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# CEO's 2010 Budget Message

The economic recession that grips the nation has lasted longer and been more severe than any since World War II and the Great Depression of the 1930s. Almost every industry has been affected, and Community Transit is no exception. During this “Great Recession,” we have experienced significant losses in sales tax revenue due to reduced commercial activity and consumer spending, and the 2010 proposed budget reflects this economic reality.



Joyce Eleanor, CEO

## Current Status

Community Transit started to see declining growth in sales tax revenue in late 2007. In 2008, we were hit by falling sales tax revenues and record high fuel prices. We responded early and decisively with a successful cost-cutting campaign, achieving \$12 million in reduced spending. As a result, we were able to maintain our commitments to:

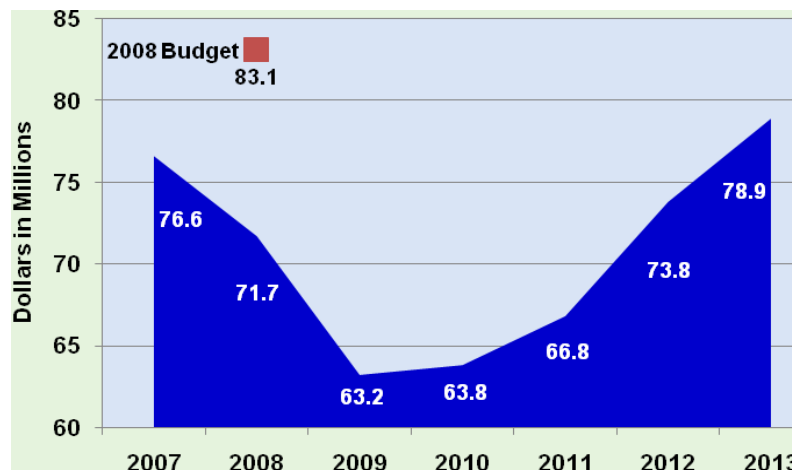
- 1) Keep service on the road;
- 2) Keep all employees working; and,
- 3) Continue our commitment of delivering our existing major capital projects.

In 2009, we created what I called a “bridge budget,” where we incorporated additional administrative cuts, deferred purchases, cut capital projects, utilized reserve funds, and implemented a fare increase to get us through the year without cutting service or jobs. Our hope was that the economy would improve during the year, shoring up sales tax revenue, and we could craft a lean, but typical, budget for 2010. I stated at that time that the 2009 bridge budget was not sustainable for the long term and that if the economy did not recover significantly, service and staff cuts would be unavoidable.

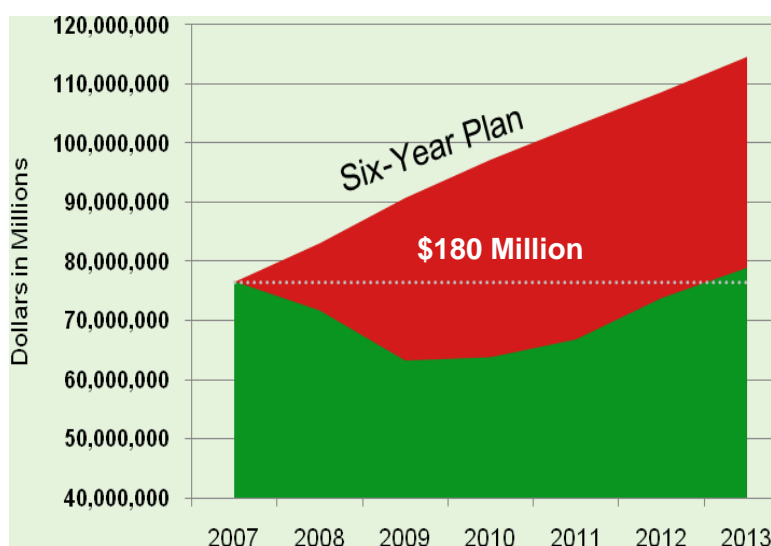
The bridge approach was a good strategy, and it allowed us to continue our mission of maintaining service to our customers in 2009. We are disappointed that the depth and duration of the recession has resulted in a situation where we cannot bridge the entire gap in 2010. We need to reduce our operating costs and maintain a balance between funding operations and capital for the long term.

The sales tax decline continued throughout 2008 and into 2009. Monthly sales tax receipts for 2009 have been 15 to 20 percent less than the same months in 2007. We believe the sales tax decline has bottomed out. However, this bottoming-out may last for some time and when we do finally see an upturn, we expect it will be slow.

**Sales Tax 2007 to 2013**



**Impact of Recession on Sales Tax = \$180 Million**



If we had remained on course after 2007, our annual sales tax revenues were forecast to grow to approximately \$115 million by 2013. Instead, our sales tax revenues for 2013 are now forecast to be \$79 million. Our Finance team estimates these unrealized revenues will fall short of the six-year plan forecast by \$180 million.

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These are funds we will never recover, funds that would have been used to preserve and expand operations as well as provide a much-needed contribution to capital. As sales tax revenues recover, we will have lost a lot of money we were counting on, and we'll need to remain committed for the next few years to restoring our prerecession operating strength and financial health.

This past year we built a bridge with the goal of preserving service for our customers. We are now at a point where we simply cannot sustain that goal any longer. After our first round of budget reviews for 2010, we had a \$13.6 million operating deficit. At this point it became clear I would have to recommend to the Board of Directors that we proceed with service cuts and suspensions in 2010.

Planning staff had already been working on a service plan that would continue to eliminate inefficient routing, curtail unproductive runs and make our system more efficient as we move in the direction of transit emphasis corridors. Most of these efficiency cuts, like elimination of the loop in downtown Everett in 2009, are services we do not intend to bring back. It was also clear that these efficiency cuts alone would not be enough to balance the budget.

We cannot use all our federal capital dollars to bridge another year. If we continue to use capital revenues for operations, we could not adequately fund our capital needs, such as

replacing buses, vans, paratransit vehicles, and other capital infrastructure. In fact, if we continue to use all our federal dollars for operations, we will have a capital program deficit of \$25.6 million by 2013. Even using half our federal dollars for capital, we would still have a deficit of \$13.0 million in 2013. It is important that we reestablish the proper financial balance between funding our operating and capital programs.

I've assigned planning staff to identify additional service cuts for 2010 that we hope to be able to restore when the economy gets better. I consider these to be service suspensions. We are looking at various scenarios, and after the budget is adopted, I will present a recommendation to the board that minimizes impacts to our customers and employees as much as possible while taking us to service levels we can sustain.

In addition to service changes, we will continue cutting costs and delaying noncritical spending. With these actions, we have balanced the budget using only small amounts of operating and capital reserves. As savings from the 2010 service cuts carry forward for a full year in 2011, we'll be in a much better position to hopefully prepare a budget for 2011 that can be funded from current revenues without further use of cash reserves.

Staffing levels will be managed through attrition, not filling vacant positions, deferring hiring, and possibly offering

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incentives for early separation. We hope to avoid involuntary layoffs, but they may be necessary.

As part of our cuts for 2010, we will implement a wage freeze for all

administrative employees—no merit or market adjustments. We will talk to our unions about extending those same programs to represented employees as well. This will be the second year without a merit increase for executive staff.

## Our Future

While we face many challenges right now, there are also opportunities for innovation and creativity. Our talented and dedicated employees are finding new ways, both small and large, to trim costs and still provide outstanding customer service. They are working hard to maintain the high-quality, award-winning service that has earned Community Transit a high favorability rating in the region as well as national recognition.

### Swift Bus Rapid Transit

We are delivering a world-class transit improvement to our customers with the implementation of *Swift* bus rapid transit. *Swift* is a project that was well underway before the economic crisis and is a major transit improvement on our busiest corridor. *Swift* service will replace Route 100



peak-hour service and will complement Community Transit's Route 101 and Everett Transit's Route 9. Surveys tell us that many people who don't ride transit now would consider taking the bus if there were more frequent service. In both our six-year plan and our long-range plan, we envision higher frequency service on the county's major transit-emphasis corridors. Someday there may be a network of *Swift* lines to provide this high-frequency service.

*Swift* will be a signature route for us. It is very identifiable and is already popular with the public. More than half the funding for this project came from other sources such as federal and

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state grants and the Everett Partnership Agreement. In addition, we previously reserved operating funding capacity to provide for *Swift* operating expenses. When *Swift* begins service on November 30, 2009, it will be the state's first bus rapid transit line.

### **Advanced Public Transportation Systems (APTS)**

Another project that will significantly affect our ability to make the customer's transit experience more convenient is Advanced Public Transportation Systems (APTS). This major technology project includes automatic vehicle location, computer-aided dispatch, automatic passenger counters, automated stop annunciations, real-time information displays, and an interactive voice response system. Our paratransit vehicles will be operational with this technology by January 2010. Next, we'll install this technology on our fixed-route buses and install real-time passenger information signs at *Swift* stations and other transit centers.

### **ORCA**



The regional smart card or ORCA (One Regional Card for All) was launched in April 2009 in a limited rollout and is now being actively marketed to customers across the region. ORCA is a smart card-based electronic fare system for public transportation agencies serving King, Kitsap, Pierce, and Snohomish counties. It replaces about 300 various passes, tickets, and transfers with a single card that works

by simply tapping the ORCA card on a reader device. This is our fare system of the future. Customers can transfer between seven regional transportation systems using one card. An online survey made available to ORCA users in early September 2009 shows strong satisfaction with ORCA.

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## *The Double Tall*

Community Transit is expanding its popular Double Tall service with 23 high-capacity, double-decker buses. These new low-sulfur, clean-diesel, environmentally advanced coaches will replace aging articulated coaches in the second half of 2010. Double Talls are comfortable, carry more passengers than articulated coaches, and operate better in snow and ice conditions, especially in



commuter runs to downtown Seattle and hilly portions of Snohomish County. The stimulus funds we received in 2009 complete the funding package for these buses.

## *Other Capital Projects*



A five-level parking garage with solar-generated power opened next to I-5 this year to improve access to transit in South Snohomish County. The Mountlake Terrace Transit Center holds 660 cars, with additional ground parking for 230 vehicles. The project was constructed on budget and on schedule.

A new park-and-ride at Cedar and Grove will provide more options for commuters in Marysville and North Snohomish County when it opens at the end of 2009. The 200-space parking facility will serve downtown Seattle and University District commuters with local connections to Boeing, Quil Ceda Village, Smokey Point, Lynnwood, Lake Stevens, and Everett.

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Modification of the Kasch Park Operating Base is essential to provide us with badly needed bus maintenance and parking capacity. We are working in partnership with Sound Transit to fund this necessary project and anticipate Phase I will be completed in 2010. We are also developing a master plan for our facilities to determine the best utilization of our three main properties: Merrill Creek, Kasch Park, and Kasch Park Casino Road (the old Verizon property). This plan will be an important tool for the future.

These major projects, and others, have placed a tremendous load on our outstanding Training and Staff Development group. Thousands of training hours have been extended to the majority of employees. In preparation for the launch of ORCA, every coach operator, transportation supervisor, dispatcher, and mechanic received training. These same employees are also being trained to support *Swift*, and this training will continue into next year. All this is in addition to the regular training programs that have contributed to our agency's success.

During challenging times it is even more important to keep communication lines open and maintain productive relationships within the region and at the national level.

Community Transit is actively involved with our regional partners, business leaders, and other influential decision-makers. I continue my participation with the American Public Transportation Association, the transit industry's international association, serving on the Executive Committee as Vice-Chair of Bus and Paratransit Operations.

Grant funding is more critical than ever in this difficult economic climate. In 2009, Community Transit was awarded \$39,454,610 in new grant funds at the state and federal level. This money will be used for double-decker buses, hybrid technology buses and bus replacements, Mountlake Terrace upper-lot improvements, *Swift* and other operations, security training, and construction of a network operations center.

Education efforts will continue at the state and federal level to secure funding. We will work with our transit partners in the Puget Sound region to identify new, ongoing state funding sources to supplement existing revenues to support our operating and capital programs. Board members have an important role in building relationships and promoting the programs of Community Transit. We will continue to support the Board of Directors in their advocacy efforts.

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We are working successfully with other agencies to address the region's congestion and climate change challenges. Through a partnership with Snohomish County, we have implemented a transportation demand management program, Curb the Congestion, to address congestion on the following corridors: 164th Street in Lynnwood, 128th Street in Everett, and 20th Street in Lake Stevens. The goal of the transportation demand management program is to increase mobility by reducing vehicle trips and increasing transportation options through the

use of incentives and information. To date for 2009, we have issued 353 transit and vanpool subsidies, received 830 inquiries about Curb the Congestion, and responded to 3,411 email messages and 548 phone calls.

Community Transit continues to operate one of the largest vanpool fleets in the nation, with more than 330 vanpools on the road. We hope to see continued growth of the vanpool program in 2010 with a goal of 365 vanpools in service.



In times of economic uncertainty, the role of our Marketing and Communications Department is even more critical to the success of the agency. Efforts in 2010 will focus on managing public involvement and expectations related to service reductions and other key agency decisions.

Marketing and Communications staff will provide front-line support for internal and external communications, playing an important role in transforming public awareness and favorability of the agency into support and funding for our operational and capital needs.

Community Transit has long been known for its clean and well-maintained coaches and facilities. Our Maintenance employees work hard to improve our customers' experiences with the agency, maintaining more than 630 vehicles and supervising the maintenance of an additional 195 coaches. They also maintain 7 office facilities, 3 transit centers, 270 bus shelters, and more

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than 1,600 bus stops. Installation of ORCA and APTS equipment and procurement of 15 bus-rapid-transit and 23 double-decker buses was a major focus for 2009. These activities will continue into 2010.

Our Transportation Department continues to deliver outstanding customer service. The department's strategic plan, called "New Direction," has provided a framework for their significant projects through 2010. The plan focuses on building relationships, involvement, communication, and an understanding of the business. Since its adoption in July 2008, we have seen employee suggestions up 294 percent, passenger accidents down 96 percent, customer complaints down 10 percent, and our on-time performance goal was exceeded by nearly 4 percent. In the coming year, employee teams will continue to focus on specific process improvements such as service recovery, on-time performance, and passenger safety.

Community Transit was widely recognized for its leadership and innovation during 2009 with the following awards:

- Federal Transit Administration's Success in Enhancing Ridership Award recognizing our efforts that culminated in 11.9 million boardings in 2008.
- American Public Transportation Association's Safety Award in recognition of our driver training program and our improved safe-driving performance.
- South Snohomish County Chamber of Commerce Executive of the Year Award for our innovative approach to public transit and visionary leadership.
- Cascade Land Conservancy's Leadership Award for linking transportation with regional development and providing a convenient lifestyle that supports sustainability.
- Named to a national list of Best Workplaces for Commuters by the Center for Urban Transportation Research.
- Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. This is the nineteenth consecutive year that Community Transit has achieved this prestigious award.

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- Washington State Transit Insurance Pool Golden Coach Award for reduced liability loss expense. This was our second Golden Coach award in three years. From 2006 to 2008, our agency reduced liability claim frequency by 37 percent despite increasing our annual mileage by about 6.3 percent. This resulted in a savings of \$22,000 for Community Transit on its insurance premiums.

In addition, Community Transit's maintenance team of Joe Hulett, Steve Hanks, and Howard Evans won the 2009 International Bus Maintenance Roadeo and can claim the title of best mechanics in the world. Unfortunately, with the current financial crisis we are facing, we will not be sending anyone to the bus or maintenance Roadeo in 2010.



## ***2010 Revenues and Expenses***

The 2010 proposed budget of \$108.0 million in operating revenues reflects a decrease of \$3.0 million or 2.73 percent compared to the 2009 amended budget. Compared to 2009 year-end projections, sales tax revenues are estimated to increase by 0.86 percent and fare revenues to decrease by 0.75 percent. A transfer of \$2.3 million from capital reserves plus the use of \$1.9 million from the general fund cash balance is proposed to fund total expense, achieving a balanced budget.

Total expenses of \$112.2 million include operating expenses of \$108.4 million; interfund transfers of \$2.2 million for debt service and the Workers' Compensation Insurance Reserve; and cost pools for professional services and workforce reduction totaling \$1.6 million. Operating

expenses for 2010 decreased by \$4.7 million or 4.2 percent as compared to the 2009 budget. The next table summarizes factors resulting in decreased operating expenses.

<i>Category</i>	<i>Dollar Amount</i>	<i>Percent</i>
Contracting	\$ 1,184,174	1.05%
Fuel	2,143,548	1.89%
PERS Contributions	(1,069,712)	-0.95%
Other	(500,730)	-0.44%
Travel and Registrations Rentals and Leases Professional Services Supplies Benefits other than PERS		
<b>Total</b>	\$ 1,757,280	1.55%
Salary Pool	(971,481)	-0.86%
Service Reductions	(5,483,825)	-4.85%
<b>Total Change</b>	\$ (4,698,026)	-4.15%

It is important to note that cost savings from service reductions are only for half of 2010. The annualized savings for 2011 will be \$8.9 million and will hopefully position Community Transit to fully fund current expense from current revenue in 2011.

## ***Capital Budget***

Community Transit's 2010 capital program reflects the implementation of several major projects including the Kasch Park Operating Base renovation, double-decker buses, and APTS for fixed routes. The proposed capital program totals \$74.6 million. Carryover capital projects account for 73 percent, or \$54.4 million of that total. New capital projects total \$20.3 million and account for the remaining 27 percent of the total. The proposed new capital budget includes \$4.1 million

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in federal funds and \$16.1 million in local funds, including \$5.0 million from Sound Transit. The new capital budget will fund the following projects:

Kasch Park Operating Base Renovation	\$	10,600,000
DART Vehicle Replacement		1,100,000
Vanpool Replacement		1,150,000
Hybrid System for Bus Replacement		6,475,200
Other Projects		925,064
1. Park-and-Ride Enhancement		
2. EPA Exhaust Emission-Related Equipment		
3. Support Vehicles		
4. Minor IT Equipment and Software		
<b>Total</b>	<b>\$</b>	<b>20,250,264</b>

## Summary

Community Transit has been affected by the deep and prolonged economic recession, and it will continue to impact the agency's budget beyond 2010. We forecast that monthly sales tax receipts will recover to prerecession levels in 2012, and it is important to rebuild our depleted reserves and operating capacity. Even with implementation of substantial cost-containment measures, it is necessary to look at service reductions to protect the integrity of the system for our customers and to be good stewards of public funds.

At the same time, this difficult economy offers us an opportunity to increase our innovation and creativity. We have dedicated employees who provide outstanding customer service and continue to plan for a bright future. Implementation of *Swift* bus rapid transit and advanced technologies will provide our customers with major transit improvements and enhance their riding experience. We will continue to maintain prudent financial practices while keeping sight of our vision. The times may be challenging, but times like these offer us different opportunities to find creative and innovative ways to "Think Transit First."