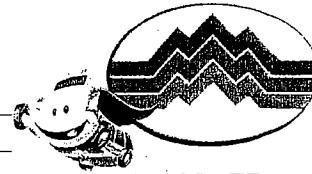


# Special Executive Board Meeting

April 20, 2007



**Foothill Transit**

To: Executive Board

Subject: **Position on Proposed Changes to the Formula Allocation Procedure**

---

## **Recommendation**

Consider taking a position on proposed changes to the Los Angeles County Metro's Formula Allocation Procedure.

## **Analysis**

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. 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 fund 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 straight forward 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 fifty 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 has experienced the 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 subsidy funding in fiscal year 2006 and 2007. At the same time, additional farebox revenue from this fare change was not realized. To counter balance 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 of substantially lowered their base fares to increase the funding they receive under the current 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

**Agenda Item No. 16**



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 that 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 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 Operator's 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 units 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.

The Metro Board is expected to consider both of these possible changes at their meetings this month.

A key consideration under both the current FAP and the LACMOA proposal is that an operator could continue to adjust fares in such a way as to increase their total farebox revenues but not increase their base fare. For example, a transit operator could increase express fares, but not adjust the local base fare. Metro is currently planning to take this approach with the fare increase they have proposed. Metro could realize total farebox revenue increase of 20% to 40% with no adjustment in their base fare. If this occurs, other transit operators who do not experience similar increases in their total farebox revenues will likely see reduction in their funding under the fare unit portion of the FAP. Please note that Metro currently consumes approximately 70% of all county wide funding available via the FAP.

### **Financial Impact**

Under the current FAP and the LACMOA approach, Foothill Transit could see a substantial reduction in subsidy funding in fiscal year 2010 if additional farebox revenue is not generated. Under Mr. Fasana's motion, Foothill Transit will likely experience a slight reduction of subsidy funding. Metro staff estimates that this reduction in funding in fiscal year 2008 will be less than \$10,000.

Sincerely,

  
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.)

**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