Governing Board Meeting

May 30, 2007

Foothill Transit

To: Governing Board Members

Subject: **Funding Issues**

Recommendation

Receive and file the funding issues report.

Analysis

Fiscal Year 2008 and 2009 have the potential to be very volatile from a subsidy funding standpoint. The purpose of this report is to provide information about the various issues and challenges that Foothill Transit could be facing.

The Regional Formula Allocation Procedure

In its role as the regional planning and programming agency, the Los Angeles County Metropolitan Transportation Authority (Metro) allocates funding to transit systems using a process known as the Formula Allocation Procedure (FAP). The FAP relies on fare revenue and vehicle service mile data from the most recent Transit Performance Measurement (TPM) report available for each of the 18 included and eligible transit operators. The majority of the funding that Foothill Transit uses to funds its annual operations is distributed via the FAP.

Fifty percent of the FAP funds are allocated using vehicle service mile data, which is a reasonably straightforward process. If a transit system operates a certain percentage of the total miles in the county, then they receive that same percentage of funding from this portion of the FAP.

The remaining 50 percent of the funds are allocated based on "fare units". A "fare unit" is the value that is derived by dividing a transit operator's total farebox revenues by their adult local or "base" fare. No other fares are used in this calculation. This portion of the FAP is intended to encourage operators to keep their fares low while generating as much farebox revenue as possible. The result of this policy is that base fares throughout Los Angeles County are very low.

Foothill Transit Loss of Funding under FAP due to 2003 Fare Change

Foothill Transit experienced a loss of FAP revenue due to the "fare unit" calculation. In March 2003, Foothill Transit raised its base fare from $0.90 to $1.10. The impact of this action was that Foothill Transit lost approximately $3.7 million in annual subsidy funding in fiscal years 2006 and 2007. At the same time, additional farebox revenue from this fare change was not realized. To counter this effect, Foothill Transit lowered its base fare on July 1, 2005. This is contrary to business conditions where the cost to provide service is increasing. However, this action will positively impact our FAP allocation for fiscal year 2008. Other transit operators in Los Angeles County substantially lowered their base fares to increase the funding they receive under the current FAP.

Proposed Changes to the FAP

Because of these issues, there has been discussion for several years regarding potential changes to the FAP. Metro Board member John Fasana has introduced a motion that would replace the current FAP with a new formula. Under this approach, all funding would be allocated to transit operators based on the vehicle service hours that they deliver to the communities they serve. Under this approach, transit operators would be able to adjust their fares based on their specific financial conditions and without the possibility of experiencing reduced formula funding due to a fare increase. Under this approach, Foothill Transit could see a slight reduction in subsidy funding for fiscal year 2008. Mr. Fasana's motion is provided as **Attachment A**.

On an alternate path, the Los County Municipal Operators' Association (LACMOA) has developed another approach to dealing with the issues with the current FAP. LACMOA is comprised of all of the municipal transit operators with the exception of Metro. LACMOA has proposed changing the fare unit portion of the FAP to allow transit operators to increase their base fare with no reduction in their total fare units. In addition, the LACMOA approach would not allow a transit operator to benefit from reducing their base fare. The LACMOA proposal is provided as **Attachment B**.

Foothill Transit Increase in Funding under the FAP in 2008

Foothill Transit raised and restructured its fares in July 2005. As part of this change, most discount fares were standardized at 50 percent of the adult fare. Additionally, pass prices were adjusted in line with increases in operating expenses. A second phase of the fare increase went into effect in July 2006 and included slight adjustments in cash fares and pass prices.

The outcome of the increase was positive. Farebox recovery ratio increased while ridership held steady. Ridership had been projected to fall with the implementation of the fare increase, but the flat ridership is attributed to the increase in fuel prices felt throughout the nation in 2005-2006. However, increasing operating expenses and a looming threat of significantly reduced subsidy funding over the next three years necessitates consideration of future fare increases.

Proposed Metro Fare Changes and their Potential Impacts

Recently Metro proposed fare increases that include increasing most fares except the local adult base fare and increasing the eligibility age for senior customer from 62 to 65 over the next three years. It is anticipated that these fare changes will become effective in 2007 which would affect FAP allocations beginning in FY 2010. Should these fare adjustments be approved as proposed, we anticipate that Foothill Transit's subsidy funding revenue will experience a significant reduction in for FY 2010 and beyond due in part to Metro's fare increase. The key issue is that one-half of the funding that comes from the FAP is based on fare units as discussed earlier, whereby the more fare revenue collected without changing the base fare, the greater the fare units and FAP funding. Metro's most recent fare increase proposal is projected to result in a 25 percent increase to their overall fare revenue, with no change to their current base fare of $1.25.

The resulting impact to Foothill Transit could be a loss of over $4.8 million in FY 2010, if Foothill Transit does not take actions similar to those taken by Metro. Should the FAP remain in its current form, this will be compounded in subsequent years if no action is taken by Foothill Transit. This is funding that Foothill Transit uses for operating expenses and as matching funds for federally funded capital projects. The loss also eliminates any flexibility the agency has in using Transportation Development Act (TDA) funds. If Foothill Transit adjusts its fares to ensure that its percentage of fare units remains the same once Metro adjusts their fares, this loss of subsidy funding could be avoided.

Foothill Transit's Discount Fare Policies

Foothill Transit's fare increase in 2006 addressed the deep discounts that had been offered previously. Discount percentages for eligible customers ranged from 50 percent to 93 percent. A major goal of that increase was to bring discounts more in line with the 50 percent discounts traditionally seen in the industry. This was accomplished over the two years of the previous fare increase, although the Senior/Disabled/Medicare 31-Day Pass discount rate remains at 67 percent. With the potential loss of funding discussed earlier, a review of Foothill Transit's fare structure is recommended with the possibility of raising fares to mitigate the funding loss.

Currently, Foothill Transit offers discounts on all of its services, Local, Silver Streak, and Commuter Express. These discounts are offered to seniors, persons with disabilities, Medicare card holders and students, and were generally designed for persons on fixed incomes. A possible change to the fare structure would involve eliminating discounts on our Commuter Express service. The Commuter Express service is designed to transport customers from park and rides to the business district in downtown Los Angeles in the morning peak periods, and back during the evening peak periods. These lines account for some of Foothill Transit's highest operating expenses. The current discount policies would continue to be offered under this scenario on the Silver Streak and on Local service.

Foothill Transit customers with flexible schedules who wish to use discounted service will still have the opportunity to use the Silver Streak which stops at major station stops to and from downtown Los Angeles. It should be noted that Federal law requires only that a transit agency offer a 50 percent discount on its local adult cash fares to seniors, customers with disabilities and Medicare cardholders during off-peak hours.

Other Fare Policy Considerations

There are a number of fare policy issues that the Foothill Transit Governing Board may want to consider during the next several months. The impact of these changes on Foothill Transit's subsidy funding will be critical. These possible changes include:

- **Establishing TAP/UFS incentives** – This change would create a price differential for customers utilizing cash as a form of payment. Customers using cash would pay a higher fare than would customer using the new Transit Access Pass/Universal Fare Collection System (TAP/UFS) technology for payment. Another benefit from implementing a TAP/UFS incentive would be reduced dwell time and reduced cash processing costs.

- **Eliminating transfers and decreasing the adult local fare** – The immediate effect of this change would be a reduced adult local fare. It would be cost-neutral for customers requiring another bus ride to complete their journey (two fares @ $0.75 = one current fare $1.00 plus $0.50 transfer).

- **Raising the senior eligibility age** – Increasing the eligibility age from 62 to 65 could be phased in over a three-year period. This option is closely tied to the proposed elimination of discounts on Commuter Express Service. The elimination of the discounts or increasing the senior age would increase the fare revenue on the Commuter express routes that carry customer in the early morning and late afternoon to the Los Angeles business district.

- **Increasing fares and pass prices** –Increasing fares and pass prices for the Silver Streak and commuter express, excluding local service, would increase fare revenues while maintaining the current local fare. These changes would directly affect the FAP allocation by increasing fare units.

Theses proposed changes are directed, at least in part, at mitigating Foothill Transit's projected FAP subsidy loss generated by Los Angeles Metro's proposed fare increase, counteracting the projected $4.8 million loss discussed above. Increasing total revenue while maintaining or reducing the adult local fare is the formula for increasing the FAP allocation.

MOSIP Funding

In 2002, Metro allocated funding from the Prop C discretionary funding program for service improvements by the municipal transit operators. The Municipal Operator Service Improvement Program, or MOSIP, has provided much needed matching funding for Foothill Transit's capital program. However, this funding is granted each year at the discretion of the Metro Board. It is uncertain if this funding will be available in future years and could possibly be eliminated during fiscal year 2008 as Metro works to resolve their budget deficit.

STA Funding

The State of California provides funding to transit operators under the State Transit Assistance Program. These funds are derived from sales and use tax on diesel fuel and gasoline. In his proposed fiscal year 2008 budget, Governor Schwarzenegger has proposed reducing funding of the STA program by 70 percent. The California legislature must now consider the budget and we are optimistic that a least a portion of the STA funding will be restored. The fiscal year 2008 budget is based on the funding marks that Foothill Transit received from Metro. These funding marks do not include a reduction in STA funding.

Budget Impact

The issues discussed above could have an impact on Foothill Transit's budget during fiscal year 2008 and future years. We will be watching all of these issues closely and advocating for outcomes that will reflect positively on Foothill Transit's ability to serve its customers.

In termrs of fares and the FAP, should Metro increase its fares with no changes to the FAP, Foothill Transit will have to consider a combination of fare changes that will ensure that our relative share of fare units remains the same. In the absence of any fare policy changes/increases Foothill Transit could be forced to reduce service and eliminate capital projects. Staff will be closely monitoring the actions of Metro in terms of adjusting their fares and implementing any changes to the FAP. Based on these actions, a specific recommendation will be brought to the Executive Board and Governing Board for consideration.

Sincerely,

Richard Hasenohrl
Director of Finance

Doran J. Barnes
Executive Director

FASANA MOTION
FORMULA ALLOCATION PROCESS (FAP)

The LACMTA allocates bus transit funding to itself and 16 designated municipal operators ("participant" or "participants") in Los Angeles County through a process called the Formula Allocation Process (FAP) in accordance with a formula based on 50% vehicle service miles and 50% fare units (fare revenues divided by local base fare). The formula was originally designed in 1980 to increase productivity (vehicle service miles) and to keep fares low (fare units) when the region had sufficient funding to meet its needs.

Over the years, regional funding has not kept pace with the region's demand and subsequent modifications to the FAP have made the allocation process unduly complex. The current FAP:

- financially penalizes participants for increasing base fares
- creates an incentive for participants to reduce base fares and receive more FAP funding, at the expense of increasing overall funding available to the region for transit services

Fare units do not measure boardings because of the multitude and complexities of fares offered (e.g., student, senior, day pass, monthly pass, etc.) Under the existing FAP, service and financial data used to determine fare units are complex and difficult to verify.

I move that a new simplified and equitable FAP be developed that would replace the existing FAP, MOSIP, and other bus funding pools and incorporate these features:

FAP Formula: A participant's funding share will be the ratio of their total vehicle service hours (VSH) to all participants' total VSH. No more than 0.25 percent of the annual amount distributed in the formula specified in this paragraph shall be allocated for the support of non-fixed route general purpose transportation service (Dial-A-Ride).

Single Funding Pool: All current and future funding that LACMTA elects to allocate to any and all participants for transit operations must be allocated by this formula, including but not limited to TDA, STA, interest, Proposition A and C.

Transition: During the first three years after implementation of the New FAP, all participants will be guaranteed a minimum allocation equal to the total Fiscal Year 2006-2007 Transit Fund Allocation approved by the Metro Board at the July 27, 2006 meeting. (Participants with shortfalls below their FY 2006-2007 allocations would receive funds from participants with surpluses above their FY 2006-2007 allocations on a pro rata basis.)

March 15, 2007 at 1343

MUNICIPAL OPERATOR MOTION RELATING TO THE FAP
DRAFT (4/11/07)

The current FAP formula allocates the County's transit funds based on fare units (passenger revenue/base fare) and vehicle service miles of each Operator. This formula is used to represent the share of the County's transit service that each Operator provides to Los Angeles County residents based on audited information in its TPM report. While the current formula has worked to allocate funding levels to each Operator, it has discouraged Operators from raising base fares because it has the potential to reduce an agency's fare units.

Thus, a motion is recommended by the Los Angeles County Municipal Operators Association relating to the Formula Allocation Program (FAP).

FAP Funding Stability:

In the application of this FAP formula adjustment, all Operators' FAP dollar funding levels shall be held to a minimum of their FY 2007 dollar funding levels. Where necessary, funding to implement this provision shall come from the Proposition A 40% Discretionary Growth Over CPI Account.

Application of FAP Formula:

A. A new rule be added to the current FAP effective immediately for application to the FY 2009 Allocation Year (whose allocations are based on FY 2007 TPM data).

If an Operator increases its base fare anytime from July 1, 2006 forward, their **fare units** will be frozen at that Operator's fare unit level during the last full fiscal year of the old lower fare. It will remain at this level, until the new fare unit calculation based on the new higher fare becomes greater than the frozen level. After that point, their fare units will be calculated normally.

Example: If an Operator implements a fare increase on July 1, 2006, or anytime during FY 2007, their fare units will be frozen at the FY 2006 level until fare unit growth occurs. Thus the fare units utilized to calculate the FAP will be the higher of the fare units calculated using current TPM data or the fare units from the FAP calculation from the fiscal year prior to the fare increase.

If an Operator lowers their base fare anytime from July 1, 2006 forward, their fare units will be frozen at that Operator's fare unit level during the last full fiscal year of the old higher fare. Thus, an Operator could not trigger an increase in their fare units by lowering their base fare and would have no incentive to do so. Operators would be required to increase their base fare to an amount equal to or greater than the base fare established using FY 2006 TPM data to again calculate their fare units utilizing current TPM data.

B. Los Angeles Department of Transportation's annual fare units calculation for the purpose of determining its annual FAP subsidy funded from the County's Proposition A Discretionary Growth Over CPI account be adjusted as described below.

Effective with the FY 2008 allocation year, the calculation of fare units for LADOT will be conducted utilizing a $0.90 base fare for its eligible express services and a $0.25 base fare for its eligible local services. LADOT's annual FAP subsidy allocation will continue to be funded from the County's Proposition A Discretionary Growth Over CPI account, which is the primary source of FAP funding designated by Metro for all Eligible Operators in the County. LADOT will also be subject to the proposed new FAP formula/distribution rules discussed above for all Included and Eligible Operators. This includes holding all of the other Eligible Operators to a minimum of their FY 2007 dollar funding levels.

Continuation of Current Transit Operating Funds:

C. The LACMTA shall continue to allocate funds to the Included and Eligible Operators from the following sources for both the FAP and non-FAP programs:

- Transportation Development Act, Article 4
- State Transit Assistance
- Proposition A 40% Discretionary
- Proposition A 40% Discretionary Interest
- Proposition A 40% Discretionary Growth Over CPI
- Proposition C 5% Security
- Proposition C 40% Discretionary Municipal Operator Service Improvement Program (MOSIP)
- Proposition C 40% Discretionary Transit Service Expansion (TSE)
- Proposition C 40% Discretionary Bus System Improvement Plan (BSIP)/ Overcrowding Relief
- Proposition C 40% Discretionary Base Restructuring
- Proposition C 40% Discretionary Foothill Transit Mitigation
- Proposition C 40% Discretionary Interest