



November 3, 2011

Addressed to:

Citizens of Clark County Washington

Dear Fellow Citizens:

Re: C-Tran Financials and Proposition 1

As citizens of Clark County, Washington we are the primary sources of income for Clark County Public Transportation Benefit Area (PTBA); known to most of us as C-Tran. We are the primary source of income for C-Tran, because our sales tax dollars are used to fund over 60% of C-Tran's annual operating budget.

In deciding how to vote on Proposition 1, I have undertaken a study to review the budgets and financial results of C-Tran. Further, I have studied their 20 year plan, called "C-Tran 2030" to determine their planned use of future funds invested by the people of Clark County.

My findings were important enough that I wanted to communicate them to you

Executive Summary

My analysis and meeting with C-Tran officials indicate the following:

1. Proposition 1 funds are not necessary for C-Tran to maintain **current levels of bus service**.
2. If C-Tran maintains **current levels of bus service**, and foregoes expenses related to High Capacity Transit (HCT) initiatives, reserve funds will remain intact through 2023.
3. If Proposition 1 fails to pass, current C-Tran board policy indicates that High Capacity Transit project costs will take higher priority over current levels of bus service; causing bus service to decline or to be eliminated.
4. C-Tran's 20 year plan, "C-Tran 2030" is significantly at risk due to overestimated revenues and underestimated expenses.

Background

According to C-Tran’s website:

“The C-TRAN Board of Directors voted to place a 0.2% sales tax increase (2 pennies on a ten dollar purchase) on the November 8, 2011 general election ballot to preserve existing bus levels and to meet the projected growth of C-VAN, the federally mandated paratransit service for individuals who, due to their disability, cannot use C-TRAN’s regular bus service. Should this November’s ballot measure not pass, C-TRAN would need to implement a system-wide service reduction of about 35 percent by early to mid 2013 in order to balance its budget”

My analysis was undertaken to answer the following questions:

- Does C-Tran need additional sales tax revenue to fund current level of bus service?
- Are there any parts of the C-Tran budget that stray from current levels of service?
- Why does C-Tran’s ballot materials indicate they will “run out of reserves” by 2013?

Findings

Proposition 1 Analysis

Proposition 1 is C-Tran’s ballot measure asking voters for a 0.2% sales tax increase. C-Tran purports to need the funding because they want to maintain current levels of bus service in light of significant planned budget deficits. Page 23 of C-Tran’s 2011-2012 biennium budget indicates that by the end of 2012, the Agency’s non committed fund balance will be significantly depleted and will effectively run out in 2013 (hence, the need for funds from Proposition 1). See Table 1.

Table 1: C-Tran’s 2011-2012 Budget

Cash and Investments at 9/30/2010	\$	48,580,487
Less:		
Remaining 2010 Payments toward Operations		(1,103,000)
Remaining 2010 Payments toward Capital Projects		(354,000)
Claim Payouts		(900,000)
2011-2012 Budget Deficit		(13,266,496)
Proposed Capital Budget		(14,295,817)
Capital Budget Contingency		(1,707,507)
Working Capital		(10,307,804)
Self Insurance		(3,000,000)
Cash Balance Not Committed at 12/31/2012	\$	3,645,863

Based on my review of documents and meeting with C-Tran officials, it appears that not only are the C-Tran planned budget deficits significantly inflated; they also include millions of dollars worth of planned High Capacity Transit expenditures – expenditures for potential future bus rapid transit and light rail services that have nothing to do with current C-Tran bus services.

The bleak cash projection put forth by C-Tran does not appear to be an accurate portrayal of the agency's cash position should **current levels of bus service** be maintained.

I can confirm that the budgeted deficits for 2011 and 2012 (\$13,266,496) as well as the proposed capital budget for 2011-2015 (\$14,295,817) (See Table 1 above) contain significant expenditures related to High Capacity Transit activities like light rail and bus rapid transit. In fact, of the \$27,562,313 contributing to "significant depletions of reserve balances" I have traced more than \$11.3 million to potential High Capacity Transit activities.

When asked whether these initiatives would continue to take place if Proposition 1 fails, the answer was, "these are Policy decisions made by the Board of Directors and these initiatives will move forward." In essence, it appears that current levels of bus service would be reduced or eliminated if Proposition 1 were to fail; because the cost of these High Capacity Transit initiatives would take higher priority. (Note: cuts to C-Tran's budget should Proposition 1 fail, clearly shows cuts to bus services; not High Capacity Transit initiatives currently in the budget).

C-Tran purports that the proposed .2% sales tax increase would not be used for light rail; but rather to fund C-Van and bus service only. However, their own budget analysis does not support this statement. Several significant discrepancies exist with their current budget analysis and the statements they are making to the public.

2011 Actual Operating Results Exceed Budgetary Expectations

First, C-Tran estimates that their two year Budget Deficit will be \$13,266,496. The details of the 2011 and 2012 budgets can be found on page 13 of their 2011-2012 Budget. It does not appear that the \$13 million deficit they expect will come to fruition.

C-Tran's **actual** September 2011 year to date financials indicate that the agency is performing significantly better than the projected net losses they feared. In fact, C-Tran's 2011 year to date net loss before depreciation is 73% better than budgeted (actual = \$1.2 million loss; projected = \$4.5 million loss). It is important to note that net asset losses don't equate to cash losses. One must look at C-Tran's cash position to determine how all activities (both operational and capital) have impacted cash.

C-Tran’s 2011 actual financial results indicate that cash has decreased by \$744,862 in the last nine months. See Table 2:

Table 2. C-Tran 2011 Cash Analysis

Cash and Investments 12/31/2010	\$	46,913,459
Cash and Investments 9/30/2011	\$	46,168,597
Net Increase (Decrease) in Cash Position	\$	(744,862)
Divided by: # Months		9
Average Increase (Decrease) per Month	\$	(82,762)
Multiply by: 12 Months = year		12
Expected Annual Increase (Decrease)	\$	(993,149)

By annualizing C-Tran’s 9 month history for 2011, it can reasonably be expected that their cash deficit for 2011 will actually be **\$993,149**; not the \$6,260,440 they budgeted for.

2012 Budget Deficit Assumptions Appear Inconsistent with C-Tran Operational History

In terms of the 2012 budget, there appears to be flaws with C-Tran’s analysis as well. C-Tran’s estimate of \$7,006,056 in 2012 budgeted net losses (page 13 of their 2011-2012 Budget) is not in line with actual operating results for the last six years. Nor is it in line with actual cash deficits incurred during those same six years.

While C-Tran has historically operated at a Net Loss before Federal Grant Contributions (i.e. revenues from operations, sales tax, and interest income were not sufficient to meet operational expenses; the agency has consistently enjoyed funds from federal, state and local grants, providing them *increases* to Net Assets. In fact, during the last 5 years (since the passage of the last .2% sales tax increase), C-Tran has increased their Net Assets by \$12,482,461 – averaging increases of \$2.45M per year (**See Exhibit A**).

This increase to Net Assets is not an increase in cash. In fact, looking at C-Tran’s Statement of Revenues, Expenses and Changes in Net Assets (“Income Statements”) does not tell the entire C-Tran story in terms of cash in and cash out. Changes to the Statements of Net Assets (“Balance Sheets”) also impact cash (e.g. purchases of capital assets).

The net effect of all of an organization’s cash transactions from both of these financial statements are summarized on the Statement of Cash Flows. My review of C-Tran’s Statement of Cash Flows indicates that between 2006 and 2010, C-Tran’s operations depleted cash balances by \$9,718,486 (or an average of \$1.9 million per year). See Table 3.

Table 3. Summary of C-Tran's Statement of Cash Flows

Cash received from Customers and Contracts	\$ 32,602,042	
Cash Paid to Vendors	(77,416,200)	
Cash Paid to Employees	(95,069,291)	
Cash Received (Used) By Operating Activities		\$ (139,883,449)
Cash Received from Sales Tax Revenue	118,045,538	
Cash Received from State Contributions	3,496,717	
Cash Received from Federal Grants	12,766,937	
Cash Received (Used) by Noncapital Activities		134,309,192
Total Cash Received (Used) for Operations		\$ (5,574,257)
Total Cash Paid to Acquire New Fixed Assets	(45,520,851)	
Cash Received from Federal Grants for Capital Purchases	31,626,698	
Cash Received from Sales of Fixed Assets	247,261	
Total Cash Received (Used) for Capital Purchases		(13,646,892)
Cash Received from Investment Maturities	1,000,000	
Cash Received from Interest on Investments	8,502,663	
Total Cash Received (Used) for Investment Purposes		9,502,663
Total Decrease in Cash and Cash Equivalentents		\$ (9,718,486)

Source: C-Tran CAFRs 2005-2010

Cash and Investment Balance at 12/31/2005	\$ 56,631,945
Total Decrease in Cash and Cash Equivalentents	(9,718,486)
Cash and Investment Balance at 12/31/2010	\$ 46,913,459

It is unclear why C-Tran made the leap to assume deficits of \$6.2M in 2011 and \$7.0M in 2012 when actual operating results and cash transactions for the 5 years prior were significantly better.

Further, based on their own analysis, C-Tran anticipating the same level of Federal Funding for 2011 and 2012 as well as increases to Sales Tax Revenue; both of these sources of funding would provide for operational and capital expenditures.

Our analysis assumes that 2012 cash deficits will be **\$1,986,298** which equates to two times that of expected 2011 cash deficits of \$993,149. It is important to note, that based on C-Tran's history, we believe this to be a gross overestimate.

2011-2012 Budget Assumptions are Inconsistent with 20 Year Plan

In terms of the 2011-2012 budget deficits calculated by C-Tran, we noted that their sales tax revenue calculations were not in line with their long term 20 year plan. In fact, C-Tran's 20 year plan calls for 5.1% increases in sales tax revenue between 2011 and 2013 (see page 74 of C-Tran's 20 year plan); while their 2011 and 2012 budgets call for just a 2% increase in sales tax revenue (see page 17, Item #4 of C-Tran's 2011-2012 budget).

2011-2012 Budget Includes Significant Costs Related to High Capacity Transit

C-Tran's 2011 -2012 budget calls for nearly doubling of historical expenditures in the "Services" and "Supplies" categories. During our meeting with C-Tran officials on November 2, 2011 we were informed that the increases were due, in part, to ballot measures, studies for High Capacity Transit, as well as consulting related to the CRC (Columbia River Crossing). According to page 20 of C-Tran's 2011-2012 budget, expenditures in the Services category include \$960,000 for election costs and \$200,000 for CRC consulting costs. Further, were informed that C-Tran was "required to do a High Capacity Transit" study that was budgeted for \$500,000 (in order to put the next ballot measure up to voters). These three expenditures alone total \$1,660,000.

It is important to note that the \$1,660,000 in expenditures is not related to maintaining current C-Tran bus services.

Proposed Capital Budget

Page 23 of C-Tran's budget includes a line item of \$14,295,817. Of this, I traced the following to potential High Capacity Transit related expenditures:

- \$426,125 – Bus Rapid Transit Analysis
- \$2,700,000 – Tri-Met Collaboration –Replace Fare boxes, Regional Fare Reciprocity, Software
- \$6,239,386 – Various 20 Year Plan Initiatives (Bus Rapid Transit and Light Rail)

In order to determine whether C-Tran can continue providing the same level of bus service, one must segregate the High Capacity Transit related expenses from the "regular bus service" capital expenditures. By subtracting the above-mentioned High Capacity Transit related expenses, C-Tran's capital budget would be **\$4,930,306**.

C-Tran Will Not Run Out of Reserves in 2013

Based on the analysis above, we have revised C-Tran's proposed 2011-2012 Budget. The result of our analysis indicates that if C-Tran were to maintain its current level of service (including allocation of funds

for future non-HCT capital expenditures), unrestricted cash assets at December 31, 2012 would be approximately \$25 million. See Table 4:

Table 4: Revised C-Tran 2011-2012 Budget

Cash and Investments at 12/31/2010	\$	46,913,459	
Add:			
Remaining 2010 Accounts Receivable		7,004,772	
Less:			
Remaining 2010 Accounts Payable		(5,805,700)	
Expected 2011 Cash Deficit		(993,149)	See Table 2
Expected 2012 Cash Deficit - Current Levels of Service		(1,986,298)	2011 Cash Deficit doubled
Proposed Capital Budget (without HCT related Items)		(4,819,468)	
Capital Budget Contingency		(1,707,507)	
Working Capital		(10,307,804)	
Self Insurance		(3,000,000)	
Cash Balance Not Committed at 12/31/2012 – Per Acuity Group	\$	25,298,305	
Cash Balance Not Committed Per C-Tran	\$	3,645,863	
<u>Difference</u>	\$	(21,652,442)	

If C-Tran were to maintain current services (including capital expenditures for buses, facilities, etc.) and deplete cash by an additional 5% per year, C-Tran would have unrestricted assets available until 2023. C-Tran would not run out of funds completely until 2027. **See Exhibit B.**

It is important to note that this analysis does not give C-Tran the benefit of any increases of sales tax revenue, grant funding or interest income; but instead estimates the future 15 years to be compounding deficit years.

C-Tran 2030 Plan

C-Tran has a proposed 20 year plan, called “C-Tran 2030”. This plan was approved by the C-Tran board in June 2010. The plan calls for 5 alternatives for future C-Tran services, with a sixth being called the preferred alternative.

As part of this plan, voters will be approached more than once in the next 10 years to provide for additional sales tax increases for C-Tran. As voters make their decision on C-Tran’s 2030 plan, it is important to note the following:

1. C-Tran is currently budgeting for a **\$1,465,239** annual loss related to Light Rail. Currently budgeted expenses of \$3,839,900 exceed expected revenues of \$2,374,661.
2. C-Tran's 2030 budget calls for incurring debt of \$46,112,000 related to capital expenditures. However, the debt service payments are not part of the budget. This would equate to an annual expenditure of **\$1,768,290** (assumes 2011 dollars, 30 years financed at 5% interest) that is currently unaccounted for.
3. C-Tran's estimated 2030 sales tax revenue of \$99M appears to be inflated.
 - a. Using 2010 actual sales tax revenues and using C-Tran's assumptions for growth of 5.1% from 2011-2013, and 4% from 2014-2030, revenues would be only be \$91M in the year 2030 (an **\$8M** revenue shortfall). **See Exhibit C.**
 - i. Growth estimates are potentially inflated.
 1. Actual Retail Sales in Clark County between the years 2000 and 2010 increased by just 21.27% (an average of 2.26% per year).

Closing Comments

If preserving current levels of bus service is truly what the C-Tran board wants; they can change policy direction at any time. A change of policy that preserves current levels of bus service would mean that requests for additional sales tax dollars would not be necessary for many years. In fact, if C-Tran's estimated sales tax revenue growth (as per their C-Tran 2030 plan) were to be realized; that revenue growth would likely offset the projected cash downfall and would provide for C-Tran's operational and capital costs long past our projections.

However, if C-Tran's board policy is to provide for High Capacity Transit services **regardless of the cost**, then not only will current bus service levels be affected; but the Agency will likely not be able to sustain those planned bus rapid transit and light rail services without significant future requests for sales tax increases and/or future government subsidies.

I reserve the right to amend my findings if new or additional information becomes available. Source documents related to my findings are on file in our office and can also be found on C-Tran's website: www.c-tran.com.

No external parties have paid Acuity Group to perform this analysis; I appreciate the opportunity to be of service.

Best Regards,



Tiffany R. Couch, CPA/CFF, CFE

List of Exhibits

- Exhibit A:** *Changes in Revenues, Expenses & Changes in Net Assets*
- Exhibit B:** *Reserve Drawdown Calculation*
- Exhibit C:** *Sales Tax Estimate*

EXHIBIT A
Clark County PTBA (C-Tran)
Changes in Revenue and Expense Subsequent to .2% Sales Tax Increase in 2005
2006-2010

	2006	2007	2008	2009	2010	Total
Operating Revenues						
Passenger Fares	4,786,044	5,221,971	6,126,288	6,575,758	6,802,151	29,512,212
Other Transit Revenue	286,994	361,393	488,027	363,211	375,176	1,874,801
Total Operating Revenue:	5,073,038	5,583,364	6,614,315	6,938,969	7,177,327	31,387,013
Nonoperating Revenues						
Sales Tax	26,086,132	25,852,664	24,256,571	21,179,904	22,008,102	119,383,373
Interest Income	2,970,928	3,103,071	1,560,755	528,076	388,556	8,551,386
Other Nonoperating Revenue:	7,548	12,060	12,031	37,482	17,254	86,375
State Assistance	517,505	732,861	672,552	540,168	1,122,382	3,585,468
Contributions to Road Projects:	-	(18,981)	(8,100)	(101,509)	(8,324)	(136,914)
Federal Assistance	486,303	191,776	1,052,852	6,139,019	5,236,649	13,106,599
Non Capital Grants	-	-	-	-	-	-
Other (Net)	-	8,400	25,881	(38,586)	(81,772)	(86,077)
Total Nonoperating Revenue:	30,068,416	29,881,851	27,572,542	28,284,554	28,682,847	144,490,210
Total Revenues	35,141,454	35,465,215	34,186,857	35,223,523	35,860,174	175,877,223
Operating Expenses:						
Operations	16,599,299	19,115,851	21,348,905	21,884,973	21,514,937	100,463,965
Maintenance	8,062,021	8,686,215	10,918,096	9,515,578	9,575,812	46,757,722
Administration	3,971,324	4,247,304	5,207,066	5,730,109	5,459,022	24,614,825
Depreciation	4,858,122	4,326,751	4,067,786	5,122,488	5,744,744	24,119,891
Total Operating Expense:	33,490,766	36,376,121	41,541,853	42,253,148	42,294,515	195,956,403
Contributions to Road Projects:	-	-	-	-	-	-
Total Expenses	33,490,766	36,376,121	41,541,853	42,253,148	42,294,515	195,956,403
Net Income (Loss) Before Contributions	1,650,688	(910,906)	(7,354,996)	(7,029,625)	(6,434,341)	(20,079,180)
FTA Grants - Capital Contributions	684,006	8,698,860	10,220,755	4,059,139	6,029,136	29,691,896
State Grants - Capital Contributions:	-	942,779	624,320	454,646	-	2,021,745
Non Gov't Grants - Capital Contribution:	-	848,000	-	-	-	848,000
Total Change in Net Assets	2,334,694	9,578,733	3,490,079	(2,515,840)	(405,205)	12,482,461

**CAFR does not
balance**

source: C-Tran 2006-2010 Comprehensive Annual Financial Reports (CAFRs),

Note:

In November 2005, voters approved a .2% increase in sales tax to C-Tr:

EXHIBIT B
Clark County PTBA (C-Tran)
Reserve Account Draw Down - Current Levels of Bus Service
2006-2010

C-Tran
Analysis of Unrestricted Net Assets

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Cash and Investments at 12/31/2010	26,561,919.00																
Investments at 12/31/2010	20,351,540.00																
Total Cash and Equivalents at 1/1/2011	46,913,459.00	45,920,310.00	43,934,012.00	41,848,399.10	39,658,505.56	37,359,117.33	34,944,759.70	32,409,684.18	29,747,854.89	26,952,934.14	24,018,267.35	20,936,867.21	17,701,397.07	14,304,153.43	10,737,047.60	6,991,586.48	3,058,852.30
Less: Restricted for Capital	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)	(6,526,995.00)
Less: Restricted for Insurance	(3,034,883.00)	(3,034,883.00)	(3,034,883.00)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Cash Deficit - CURRENT LEVEL OF SERVICE plus 5%	(993,149.00)	(1,986,298.00)	(2,085,612.90)	(2,189,893.55)	(2,299,388.22)	(2,414,357.63)	(2,535,075.52)	(2,661,829.29)	(2,794,920.76)	(2,934,666.79)	(3,081,400.13)	(3,235,470.14)	(3,397,243.65)	(3,567,105.83)	(3,745,461.12)	(3,932,734.18)	(4,129,370.88)
Subtotal - Unrestricted Cash Available at 12/31/2011	36,358,432.00	34,372,134.00	32,286,521.10	33,131,510.56	30,832,122.33	28,417,764.70	25,882,689.18	23,220,859.89	20,425,939.14	17,491,272.35	14,409,872.21	11,174,402.07	7,777,158.43	4,210,052.60	464,591.48	(3,468,142.70)	(7,597,513.58)
<i>Total Cash Available at Year End</i>	<i>45,920,310.00</i>	<i>43,934,012.00</i>	<i>41,848,399.10</i>	<i>39,658,505.56</i>	<i>37,359,117.33</i>	<i>34,944,759.70</i>	<i>32,409,684.18</i>	<i>29,747,854.89</i>	<i>26,952,934.14</i>	<i>24,018,267.35</i>	<i>20,936,867.21</i>	<i>17,701,397.07</i>	<i>14,304,153.43</i>	<i>10,737,047.60</i>	<i>6,991,586.48</i>	<i>3,058,852.30</i>	<i>(1,070,518.58)</i>

2011 Cash flow based on 2010 Cash Flow actual (times 5%) - **2011 Actual Cash flow is currently at positive \$2.5M at 9/30/2011**

Per C-Tran, self insurance reserve will be released in 2014 due to participation in WSTIF

2021 - C-Tran would have to dip into working capital in order to maintain current levels of service

2025 - C-Tran would have to dip into Capital Reserves for Operations

2031 - C-Tran runs out of money

EXHIBIT C
Clark County PTBA (C-Tran)
Sales Tax Revenue Analysis
2010-2030

C-TRAN SALES TAX ANALYSIS
Dollars in Thousands

Calculated Based on 2010 Actual - Using C-Tran's Growth Rates

Growth Rate in 2010 = 2% to respond to current cyclical downturn in retail sales and construction
 Growth Rate in 2011-2013 = 5.01%
 Growth Rate in 2014-2030 = 4% to correspond to population and CPI Growth rates

Rate through 2010 = .5%
 Rate 2011-2018 = .8%
 Rate 2019-2030 = 1.0%

	2010 Actual	2011*	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Retail Sales	4,036,328,000	4,242,180,728	4,458,531,945	4,685,917,074	4,873,353,757	5,068,287,908	5,271,019,424	5,481,860,201	5,701,134,609	5,929,179,993	6,166,347,193	6,413,001,081	6,669,521,124	6,936,301,969	7,213,754,048	7,502,304,210	7,802,396,378	8,114,492,233	8,439,071,922	8,776,634,799	9,127,700,191
Estimated Revenue from Retail Sales at .08		33,937,446	35,668,256	37,487,337	38,986,830	40,546,303	42,168,155	43,854,882	45,609,077												
Estimated Revenue from Retail Sales at .1										59,291,800	61,663,472	64,130,011	66,695,211	69,363,020	72,137,540	75,023,042	78,023,964	81,144,922	84,390,719	87,766,348	91,277,002

Based on C-Tran's Estimates (Using 2030 Revenue - backing into 2009 base revenue)

Growth Rate in 2010 = 2% to respond to current cyclical downturn in retail sales and construction
 Growth Rate in 2011-2013 = 5.01%
 Growth Rate in 2014-2030 = 4% to correspond to population and CPI Growth rates

Rate through 2010 = .5%
 Rate 2011-2018 = .8%
 Rate 2019-2030 = 1.0%

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Retail Sales	4,260,692,918.00	4,345,906,776	4,567,548,022	4,800,492,971	5,045,318,113	5,302,629,336	5,514,734,510	5,735,323,890	5,964,736,846	6,203,326,320	6,451,459,372	6,709,517,747	6,977,898,457	7,257,014,395	7,547,294,971	7,849,186,770	8,163,154,241	8,489,680,411	8,829,267,627	9,182,438,332	9,549,735,865	9,931,725,300
Estimated Revenue from Retail Sales at .08			36,540,384	38,403,944	40,362,545	42,421,035	44,117,876	45,882,591	47,717,895	49,626,611												
Estimated Revenue from Retail Sales at .1											64,514,594	67,095,177	69,778,985	72,570,144	75,472,950	78,491,868	81,631,542	84,896,804	88,292,676	91,824,383	95,497,359	99,317,253