.
- \$6 million for costs in operating due to anticipated less capital work billing.
- \$3.4 million in other costs, due to mandated contract cost increases related to the purchase of service contract carriers, utilities, and inflation based cost increases on contracts for NIRCRC trains to operate on other railroads' tracks.
- \$3.3 million to fund the second year of PTC implementation
- \$1.5 million in snow removal costs
- \$1.4 million in new information technology software and system enhancements
- \$1 million in increased maintenance costs due to aging fleet
- \$800,000 in added police costs for video surveillance monitoring
- \$700,000 for new safety equipment and new positions to enhance safety functions and training regulations
- (\$1.6) million for labor and fringe reduction related to 2016 efficiencies
- (\$1.3) million for material and other cost reduction related to 2016 efficiencies

Administration

The Administration budget provides for the executive and general departments that support train operations and maintenance areas listed above while also administering required agency functions. The 2016 budget for administration, which represents almost 11 percent of Metra's operating costs, is projected to increase by \$1.9 million or 2.1 percent compared to 2015. This increase includes \$1.4 million in new information technology software and system enhancements and \$500,000 for new marketing initiatives aimed at growing ridership. The increase is partially offset the \$5.7 million in budget efficiencies identified as part of the 2016 budget process.

Diesel Fuel

Metra expects to pay \$20.3 million less for diesel fuel in 2016 due to lower prices, lower projected fuel use by more fuel efficient locomotives and completed work in some rail yards that will allow locomotives to use standby power.

Electricity

Electricity for Metra Electric operation is projected to be \$2.0 million less than what was budgeted in 2015 due to the negotiation of lower rates as part of a new electricity supply contract.

Claims and Insurance

Claims and insurance for 2016 is budgeted at \$15.4 million, which is a \$0.4 million or a 2.5 percent reduction from the 2015 budget. This area realized a \$0.4 million 2016 efficiency due to anticipated lower claims amounts and insurance premiums.

Downtown Stations

For 2016, the downtown stations category, which includes charges for Chicago Union Station, LaSalle Street Station and the Ogilvie Transportation Center, is budgeted at \$16.4 million. This is a \$0.4 million increase over the 2015 budget. The station rents are covered by long-term leases that have annual inflators. Additionally, the charges include a share of the maintenance and utility costs for the facilities, which are expected to increase for 2016.

2016 Projected Revenues

Key drivers on the revenue side include:

- **\$19.6 million** increase in sales tax revenue (assuming no changes to state funding policy).

That increase is partially offset by:

- \$5.4 million reduction in other revenue reflecting a decline in crossing project work on behalf of the state.
- \$2.4 million reduction in fare revenue as riders switch to cars due to lower gas prices
- **\$7.8 million total**

\$19.6 million

-\$7.8 million

\$11.8 million net revenue growth

Passenger Revenue

Passenger revenue for 2016 is expected to be higher than the 2015 budget by \$4.1 million or 1.2 percent. This increase reflects that the 2016 Budget will receive higher funds related to a 2 percent net increase in fare revenue effective Feb. 1, 2016. The increase is expected to generate approximately \$6.5 million over the 11-month period, after a \$0.5 million provision for elasticity loss in ridership due to the fare increase. We are also projecting that some riders will switch to their cars due to lower gas prices, reducing overall fare revenue by \$2.4 million.

Reduced Fare Reimbursement

The Reduced Fare Reimbursement is budgeted to be \$3.1 million for 2016, the same level as the 2015 Budget.

Capital Credits, Leases and Other Contracts

The 2016 budget for capital credits, leases and other contracts has been decreased by \$5.4 million or 15.2 percent versus 2015, reflecting an anticipated decline in billable items, primarily grade crossing project work on behalf of the state that is not considered a Metra asset.

Metra Sales Taxes

Metra is anticipating a 5.2 percent increase, or \$19.6 million, in the amount of revenue it receives from the regional transportation sales tax, from \$377.7 million to \$397.3 million. However, this assumes no change in state funding policy.

###