

PORT AUTHORITY OF ALLEGHENY COUNTY
OPERATING AND CAPITAL IMPROVEMENT BUDGETS

FISCAL YEAR 2009

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RESOLUTION

WHEREAS, the Board of Port Authority of Allegheny County (Authority) wishes to adopt fiscally responsible operating and capital budgets covering the Authority for FY July 1, 2008 through June 30, 2009; and

WHEREAS, consistent with good business practice, a proposed operating budget has been prepared which contains estimates of anticipated revenues and expenses that are in balance with one another, and a proposed capital budget has been prepared which also balances capital program expenses with available capital grant funding amounts; and

WHEREAS, the operating budget assumes no fare increase, or changes in the level of service, but assumes approximately \$10.0 million in cost reductions in healthcare, pension and labor costs resulting from the collective bargaining process.

NOW, THEREFORE, BE IT RESOLVED, that the Board of the Authority hereby adopts an operating budget for the fiscal year beginning July 1, 2008 and ending June 30, 2009; and which anticipates total operating revenues and grants of \$350,286,580 and total operating expenses of \$350,286,580 and a capital budget for the same period providing for \$241,782,000 of capital project expenditures funded by \$241,782,000 of capital grant revenues (Exhibit A).

FURTHER RESOLVED, that the chief executive officer be and hereby is directed to take such actions and/or make such recommendations as are necessary and proper to assure that the total operating and capital expenditures to be incurred by the Authority in the coming fiscal year do not exceed the operating revenues and grants and capital funding available for the period.

CERTIFICATION

I, the undersigned duly qualified Assistant Secretary of Port Authority of Allegheny County, certify that the attached is a true and correct copy of a Resolution adopted at a legally convened meeting of the Board of Port Authority of Allegheny County held June 27, 2008.

Assistant Secretary

Port Authority of Allegheny County

FISCAL YEAR 2009 OPERATING PLAN AND CAPITAL IMPROVEMENT BUDGETS

Executive Summary

The financial challenges that Port Authority faces, along with other public transit agencies across the nation, continue to mount. To say the very least, Port Authority faces a financial crossroads as Fiscal Year 2009 begins.

Financial planning during these times of uncertainty poses a unique challenge. Currently, Port Authority is operating under the specter of ongoing labor negotiations along with skyrocketing costs for health care, construction, and diesel fuel. Despite the challenges, our position is that Port Authority will strive to continue to provide the customers of the Pittsburgh area excellent public transportation services that will, indeed, connect people to life.

The challenges we face are enormous. Our diesel fuel costs, locked in at a rate of \$2.27 per gallon until August, 2008, are slated to rise. Port Authority has budgeted in FY 2009 for a rate of \$4.15 per gallon.

Health care costs in FY 2009 are expected to be slightly more than \$67 million, nearly twice the 2003 levels. Pension costs, which are scheduled to dip to \$15.9 million from the record level of \$18.4 million, still pose a massive financial challenge to the transit agency.

Adding to the strain, Port Authority is also engaged in ongoing negotiations with Amalgamated Transit Union Local 85 in an effort to obtain a

labor contract that is not only fair for both sides, but more importantly, fair for our customers as well. The FY 2009 Budget contains approximately \$10.0 million in assumed savings from labor negotiations.

However, there are plenty of positives surrounding the Port Authority. Port Authority's FY 2009 Operating Budget of \$350.3 million contains no service reductions or fare increases. The transit agency is well into the Connect '09 initiative, which encompasses aspects such as the transit development plan and adopting a regional fare collection system based on smart card technology.

Beginning in late June, Port Authority began hosting workshop meetings throughout Allegheny County regarding our transit development plan, which is aimed at making bus service simpler, faster and more direct. Residents of the western communities, Mon Valley, Allegheny Valley, eastern suburbs, North Hills and South Hills will have their chance to provide feedback to the transit agency regarding the plan.

Port Authority is also moving towards a more modern fare-collection system. Smart card technology, which is utilized by other public transit agencies across the nation, is scheduled to be implemented in 2009. Soon, Port Authority customers will have the ability to pay their fares by simply using a contact-less smart card.

Construction of the North Shore Connector project, a 1.2 mile extension of our light-rail system linking the South Hills and Downtown Pittsburgh with the booming North Shore neighborhood is well underway.

The lowest bid for the Gateway station shell contract came in at \$48.9 million, about \$15 million more than the engineering estimate. This is not entirely surprising. Port Authority, along with other agencies involved in major construction projects; continue to face obstacles such as rising costs of materials, fuel and labor. Over the past five years, the bid prices for infrastructure projects have increased by 65 percent.

But there is light at the end of the tunnel. With 40 percent of the tunnel boring project complete, costs remain on budget. Port Authority has also undertaken cost savings initiatives, such as closing the current Gateway station next year during construction of a new facility.

The North Shore Connector project is an endeavor that will greatly enhance Pittsburgh and the entire Southwestern Pennsylvania region. Residents and visitors alike will have a fast and convenient method to travel to the North Shore from areas such as the South Hills and Downtown Pittsburgh. Attractions found along the North Shore include museums, sports stadiums, corporate headquarters for Equitable Resources and Del Monte Foods, hotels, Community College of Allegheny County along with housing and other entertainment establishments. These attractions can soon be reached from points south without having to worry about using clogged roads or spending cash on gas and parking.

Rising automobile transportation costs provide Port Authority with a unique opportunity to appeal to a consumer that may never have utilized public transportation. These first time customers will only continue to utilize the system

if they have a favorable first experience. Port Authority continues to review all facets of its operations in order to provide the region with a transportation system that is both reliable and affordable to its customers.

Stephen G. Bland
Chief Executive Officer
October 14, 2008

Operating Budget Summary

Port Authority of Allegheny County's FY 2009 Operating Budget for the period July 1, 2008 to June 30, 2009 projects revenues and expenses of \$350.3 million. This budget meets the requirements as set forth by Port Authority's Board of Directors and mandated by the Commonwealth's Act 76 of 1986 which requires Port Authority to operate within a balanced budget. The FY 2009 budget as presented balances revenues and expenses.

The FY 2009 Budget process was unique from past years in that Port Authority was faced with an unprecedented price increase in diesel fuel during its development. The market price of diesel fuel on a per gallon basis increased from \$3.16 to \$4.15 during the budget process. This caused an overall increase in diesel fuel expense from \$26.4 million at the end of March 2008 to a final budget amount of \$32.8 million in June 2008.

Consequently, Port Authority began its budget process with a projected FY 2009 deficit of \$10.4 million, but was unable to significantly reduce this amount due to the aforementioned \$6.4 million increase in diesel fuel as well as continued growth in certain legacy costs. As a result, the FY 2009 Budget is balanced at \$350.3 million, but assumes approximately \$10.0 million in labor related savings through the collective bargaining process.

Secondly, the budget process was unique in that all of Port Authority's contracts with organized labor are due to expire at the end of FY 2008 or at some point during FY 2009. The approved FY 2009 Budget includes no wage

increases for those unionized employees who comprise 85% of the total work force.

The FY 2009 budget contains a \$14.3 million increase in gross expenses from the FY 2008 Budget of \$336.0 million. This increase is primarily due to increases in the categories of Wages & Salaries, Materials & Supplies, Interest Expense and ACCESS expense. Wages & Salaries are expected to increase by \$4.4 million due to adjustments for union step and grade wage increases, additional training expense and vacation pay-outs for a high number of anticipated retirements. The Wage & Salary category does not include any increase in budgeted positions or anticipated layoffs. The budget includes the elimination of FY 2008's wage freeze for non-union employees.

The Employee Benefits category is budgeted to decrease by \$9.4 million from the FY 2008 budget amount. However, this expense category contains approximately \$10.0 million in anticipated benefit savings the company must obtain in labor negotiations from its active employee workforce.

Materials & Supplies are budgeted to increase by \$14.4 million or 37.8%. This increase is largely attributable to an increased diesel fuel budget. Diesel fuel was budgeted at \$20 million with a per gallon price of \$2.50 in FY 2008. The FY 2009 Budget for diesel fuel is \$32.7 million with a per gallon price of \$4.15 for the last ten months of FY 2009.

The FY 2009 Interest Expense budget has increased by \$1.4 million from the FY 2008 Budget. This increase is due to the possibility that Port Authority

may have to borrow additional short-term funds for cashflow purposes to offset the delay in receiving operating assistance from Allegheny County.

Port Authority's Fiscal Year 2008 projected results were influenced by two primary factors. Revenues are projected to fall well below budget due to a shortfall in local Operating Assistance from Allegheny County. Allegheny County's Chief Executive pledged to withhold funding to the Port Authority until such time as an acceptable labor accord was reached with the Amalgamated Transit Union Local #85 (ATU #85). Such an agreement was not reached by the end of the fiscal year and, consequently, Port Authority did not receive \$27.4 million in local Operating Assistance. Receipt of this local Operating Assistance would have resulted in an Operating Surplus before accounting adjustments of approximately \$12.4 million. As indicated on Exhibit A, the exclusion of the \$27.4 million resulted in an Operating deficit of approximately \$14.8 million.

The second factor impacting the FY 2008 projected results was an accounting entry to recognize a liability associated with the Government Accounting Standards Board Item #45 (GASB #45) regarding post employment benefits. The company is projected to incur a GASB #45 liability of \$37.2 million in FY 2008 which will result in a projected overall loss for the fiscal year of approximately \$52.0 million in combination with the lack of local operating assistance from Allegheny County.

Despite the disappointing overall financial results, there were several categories of revenues and expenses that were encouraging from a budget to

actuals perspective in FY 2008. Passenger revenue growth for bus, rail and incline ended FY 2008 \$6.0 million or 9.9% over budget. This increase is attributable to a fare increase in January of 2008 and higher sales for tickets, weekly, monthly and annual passes.

Total Gross Expenses for FY 2008 are projected to be below budget by \$8.5 million or 2.5%. Employee Benefits are projected to be \$7.0 million or 6.1% below budget due to the company obtaining premium increases that were below those budgeted. These healthcare premium increases went into effect January 2008. In addition, the expense category of Materials & Supplies are forecasted to end FY 2008 \$1.4 million or 3.6% below budget due to reduced expenses in materials and a higher than anticipated amount of scrap credits which offset expenses in this category. Lower expenses in the categories of Purchases Services, Utilities and Other Expenses also contributed to the lower gross expense level.

In addition to the FY 2008 financial results, additional uncertainty remains in Port Authority's financial future. Foremost, is that Port Authority began operations in the beginning of FY 2009 without a labor agreement with its largest union, the Amalgamated Transit Union Local #85 (ATU #85). The lack of an agreement with ATU #85 has resulted in Allegheny County delaying FY 2008 operating assistance payments to Port Authority.

These payments are being delayed despite the fact Allegheny County's County Council passed a dedicated "drink tax" to ease funding issues for

transportation within Allegheny County. Collections from this tax began January 2008, but Port Authority has been precluded from receiving any of these funds until an acceptable labor agreement is reached.

The FY 2009 financial plan, as communicated to management, union officials and employees, is predicated on the following general goals:

- Balanced Operating Budget
- Improve System Effectiveness and Achieve Cost Reductions as Recommended by the Transit Funding and Reform Commission and to be addressed through the Connect 09 System Development Plan
- Maintain Current Service and Fare Levels
- Continuation of the North Shore Connector Project
- Maintenance of Capital Assets/State of Good Repair

In addition to the above stated goals, the following assumptions, or budget building blocks were identified and used as a basis for allocating available resources:

- State operating assistance of \$184,457,990 and a 15% local match of \$27,668,699 as mandated under Act 44.
- Healthcare premium increase of between 9.08% and 13% depending on plan type beginning January 2009. The FY 2009 Healthcare Budget assumes full employment levels throughout the year.
- Pension Costs are estimated to remain a significant expense to the company totaling approximately \$16.0 million in FY 2009.
- Port Authority has locked in diesel fuel contracts for July and August 2008 at \$2.28 per gallon. Diesel Costs were budgeted from September 2008 to June 2009 at \$4.15 per gallon due to continued volatility in the energy market.

For FY 2009, additional assumptions were made in preparing the budgets which will support and direct our resources toward fulfilling the budget goals.

These assumptions are as follows:

- A total ridership decrease of 3,576,014 or 5.32% from FY 2008 actual levels, which includes a 5,148 rider decrease in the ACCESS program, anticipated due to the fare increase and service reductions for a full fiscal year.
- State program funding consistent with FY 2008 levels:
 - Continuation of Infrastructure Safety Renewal Program (ISRP)
 - Continuation of Vehicle Overhaul activities
- Use of Capital Funds to Offset Costs in the Operating Budget:
 - Associated Capital Maintenance (ACM)
 - Cost of Contracting
 - Preventive Maintenance
 - FTA funds for the Access-to-Jobs Program
- Capital Funding of Priority & State of Good Repair Projects

The funds associated with these assumptions comprise the majority of revenues and grants necessary to support the \$350.3 million of planned expenditures.

The Port Authority's continued success is dependent upon State and Local government support, the dedication, skills and ingenuity of its employees and loyalty of its customer base. Revenues from operations combined with funds from other branches of government form the basis of the Port Authority Operating Budget. Port Authority has been approved to receive \$184.5 million in Operating Assistance for FY 2009 from the Commonwealth of Pennsylvania;

however, the Authority needs \$27.7 million in local operating assistance to fully match the state contribution. In addition, the short and long-term financial health of the Authority will require employees to continue providing efficient and economical service. Employees will continue to be called upon to assure the company's service remains cost competitive with other forms of transportation and similar sized systems nationwide. Finally, Port Authority must continue to address the needs of its customers as it re-works its service model to keep it both efficient and affordable.

In total, \$350.3 million in revenues are budgeted for FY 2009 of which \$88.7 million are operating revenues, \$212.1 million in operating grants and \$49.5 million in amounts capitalized.

Operating Revenues

Despite recent service reductions, Port Authority continues to offer service that is both affordable and convenient. In FY 2008, Port Authority's total ridership levels decreased by approximately 2.54 million riders from FY 2007, while ACCESS ridership decreased by 14,802. This decreased ridership is due to the 15% system-wide service reductions put into place at the end of FY 2007 in addition to a 25 cent base fare increase in January 2008. The FY 2009 Budget forecasts a slight 0.3% increase in overall Operating Revenue from FY 2008 actuals. Passenger Revenues are budgeted to increase by \$1.6 million or 1.9% from FY 2008 levels. The organization remains hopeful that actual ridership will

surpass projected FY 2008 ridership estimates, given the increased cost of gasoline and the increased cost of parking in the central business district. Port Authority's decision to keep fares unchanged for FY 2009 continues to make Port Authority service an affordable alternative to private vehicle transportation. ACCESS revenues are projected to decrease by approximately \$85,000 or 0.7% in comparison with FY 2008 actual results due to slightly lower ridership projections for FY 2009. Contract Service revenues, which include contractual arrangements with both the University of Pittsburgh and Carnegie Mellon, are expected to increase by 16.0% over the FY 2008 forecast. Port Authority renegotiated agreements with both institutions through FY 2012. These new agreements will increase by 15% each contractual period and result in fares for students of these universities that are more in-line with the general public.

Operating Grants

Total operating grants for FY 2009 are expected to increase from \$183 million to \$212.1 million. The operating budget projects \$184.4 million and \$27.7 million from the Commonwealth of Pennsylvania and Allegheny County, respectively. Operating Assistance from the Commonwealth of Pennsylvania is projected to increase by only 0.8% from FY 2008 levels. This funding stream is scheduled to remain flat in the short-term due to limited growth in the factors used to distribute new formula funds in the operating account.

Most of the funding from the Commonwealth has a mandatory local match. It is assumed Allegheny County will provide both the FY 2008 and FY 2009 matching funds during the upcoming fiscal year. Given that the FY 2008 local match requirement is needed to continue operations in FY 2009, the Authority must work with Allegheny County officials to insure that local operating assistance will be forthcoming in a reliable and predictable manner.

In FY 2009, \$49.5 million is budgeted as capitalizations, which provide reimbursements for certain operating expenses. This is an \$8.3 million or 20.1% increase over FY 2008 actual capitalizations. This increase is due to an increase in the Preventative Maintenance account from \$494,000 in FY 2008 to \$11.6 million in FY 2009. This increase is attributable to the Authority not utilizing its full complement of Preventive Maintenance in FY 2008 in order to balance the operating budget. These unused funds were instead re-directed toward capital projects. Other Grant funds which will continue to be used for existing operations programs include: Cost of Contracting, Infrastructure Safety Renewal Program (ISRP) and Vehicle Overhaul (VOH).

Given Port Authority's total amount of projected revenues, an annual expense level was established to meet the requirements of a balanced budget and to support the organizational goals, objectives and assumptions.

As depicted in *Exhibit A*, the operating budget projects total revenues and total expenditures in the balanced amount of \$350.3 million. This is an overall

increase of \$22.8 million or 7.0% when compared to the FY 2008 actual spending levels.

Capital Budget Summary

Port Authority of Allegheny County's FY 2009 Capital Improvement Program anticipates expenditures of \$241,781,782. With total capital assets exceeding \$1.4 billion, the FY 2009 Capital Improvement Budget focuses on the following key elements:

- Routine replacement and rehabilitation of assets in accordance with the Capital Needs Assessment Plan
- Fiscal Efficiency and Responsibility
- To provide Relief in the Operating Budget
- Expansion of service with Major Capital Projects

The Capital Improvement Budget is comprised of five (5) major program groups:

Debt Service	\$43.1 M
Revenue Vehicle Replacement	39.4 M
Facility & Rail Improvements	14.9 M
Support Programs	8.0 M
New System Expansion	<u>136.4 M</u>
	<u>\$241.8 M</u>

The Debt Service component of the Capital Budget is comprised of debt service payments towards the Koch Master Agreement and Series 1999 Junior Bond Debt service, both of which provided for bus purchases. The Revenue Vehicle Replacement Program is directed toward the purchase of 100 additional Low Floor buses in FY 2009. Projects within the Facilities & Rail Improvement Program represent large investments in garages and busways. Projects at the garages involve paving projects as well as improvements to the stormwater management systems. Busway projects in FY 2009 will center around paving busway extensions. These projects will deliver financial benefits to Port Authority by reducing future wear and tear on both vehicles and buildings.

The Major Support Programs section of the Capital Budget includes Information Technology (IT) Development and Infrastructure projects. It is necessary to keep the company's information systems in order to aid in management oversight. Major Support Programs also include non-revenue vehicle replacement. The company currently has a non-revenue vehicle fleet where the majority of the vehicles have exceeded their useful lives.

The balance of the capital budget is included in the New System Expansion category. The New System Expansion category is made up exclusively of the North Shore Connector project for FY 2009. In FY 2009, North Shore Connector funding totals \$136.4 million.

The Operating and Capital Improvement Budgets presented for FY 2009 represent Port Authority's continued commitment to exceed the expectations of its customers and invest in assets and infrastructure that will meet the future demands of the region.

EXHIBIT A

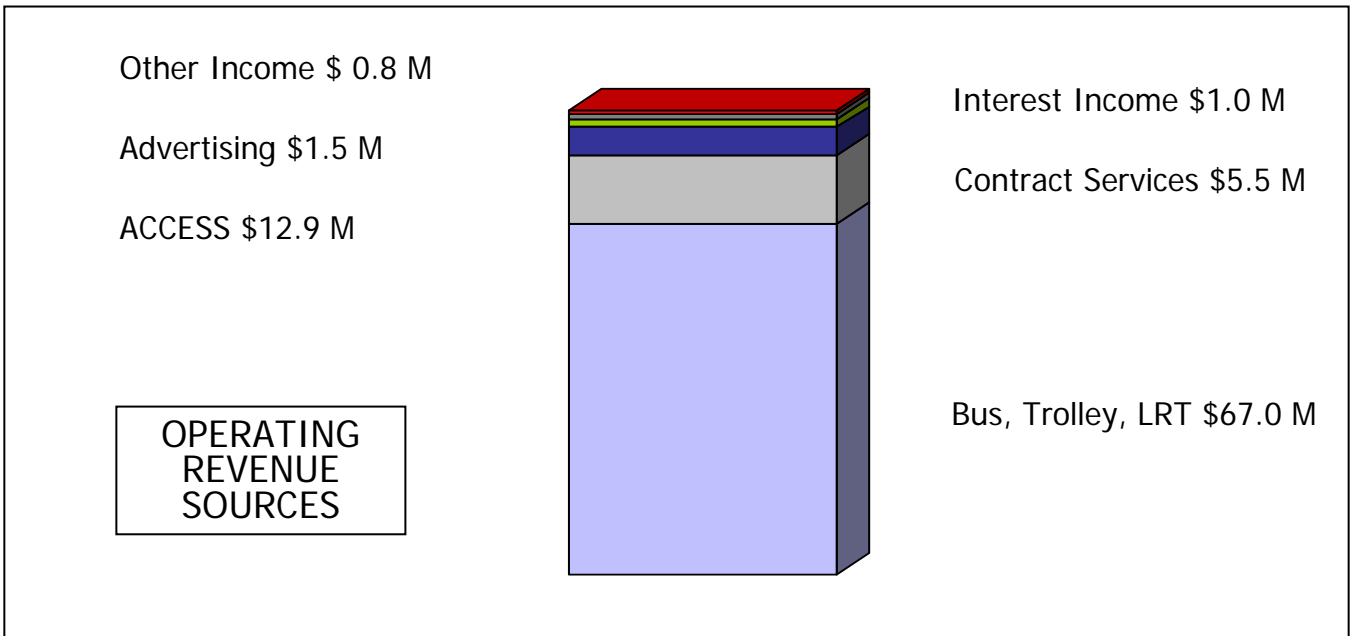
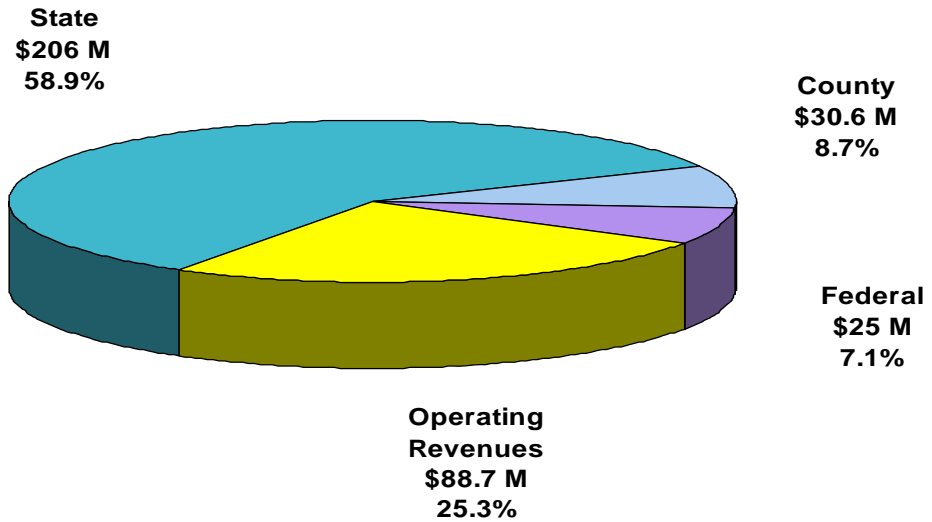
Port Authority of Allegheny County FY 2007 Audited, FY 2008 Budget & Forecast and FY 2009 Budget (\$millions)

	Audited FY 2007	Budget FY 2008	Forecast FY 2008	Budget FY 2009*	FY09 Bud to FY08 Forecast \$ CHANGE	FY09 Bud to FY08 Forecast % Change
REVENUES:						
PASSENGER REVENUE -						
BUS, TROLLEY AND LRT	61.0	60.1	66.1	67.0	0.9	1.4%
SENIOR CITIZEN REIMB.	10.1	-	-	-	0.0	0.0%
ACCESS PROGRAM SERVICE	11.9	12.8	13.0	12.9	(0.1)	-0.7%
CONTRACT SERVICES	4.1	4.7	4.7	5.5	0.8	16.0%
ADVERTISING	2.4	1.5	1.7	1.5	(0.2)	-13.3%
INTEREST INCOME	2.7	1.5	1.7	1.0	(0.7)	-39.4%
OTHER INCOME	2.5	0.6	1.3	0.8	(0.4)	-34.9%
TOTAL REVENUE	94.7	81.3	88.4	88.7	0.2	0.3%
OPERATING ASSISTANCE						
LOCAL	15.9	27.5	0.0	27.7	27.7	100.0%
STATE	75.3	183.0	183.0	184.5	1.4	0.8%
TOTAL GRANTS	91.2	210.5	183.0	212.1	29.1	15.9%
AMOUNTS CAPITALIZED:						
ISRP/ASSET MAINTENANCE/VOH	50.0	18.5	18.5	18.5	0.0	0.0%
GRANTS	29.7	7.5	4.1	3.4	(0.8)	-18.6%
COST OF CONTRACTING	15.0	15.0	15.0	15.0	0.0	0.0%
PREVENTIVE MAINTENANCE	12.6	0.5	0.5	11.6	11.1	2248.2%
SUPPLEMENTAL FLEX	32.0	-	-	-	0.0	0.0%
FLEX/ACCESS TO JOBS	5.5	2.7	3.0	1.0	(2.0)	-67.1%
TOTAL CAPITALIZATIONS	144.8	44.2	41.2	49.5	8.3	20.1%
TOTAL REVENUES, GRANTS & CAPITALIZATIONS	330.7	336.0	312.6	350.3	37.6	12.0%
EXPENSES:						
WAGES AND SALARIES	140.7	133.2	133.9	137.6	3.6	2.7%
EMPLOYEE BENEFITS	103.2	115.3	108.3	105.9	(2.4)	-2.2%
MATERIALS AND SUPPLIES	36.9	38.1	36.7	52.5	15.8	43.0%
PROVISION FOR INJURIES & DAMAGES	0.5	3.3	4.6	3.6	(1.0)	-22.4%
PURCHASED SERVICES	5.7	7.8	6.8	8.7	1.9	28.1%
UTILITIES	7.5	9.0	7.9	9.5	1.6	20.2%
OTHER EXPENSE	3.1	3.9	2.9	4.5	1.5	52.2%
INTEREST	1.7	1.0	0.9	2.4	1.5	168.7%
ACCESS	24.6	24.4	25.3	25.6	0.3	1.1%
TOTAL GROSS EXPENSES	323.8	336.0	327.5	350.3	22.8	7.0%
OPERATING SURPLUS/(DEFICIT)	6.9	0.0	(14.8)	0.0	14.9	-100.0%
OTHER POST EMPLOYMENT BENEFITS LIABILITY (OPEB)	39.3	0.0	37.2	36.6	(0.6)	-1.6%
SURPLUS/(DEFICIT) WITH OPEB	(32.4)	0.0	(52.0)	(36.6)	15.5	-29.7%

*Assumes approximately \$10.0M in savings through labor negotiations.

EXHIBIT B

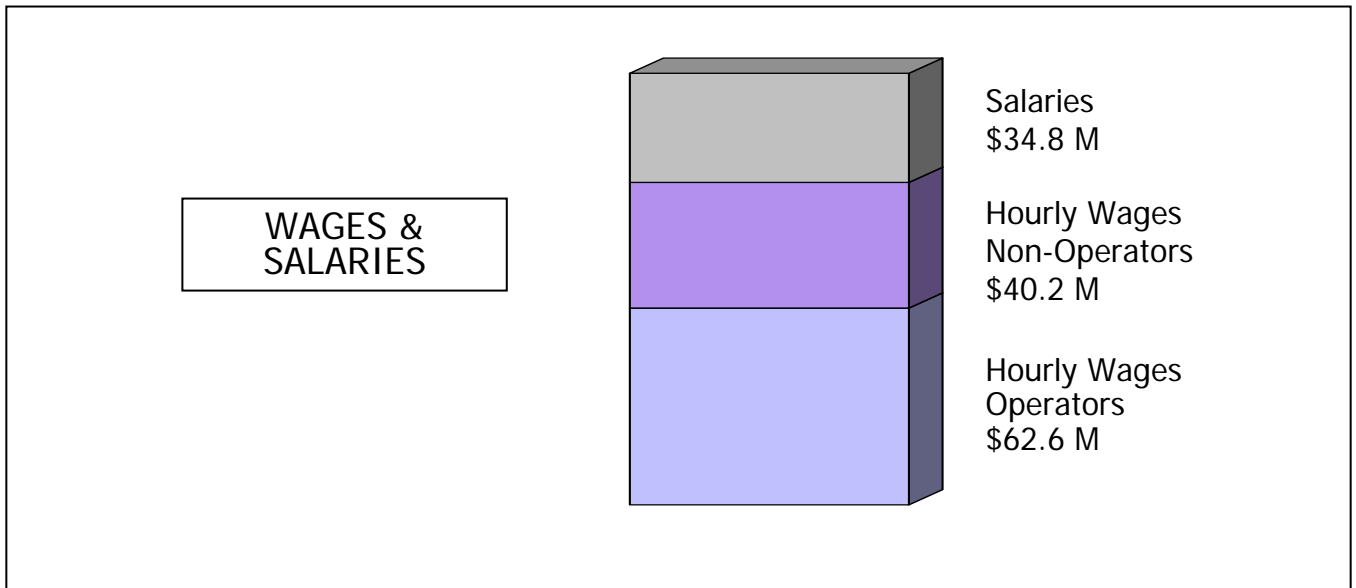
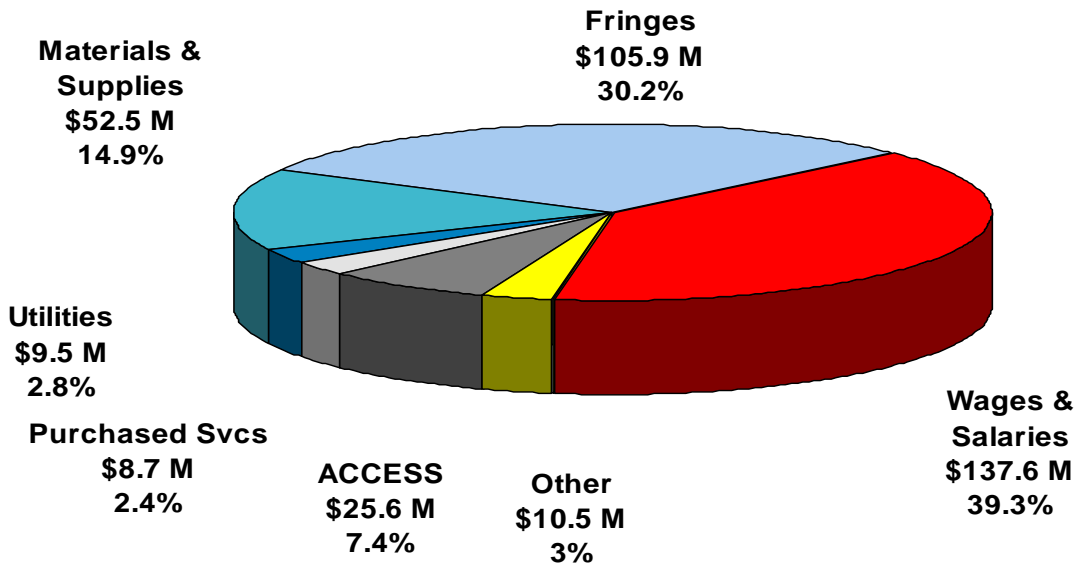
Port Authority of Allegheny County Operating Summary Fiscal Year 2009 Budgeted Revenues



Total FY 2009 Revenues : \$350,286,580

EXHIBIT C

Port Authority of Allegheny County Operating Summary Fiscal Year 2009 Budgeted Expenses

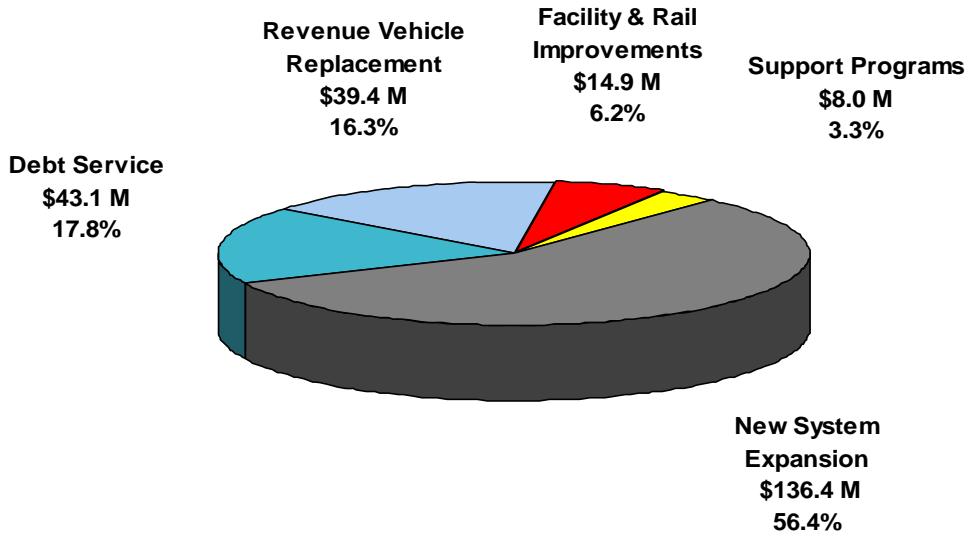


Total FY 2009 Expenses : \$350,286,580

Note: These expenses do not reflect the OPEB liability

EXHIBIT D

Port Authority of Allegheny County Capital Improvement Budget Fiscal Year 2009

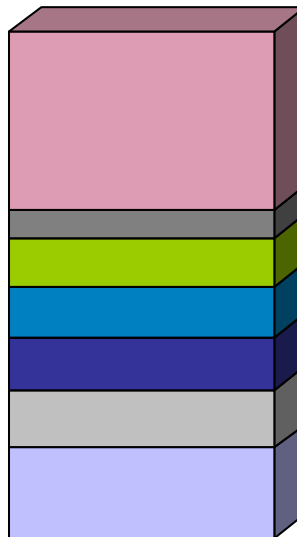


FACILITY & RAIL IMPROVEMENTS

Mt Lebanon Tunnel
\$0.87 M

System Rail & Track Work \$1.5 M

Collier Garage Pavement
\$1.685 M



State of Good Repair
\$5.234 M

East Liberty Wash Rack \$1.401 M

SHVRC Roof Replace
\$1.55 M

Harmar Storm Water
\$2.67 M

Total FY 2009 Capital Improvement Program : \$241,781,782

Port Authority of Allegheny County

Local Community

Allegheny County (population 1,223,411 in a 2006 estimate) was created on September 24, 1788, from parts of Westmoreland and Washington Counties and named for the Allegheny River. Pittsburgh, the county seat, was named by General John Forbes in honor of William Pitt, a British statesman. The County originally extended all the way north to the shores of Lake Erie; however, the county's current borders were set by 1800. The County forms the nucleus of the Pittsburgh Metropolitan Statistical Area and the Pittsburgh Tri-State area of Pennsylvania, Ohio and West Virginia.

Geography and Climate

Allegheny County is the second largest of the 67 counties in Pennsylvania.



It is located in the Southwestern corner of the state and is known for the three rivers that flow through it. The Allegheny and the Monongahela rivers converge at the Point in Pittsburgh to form the Ohio River. An additional river, the Youghiogheny, meets the Monongahela at McKeesport, 10 miles south of Pittsburgh.

Much of Allegheny County is covered with forests, and it is surrounded by rural farming communities. At the time of the 2000 census, the county had a total area of 745 square miles: 730 square miles of land, and 15 square miles of water.

Average temperatures range anywhere from 18 degrees Fahrenheit lows in January to 83 degrees Fahrenheit highs in July. Yearly average precipitation is 36.85

inches of rain and 43 inches of snow, with the average monthly rainfall in Allegheny County estimated at 3.05 inches.

Demographics

Allegheny County is home to 10% of the state's population. There were 1,281,666 people, 537,150 households, and 332,495 families residing in the County as of the 2000 Census. In a 2004 estimate, population was 1,250,867, which represents a decrease of -2.40% from the 2000 census. Later estimates in 2006 record a population of 1,223,411, a further decrease of -2.2%.

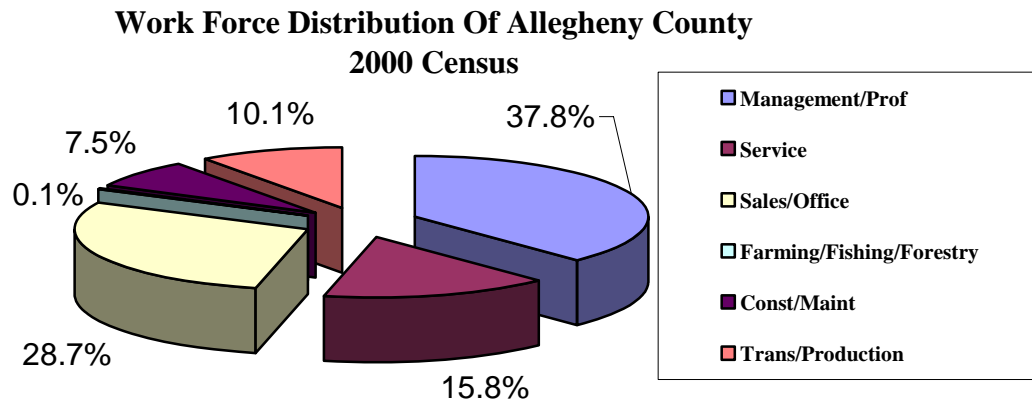
According to the last census, the population density was 1,755 per square mile. The average household size was 2.31 and the average family size was 2.96. The median age was 40, with 52.4% of the population female.

Local Economy

Since colonial times, Allegheny County has been a center for business and commerce. Natural resources including iron and coal and easy access to waterways enabled the area to become an important steel producer. Pittsburgh quickly became the largest inland port in the nation, which it remains today.

The workforce of Allegheny County has shifted from a concentration on heavy industry, with the decline of the steel mills, to more specialized industries and service providers, such as high technology, health care, education and finance. Allegheny County is home to Fortune 500 firms including Heinz, USX, PPG Industries, General Nutrition Centers, PNC Corporation, Bank of New York Mellon, and Alcoa.

There are more than 90 medical facilities in the area including hospitals, medical schools, rehabilitation centers, hospices and nursing homes. The University of Pittsburgh Medical Center was recently cited by the U.S. News and World Report as ranking 12th out of the 188 best hospitals in the United States. UPMC has long been recognized as a major transplant facility, performing more transplants than any other facility in the world. West Penn Allegheny Health System, Children’s Hospital of Pittsburgh and Magee-Women’s Hospital are also important members in the Allegheny County medical community. Kane Regional Centers have been recognized by the Pennsylvania Association of County Affiliated Homes as Nursing Home of the Year. The Kane Centers provide nursing and assisted care to more than 1400 residents in four locations across the County.



The 2000 Census reported 6.1% unemployment. In 2002, the per capita personal income in Allegheny County was \$36,500. This was an increase of 24.6% from 1997. The 2002 figure was 118% of the national per capita income, which was \$30,906.

Education and Culture

The Pittsburgh Metropolitan area ranks in the top ten of the 50 largest metropolitan areas in the nation in terms of cultural facilities per 100,000 in population.

A 14 block area between the David Lawrence Convention Center and Stanwix Street in the heart of downtown is home to the historic Cultural District, in which resident artist groups offer a cultural variety unmatched by many cities. It is within walking distance from the city's best hotels, restaurants, shops, and public parks. The Cultural District encompasses 88 retail shops, 47 dining establishments, 8 public parks, and 5 world class theaters in which 1400 performances are held each year. It is home to the Pittsburgh Public Theater, Pittsburgh Ballet Theater (the eighth largest ballet company in the United States), Pittsburgh Opera (the country's eighth oldest), Pittsburgh Civic Light Opera and the Pittsburgh Symphony.

The Carnegie Museums of Pittsburgh provide a full scope of culture and education. The Museum of National History was ranked sixth in the nation in the Travel Channel's top picks for "Best Museums for Dinosaur Sightings," and is acknowledged for having some of the best dinosaur exhibits in the world. Recipient of the 2003 National Award for Museum Service, the Carnegie Science Center connects science and technology with everyday life. The Andy Warhol Museum celebrates one of Pittsburgh's own, who is widely acknowledged as one of the most influential artists of the twentieth century, and exhibits many of his works. The Carnegie Museum of Art offers a distinguished collection of contemporary art that includes film and video works. Other collections of note include works of American art from the late nineteenth century,

French Impressionist and Post-Impressionist paintings, and European and American decorative arts from the late seventeenth century to the present.

The Pittsburgh Zoo and PPG Aquarium is one of only six major zoo and aquarium combinations in the country. The 77-acre facility is home to thousands of animals representing hundreds of diverse species. Committed to education, research and wildlife conservation, the Pittsburgh Zoo & PPG Aquarium is actively involved in 64 Species Survival Plans and proudly exhibits 72 threatened or endangered species.

The National Aviary is America's only independent indoor nonprofit bird zoo. Located in historic North Side's West Park, The Aviary is home to 600+ birds of more than 200 species. Many are threatened or endangered in the wild. The natural, planted exhibits allow visitors an up-close view of the bird world. From Pacific Parrotlets to Andean Condors, the birds represent nearly every continent, with a particular emphasis on rainforest and wetland habitats.

Operating in association with the Smithsonian Institution, the Senator John Heinz Pittsburgh Regional History Center features a number of traveling and permanent exhibitions, such as the Western Pennsylvania Sports Museum, a dynamic museum-within-a-museum, and Capture the Moment: The Pulitzer Prize Photographs. The History Center highlights more than 250 years of Western Pennsylvania history: explore a 1790s log cabin, discover how immigrants shaped this region, uncover the myths of the Underground Railroad, and experience the thrill of Western Pennsylvania's unmatched sports legacy and climb aboard a 1940s Pittsburgh trolley.¹

Port Authority of Allegheny County

Background

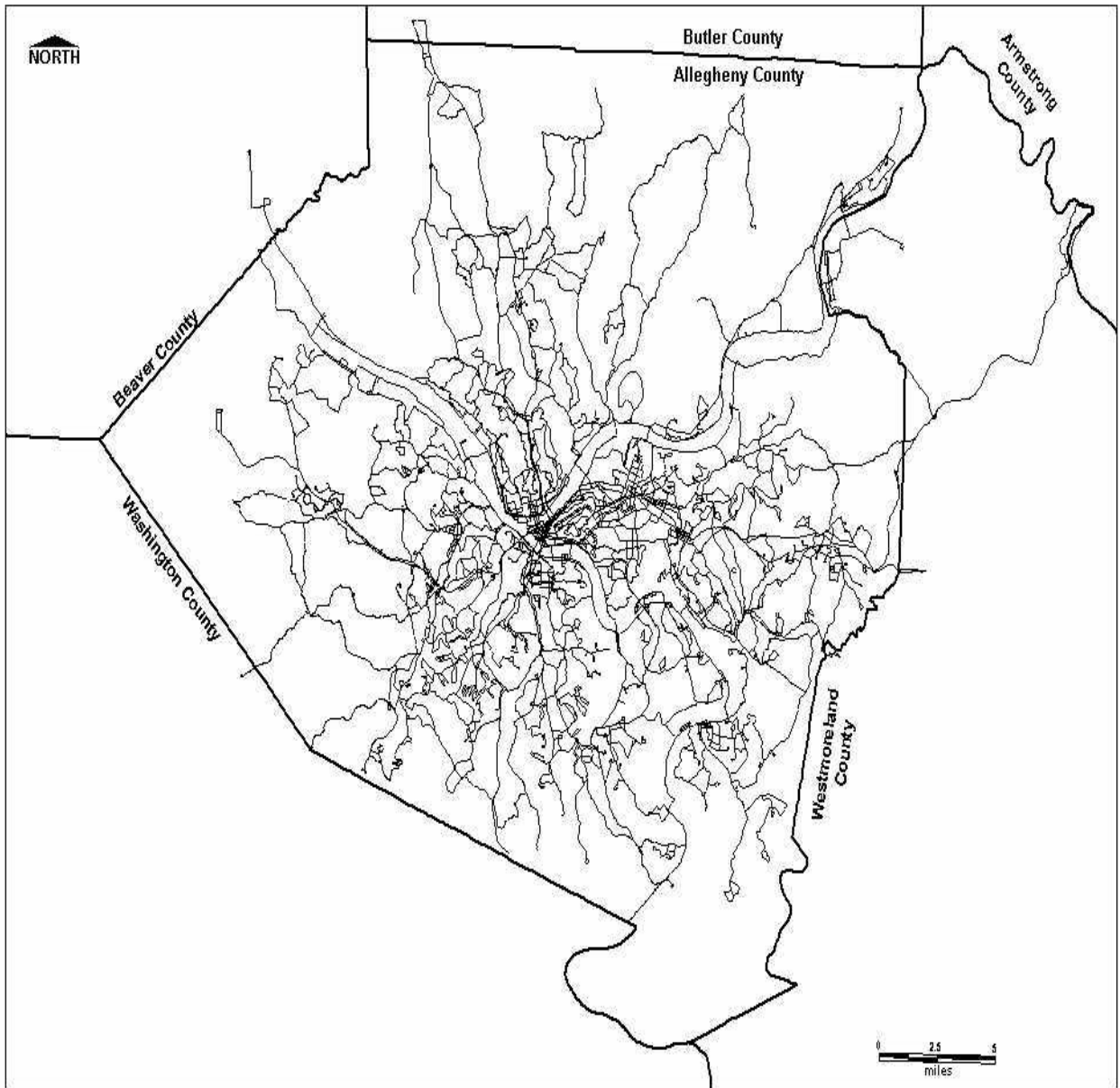
Port Authority of Allegheny County was established in January 1958 and operates pursuant to the Commonwealth of Pennsylvania's Second Class County Port Authority Act.

The Authority's Transit Division began operations on March 1, 1964 with the consolidation of 33 private transit carriers, including the Pittsburgh Railways Company and 32 other bus and inclined plane companies. The Authority was formed for the purpose of, among other things, planning, acquiring, holding, constructing, improving, maintaining, and operating a comprehensive public transportation system within Allegheny County, which includes the City of Pittsburgh, and outside of the county to the extent necessary for an integrated system.

The powers of the Authority under existing law include, among other things, the power to: (1) borrow money for costs of projects of the Authority; (2) issue negotiable, interest-bearing debt obligations in connection with any such borrowings; and (3) secure the payment of such obligations with a pledge of any or all of the revenues of the Authority. Under no circumstances, however, shall any debt obligations issued by the Authority be or become an indebtedness or obligation of the Commonwealth or any political subdivision thereof, including the County of Allegheny.

As shown in *Figure A*, Port Authority operates transportation facilities within a 775-square mile area serving a population base of approximately 1.4 million within the City of Pittsburgh, all of Allegheny County, and the surrounding counties of Beaver, Washington, and Westmoreland.

FIGURE A
Port Authority of Allegheny County
SERVICE AREA



Port Authority uses the full power of the Second Class County Port Authority Act to provide a family of services to Allegheny County residents. Port Authority's family of services can be broken into three (3) general categories:

1. Service provided directly by Port Authority employees which includes fixed route bus service, the light rail system, and the Monongahela Incline. It is expected that nearly 62 million riders will be carried on these modes in FY 2009.
2. Contracted service that Port Authority provides through for-profit and non-profit carriers. These services include ACCESS shared-ride transportation, provided by 7 separate carriers, and the Duquesne Incline. Approximately 1.68 million passengers will use these ACCESS services in FY 2009 and approximately 406,000 will ride the Duquesne Incline.
3. Port Authority authorizes, under its regulatory powers, private carrier services, which includes fixed route service, (typically park-n-ride shuttles); paratransit service; group and party (including charter) service; and service to Greater Pittsburgh International Airport. Some 2.7 million riders are expected to be carried during the next year by these private carriers. This category of service requires no subsidy from Port Authority's operating budget.

Port Authority's family of services will carry a total of 63.7 million riders in FY 2009.

Table A recaps the demographics of Port Authority riders based on the most recent rider survey. Port Authority directly operates a fleet of 861 larger buses, 83 light rail vehicles, 48 small transit vehicles, and the Monongahela Incline. Among its facilities, the Authority provides service via three exclusive busways (the 4.3-mile South Busway, the 9.2-mile Martin Luther King, Jr. East Busway and the 5.0-mile West Busway) and the "T", a 25-mile light rail system.

The Pittsburgh area has a strong history of transit use, and the ridership and scale of the Authority operations exceeds those of transit systems with service areas of

comparable size and population. The Port Authority continues to explore options for making travel within the Pittsburgh region easier. One example of this progressive attitude is the company's commitment to the North Shore Connector project that will expand light rail transit to some of the region's newest economic developments. Another example is the Connect '09 project that will review all aspects of Port Authority's service footprint and how it interacts with regions outside Allegheny County. Port Authority has recommitted its efforts at being a custodian of the resources it receives from the taxpaying public.

TABLE A

Port Authority of Allegheny County
PASSENGER PROFILE

A survey conducted in the summer of 2005 gives the following depiction of Port Authority riders:

Profile	Core	Non-Core
Aged 18-44	42.6%	21.7%
Aged 45-64	48.6%	42.3%
Aged 65 or older	6.3%	31.3%
Employed full-time	71.6%	39.8%
Retired	6.3%	34.7%
Income below \$50,000	34.5%	27.9%
Income above \$50,000	19.4%	32.0%
Have access to the internet	79.4%	71.5%
Do not own a vehicle	21.8%	9.6%

Core Users: 20 or more rides per month, Non-Core: 1 ride per year to 19 rides per month, Non-core Plus: 10-19 times per month.

Organization

A. *Structure*

The Authority is a body corporate and politic organized under the provisions of the Enabling Act and exercises the public powers of the Commonwealth of Pennsylvania as an agency thereof. The governing body of the Authority is a Board composed of not more than nine members appointed by the Chief Executive of Allegheny County. Members are appointed for five (5)-year terms on a staggered basis. Effective January 1, 2000, the County's government structure changed from a three (3)-member Board of County Commissioners to a fifteen (15)-member elected County Council, an elected County Executive, and an appointed Professional Manager.

As shown in *Figure B*, the Port Authority Board provides overall direction to the Chief Executive Officer. The Port Authority Board maintains several standing committees which are presented and briefly described in *Figure C*.

To manage its many tasks, over time, Port Authority's organizational structure has been improved and updated as its business needs have changed. Today, Port Authority is divided into six (6) divisions reporting to the Chief Executive Officer. These are: Office of the CEO, Transit Operations, Finance, Human Resources, Planning and Development, and Legal and Corporate Services. The Office of the CEO contains only a small budget for the Board of Directors. *Figure B* presents these key components of Port Authority's organizational structure.

FIGURE B
Port Authority of Allegheny County
ORGANIZATIONAL STRUCTURE
FY 2008 Operating Budget

FIGURE C
Port Authority of Allegheny County
FY 2009 OPERATING BUDGET

**PORT AUTHORITY BOARD - STANDING
COMMITTEES**

- **Governance Committee** -

Responsible for the effective functioning of the Port Authority Board of Directors and for the maintenance and development of the Board-Chief Executive Officer working relationship.

- **Planning and Development Committee** -

Responsible for developing and leading the Board's participation in all Port Authority planning, including annual budget preparation, and for overseeing the development of the Authority's financial resources.

- **Performance Oversight and Monitoring Committee** –

Responsible for overseeing Port Authority's operational and financial performance and for updating operational policies and systems.

- **Stakeholder Relations Committee** –

Responsible for maintaining effective relationships with Port Authority's customers, the Allegheny County Chief Executive, the County Council, other stakeholders and constituencies, and the general public.

B. *Personnel*

The FY 2009 personnel budget contains 2,756 positions. The distribution of budgeted employees by division is as follows:

	<i><u>FY 2008</u></i> <i><u>Budget</u></i>	<i><u>FY 2008</u></i> <i><u>Actuals</u></i>	<i><u>FY 2009</u></i> <i><u>Budget</u></i>
* Office of the Chief Executive Officer	1	1	1
* Transit Operations	2,418	2,414	2,418
* Finance	157	139	157
* Human Resources	32	31	32
* Legal & Corporate Services	80	79	83
* Planning & Service Development	<u>69</u>	<u>63</u>	<u>65</u>
Total Personnel.....	<u>2,757</u>	<u>2,727</u>	<u>2,756</u>

Financial and Budgetary Policies

A. *Fiscal Year*

Port Authority's budget is prepared on a fiscal year basis. The fiscal year begins as of July 1 and ends on June 30.

B. *Basis of Budgeting*

Because Port Authority is a governmental entity, the basis of accounting conforms with the Governmental Accounting Standards Board (GASB) Statement No. 11. The accrual basis of accounting is used in measuring financial position and operating results. Revenues are recognized in the accounting period in which they become available and expenditures are recognized in the accounting period in which the liability is incurred. The budget is prepared on the same basis of accounting as the financial statements, except that depreciation is not budgeted. All transactions are accounted for in a single enterprise fund that combines both operating budget and capital budget activities into a consolidated financial statement.

C. *Fund Balances*

Port Authority currently utilizes a single enterprise fund for operating purposes. The General Fund is specifically established for the appropriation of revenues and expenses associated with transit operations. Port Authority does not utilize fund accounting in the traditional sense. Consequently, Port Authority reports total equity rather than fund balance. As shown in Table B, there are no materially significant changes expected.

TABLE B
Port Authority of Allegheny County
STATEMENT OF CHANGES IN EQUITY

	<u>FY2005</u> <u>ACTUAL</u>	<u>FY2006</u> <u>ACTUAL</u>	<u>FY2007</u> <u>ACTUAL</u>	<u>FY2008</u> <u>PROJECTED</u>	<u>FY2009</u> <u>BUDGET</u>
Contributed Capital Beginning Balance	\$1,104,210,203	\$1,153,409,335	\$1,130,131,993	\$1,087,970,519	\$1,073,825,394
Contributed Capital Additions	\$152,830,144	\$82,466,827	\$103,578,797	\$159,652,797	\$115,232,807
Depreciation on Assets Acquired with Grants	(\$88,674,165)	(\$93,888,504)	(\$99,705,515)	(\$102,187,238)	(\$98,593,752)
Net Revenues Over Expenses	(\$14,956,847)	(\$11,855,665)	(\$46,034,756)	(\$71,610,684)	(\$14,000,000)
Total Equity	\$1,153,409,335	\$1,130,131,993	\$1,087,970,519	\$1,073,825,394	\$1,076,464,448

D. *Debt Service*

Port Authority's current obligations include two separate Special Revenue Transportation Bond issues and one Bus Financing Agreement. The policy of the Authority in issuing debt has been only exercised under the following circumstances:

- * Short-term debt for cash flow purposes
- * Debt issued to procure operating equipment
- * Debt for long-term construction projects

Under the statutes that govern the Authority, there are no requirements to establish legal debt limits. Below is a discussion of the current debt obligations of Port Authority.

1. *Subordinate Lien Special Revenue Transportation Bonds*

On July 14, 1999, the Authority issued \$71,960,000 of Subordinate Lien Special Revenue Transportation Bonds of 1999 (the 1999 Sub Bonds). The proceeds from the sale of the Bonds were used primarily to acquire 218 mass transit buses and related equipment.

Interest on the Bonds is payable semi-annually on each December 1 and June 1, commencing December 1, 1999. Interest rates range from 4.6% to 5.5% throughout the term of the Bonds. The annual debt service requirements related to the Bonds are as follows:

<i>Year Ending June 30</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service Requirements</i>
2000	\$	\$3,610,680	\$3,610,681
2001		3,756,778	3,756,778
2002		3,756,778	3,756,778
2003	8,815,000	3,756,778	12,571,778
2004	9,255,000	3,320,578	12,575,578
2005	9,705,000	2,868,598	12,573,598
2006	10,195,000	2,378,032	12,573,033
2007	10,740,000	1,832,495	12,572,495
2008	11,315,000	1,257,405	12,572,405
2009	<u>11,935,000</u>	<u>641,654</u>	<u>12,576,655</u>
TOTAL	<u>\$71,960,000</u>	<u>\$27,179,776</u>	<u>\$99,139,776</u>

2. Special Revenue Transportation Bonds

On March 1, 2001, the Authority issued \$250,695,000 of Special Revenue Transportation Bonds of 2001 (the 2001 Bonds). The proceeds from the sale of the Bonds were used to: (1) Advance refund the 1999 Bonds of \$225,000,000; and (2) Fund the costs and expenses of issuing the 2001 Bonds. Major capital projects related to the bond sale included the Stage II Light Rail Project and extension of the East Busway.

Interest on the Bonds is payable semi-annually on each March 1 and September 1, commencing September 1, 2001. Interest rates range from 3.5% to 5.260% throughout the term of the Bonds. The annual debt service requirements related to the Bonds are as follows:

<i>Fiscal Year Ending June 30</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service Requirements</i>
2002		\$12,837,937	\$12,837,937
2003	\$775,000	12,837,937	13,612,937
2004	825,000	12,810,812	13,635,812
2005	850,000	12,781,937	13,631,937
2006	885,000	12,750,062	13,635,062
2007	920,000	12,716,875	13,636,875
2008	955,000	12,680,075	13,635,075
2009	995,000	12,641,875	13,636,875
2010	7,150,000	12,600,831	19,750,831
2011	7,560,000	12,189,706	19,749,706
2012	7,965,000	11,783,356	19,748,356
2013	8,395,000	11,355,237	19,750,237
2014	8,855,000	10,893,512	19,748,512
2015	9,340,000	10,406,487	19,746,487
2016	9,860,000	9,892,787	19,752,787
2017	10,400,000	9,350,487	19,750,487
2018	10,975,000	8,778,487	19,753,487
2019	11,520,000	8,229,737	19,749,737
2020	12,095,000	7,653,737	19,748,737
2021	12,735,000	7,018,750	19,753,750
2022	13,370,000	6,382,000	19,752,000
2023	14,035,000	5,713,500	19,748,500
2024	14,735,000	5,011,750	19,746,750
2025	15,475,000	4,275,000	19,750,000
2026	16,245,000	3,501,250	19,746,250
2027	17,060,000	2,689,000	19,749,000
2028	17,915,000	1,836,000	19,751,000
2029	<u>18,805,000</u>	<u>940,250</u>	<u>19,745,250</u>
Totals	<u>\$250,695,000</u>	<u>\$252,559,381</u>	<u>\$503,254,381</u>

3. *Bus Financing Agreement*

On March 28, 2003, Port Authority entered into a Bus Financing Agreement in the amount of \$91,200,000 for the financing of 165 40-foot low floor buses and 60 35-foot standard floor buses. On February 27, 2004 the Authority amended the agreement to finance an additional \$20.2 million to purchase 60 40-foot low floor buses. On April 6, 2005, the Authority also financed an additional \$19.8 million for the purchase of 25 articulated buses.

In September 2006, Port Authority exercised an option to purchase 90 additional buses with an additional \$31.36 million in financing. The first payment on this agreement began in FY 2004 and continues into FY 2018. For FY 2009, the Authority anticipates paying for a new order of 100 40' buses through a combination of existing resources and a new financing agreement.

4. *Grant Anticipation Note*

Port Authority has budgeted for the equivalent of 2 short term financings for FY 2009 due to the uncertainty of the timing of Allegheny County Operating Assistance.

PAT

STATS

#1

PAT

Stats

#2

Service Standards

At the beginning of each fiscal year, Port Authority's Board of Directors adopts a series of service standards and performance evaluations that serve as operational goals for the organization. These measurements pertain to staffing ratios, productivity measures and fiscal indicators. Figures D through F provide a sample of the performance measures adopted by Port Authority.

Figure D indicates that the average number of bus revenue miles between major mechanical system failures increased from 8,268 miles in FY 2007 to 8,679 miles in FY 2008. The number of rail revenue miles between major system breakdowns decreased from 11,572 miles in FY 2007 to 9,804 miles in FY 2008.

Figure E indicates that Port Authority's on time performance for peak hours increased slightly from FY 2007 levels. The on time performance for non-peak hours decreased slightly during this same time frame. It is Port Authority's goal to maintain 90% on time service delivery for FY 2009.

Figure F indicates that indicates Port Authority's number of operating employees per administrative employees increased slightly from FY 2007 to FY 2008. The FY 2009 Target for Operating Employees per Administrative Employee is 8 to 1, which the company expects to once again surpass as it has the past two fiscal years. The number of buses per mechanic and rail vehicles per mechanic continues to remain relatively consistent from FY 2007 through FY 2008.

FIGURE D
Port Authority of Allegheny County
Operations Performance Measures - Miles between Road Calls
Service Standards
FY 2007, FY 2008 YTD, FY 2009 Target

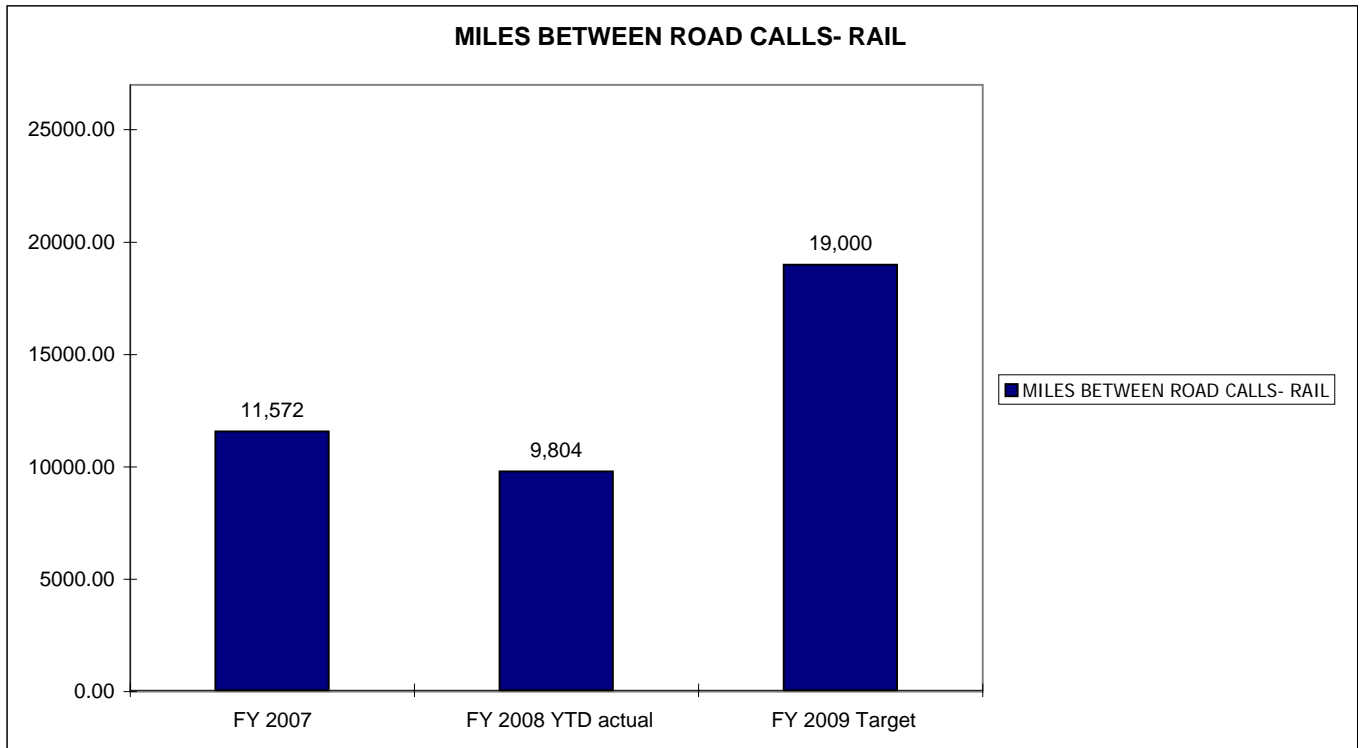
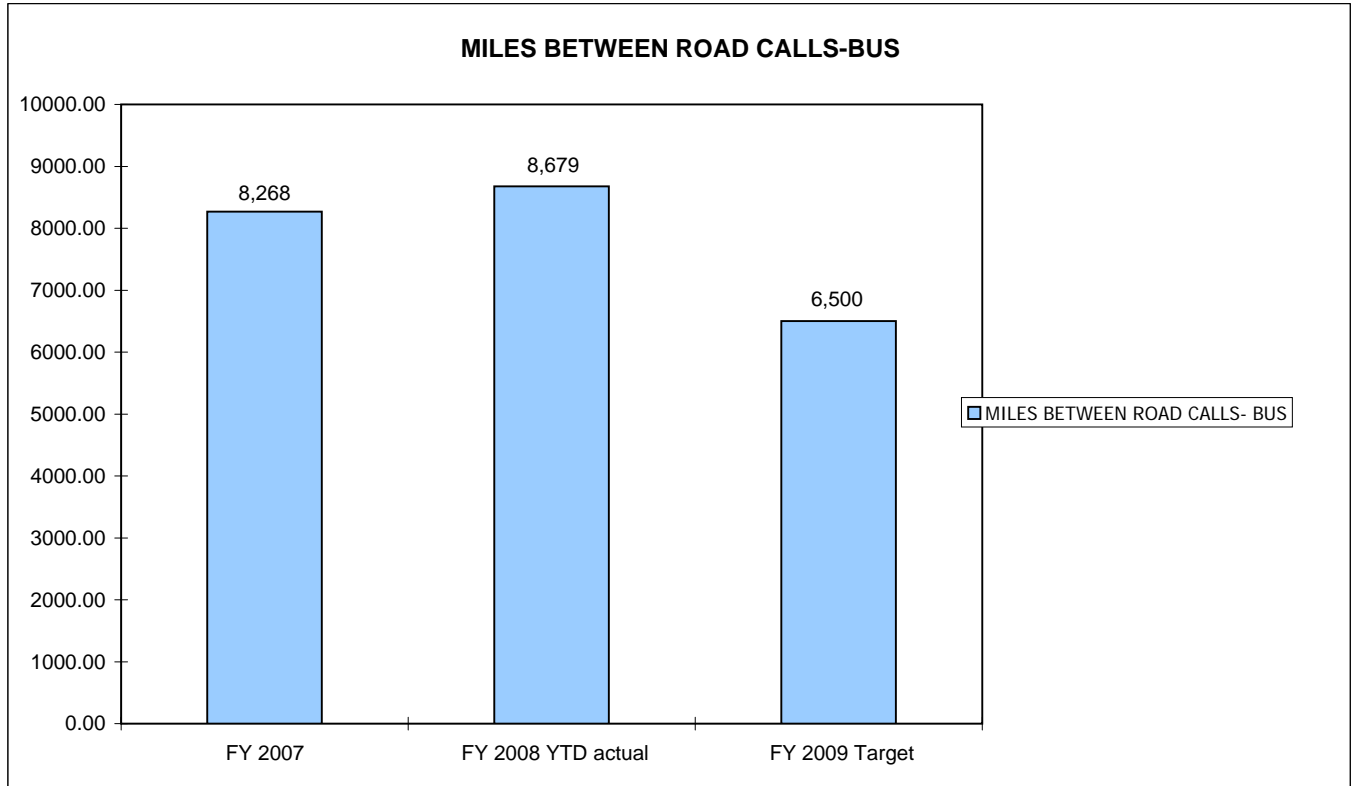


FIGURE E
Port Authority of Allegheny County
Operations Performance Measures - On time Performance
Service Standards
FY 2007, FY 2008 YTD, FY 2009 Target

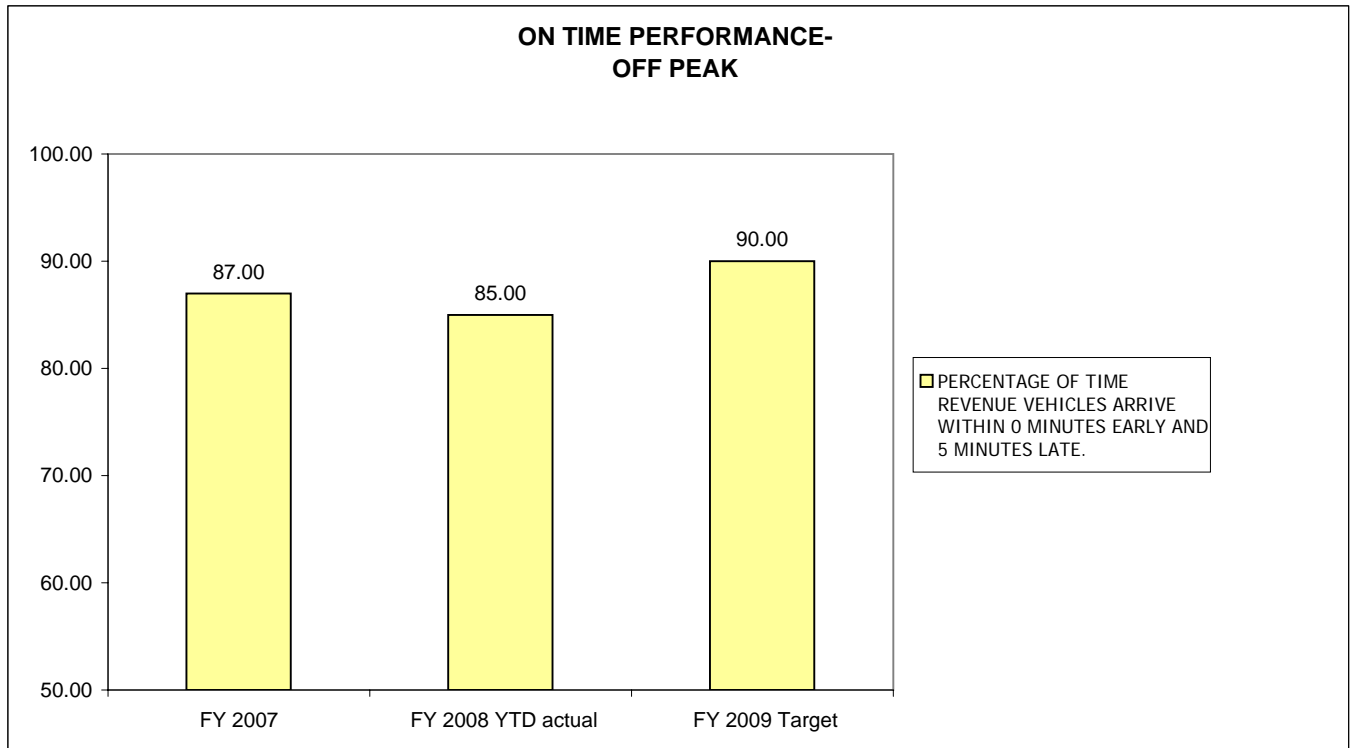
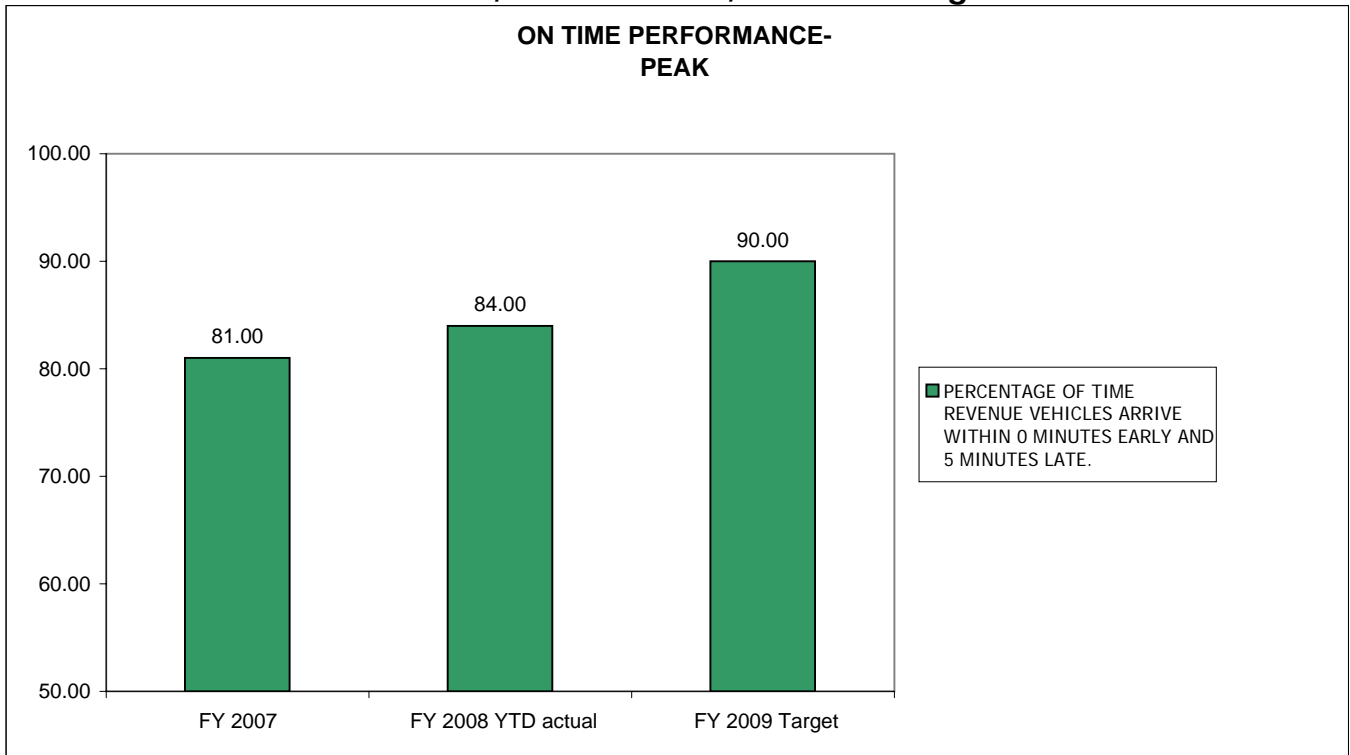


FIGURE F
Port Authority of Allegheny County
Operations Performance Measures - Staffing Ratios
Service Standards
FY 2007, FY 2008 YTD, FY 2009 Target

