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**PLANNING AND PROGRAMMING COMMITTEE
MAY 18, 2005**

**SUBJECT: PROGRAMMING AVAILABLE LOCAL TRANSIT FUNDS
FOR COUNTYWIDE TRANSIT NEEDS**

ACTION: AUTHORIZE CEO TO PROGRAM AVAILABLE FUNDS

RECOMMENDATION

Authorize the Chief Executive Officer (CEO) to:

- A. Program \$8 million to sub-regional paratransit and locally funded, fixed-route transit operators, and \$10 million to Metro from Proposition A Incentive Program reserves, as described in Attachment A;
- B. Suspend Section 3.3 of the Proposition A 40% Discretionary Fund Guidelines for two years, and program up to \$27.68 million to included municipal transit operators, eligible transit operators and Metro from un-programmed Fiscal Year (FY) 2003-04 and FY 2004-05 Proposition A 40% Discretionary Growth-Over-Inflation (GOI), as described in Attachment B; and
- C. Allocate and administer funds programmed, as well as develop and execute necessary funding agreements, according to criteria described in Attachments A, B and C.

ISSUE

The transit industry nationwide is operating in a financially challenging environment of increasing fuel, insurance and other operating costs. Here in Los Angeles County, Metro, sub-regional paratransit operators and locally funded, fixed-route transit operators need additional revenues to cover these cost increases as well as budget shortfalls, so that services may be maintained. Metro itself has the additional need of addressing the legal demands of providing additional transit service under the Federal Bus Consent Decree. Funds are available from the Proposition A Incentive Program and Proposition A 40% Discretionary sources to address these countywide transit needs.

POLICY IMPLICATIONS

Proposition A Incentive Program and Proposition A 40% Discretionary GOI funds may be used to assist sub-regional paratransit and locally funded, fixed-route transit operators countywide, so that they can maintain service levels and fleets in the current economic environment. Furthermore, both Incentive and Discretionary GOI funds could become important financing sources for implementing the Metro Connections program.

We need approval from the Board of Directors to program available Proposition A Incentive funds for the transit needs of sub-regional paratransit operators, local jurisdictions and Metro. We also need Board approval to program available Proposition A 40% Discretionary GOI funds for included municipal transit operators, eligible transit operators and Metro.

To program the \$27.68 million in Proposition A 40% Discretionary GOI funds as recommended, the Board first needs to authorize a two-year suspension of Section 3.3 of the Proposition A 40% Discretionary Fund Guidelines. Section 3.3 of the Guidelines requires that Discretionary GOI funds be transferred to enhance the Proposition C 40% Discretionary Fund. It is important to note that continued suspension of Section 3.3 of the Guidelines, resulting in Discretionary GOI funds not being transferred into the Proposition C 40% Discretionary Fund, will significantly impact the funding capacity of our Long Range Transportation Plan for Los Angeles County. Several regional projects and programs will be delayed or eliminated as a result of these transfers not occurring over the Long Range Transportation Plan period (2005-2030). We estimate that as much as \$2 billion could be made unavailable for these regional projects and programs. We will examine this concern further as part of the Long Range Transportation Plan update.

OPTIONS

The Board may choose not to approve one or both of the recommended actions. The Board instead could choose to program all or part of the recommended Incentive and Discretionary GOI amounts to:

1. Los Angeles County transit operators other than Metro, for their capital needs alone;
2. Los Angeles County cities and the County of Los Angeles for capital transit projects through a 2007 Countywide Call for Projects process; or
3. Other regionally significant transit projects identified in the Short and Long Range Transportation Plans for Los Angeles County.

We do not recommend that the Board consider these other options. However, the Board may choose to program all of the \$27.68 million in Discretionary GOI funds identified in our recommendation, so as to help address the recent order from the Special Master overseeing the Federal Bus Consent Decree. More specifically, the \$27.68 million could be used for anticipated operating and capital expenditures associated with the Special Master's order requiring Metro to add at least 134 buses to the Metro Rapid fleet and to have all 28 proposed Metro Rapid lines in service by December 31, 2008.

FINANCIAL IMPACT

Board approval of our recommendation will provide: 1) Proposition A Incentive Program funds in the amount of \$10 million to Metro in FY 2004-05, and \$8 million to sub-regional paratransit and other transit operators over three years (FY 2005-06, 2006-07 and 2007-08); and 2) Proposition A 40% Discretionary GOI funds in the amount of \$18.93 million to Metro and \$8.76 million to the municipal operators, as shown in Attachment B. Individual operators may use their allocated Proposition A 40% Discretionary GOI funds for FY 2004-05 and/or FY 2005-06.

With Board approval of our recommendation, \$18 million in un-programmed Incentive funds will be transferred from the Incentive Program carryover reserve. This will have no impact on other projects or programs in the Metro Budget. Also with Board approval, the \$27.68 million in un-programmed FY 2003-04 and estimated 2004-05 Proposition A 40% Discretionary GOI amounts determined through the FY 2003-04 and FY 2004-05 Formula Allocation Procedure (FAP), respectively, will be transferred for allocation. These funds are also currently un-programmed and would not impact other projects or programs in the Metro Budget. Since FY 2005 is not yet over, the FY 2004-05 Prop A 40% discretionary GOI will not be programmed until the FY 2007 Budget.

DISCUSSION

Due to the current operating environment, Los Angeles County transit and paratransit providers are struggling with budget shortfalls, and are faced with difficult decisions such as raising fares and/or reducing service levels to maintain their ongoing service operations and fleets. We propose to allocate Proposition A Incentive Program and Proposition A 40% Discretionary GOI funds to maintain countywide transit and paratransit service levels in the current environment of growing financial challenges. A portion of the allocation from each of these funds will go to Metro to support regional bus and rail services. We also will allocate these funds our transit and paratransit partners countywide. Comments received from the Metro Technical Advisory Committee and two subcommittees are shown in Attachment D.

Proposition A Incentive Program Funding

The Proposition A Incentive Program was established in the mid-1980s as a replacement for Transportation Development Act (TDA) Article 4.5, which sets aside funds for dial-a-ride, intra-community and other specialized services for the disabled. The key priority is to provide funding for coordinated, multi-jurisdictional dial-a-ride services that increase regional mobility for seniors and persons with disabilities. Incentive Program funding consists of approximately \$11 million per year in revenues, secured from 5% of Proposition A 40% Discretionary revenues. The Proposition A 40% Discretionary funding tier was created when Los Angeles County voters approved the Proposition A local sales tax initiative in 1980. An Incentive Program carryover reserve of approximately \$18 million has accumulated and is currently available for programming.

In addition to the challenges of the current operating environment, the cancellation of the 2003 and 2005 Countywide Call for Projects has left many of the sub-regional paratransit and locally funded, fixed-route transit operators to face serious capital funding demands. Metro is facing serious funding demands from operating and capital needs going into FY 2005-06, as well. We propose to allocate up to \$10 million of the Incentive Program funds to Metro for operating or capital needs. We also propose to allocate up to \$8 million to sub-regional paratransit and locally funded, fixed-route transit operators for their capital needs. Both proposed allocations are described further in Attachment A.

Proposition A 40% Discretionary Growth-Over-Inflation Funding

The recommended programming action will utilize a Proposition A 40% Discretionary GOI amount of \$13.71 million that was derived from the FY 2003-04 FAP and \$13.97 million that was derived from the FY 2004-05 FAP. We are proposing that these amounts, totaling \$27.68 million, be allocated according to the FY 2004-05 FAP, as described in Attachments B and C. To implement this, we propose that the Board first authorize a two-year suspension of Section 3.3 of the Proposition A 40% Discretionary Fund Guidelines. Section 3.3 of the Guidelines indicates that additional Discretionary funds derived from higher than committed Discretionary grant subsidies will be transferred to the Proposition C 40% Discretionary Fund.

The recommended programming action is proposed as a one-year, one-time only allocation of funds to be used in FY 2004-05 or FY 2005-06. We will administer the funds according to the proposed Countywide Transit Needs Guidelines shown in Attachment C. The funds are to be used to maintain and improve service to transit users countywide. The guidelines are meant to be flexible enough, so as to allow operators to determine how best to address their individual needs. Proposed allocations to Metro and the municipal operators, as well as programming objectives, are identified in more detail in Attachments B and C.

NEXT STEPS

With Board approval of our recommendation, we will program, allocate and administer the recommended \$18 million and \$27.68 million funding amounts as indicated in Attachments A, B and C. We will work with the Local Transit Systems Subcommittee to develop criteria for allocation of the Proposition Incentive Funds and consult with the Bus Operators Subcommittee to finalize the proposed Countywide Transit Needs Guidelines (Attachment C). We will bring the Proposition A Incentive funding recommendations back to the Board for adoption. Should there be significant changes affecting the scope, purpose or objectives of Countywide Transit Needs Guidelines for the Proposition C funds, we will bring the Countywide Guidelines back to the Board for approval, as well. Finally, we will develop and execute the necessary agreements to allocate and administer funds from both funding sources.

ATTACHMENTS

- A. Allocation of Proposition A Incentive Funds to Metro, Sub-regional Paratransit Operators, and Locally Funded Fixed-Route Operators

- B. Allocation of FY 2003-04 and 2004-05 Proposition A 40% Discretionary Growth-Over-Inflation Funds to Metro and Municipal Operators
- C. Countywide Transit Needs Guidelines
- D. Comments Received from Metro Technical Advisory Committee and Sub-committees

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Allocation of Proposition A Incentive Funds to Metro, Sub-Regional Paratransit Operators and Locally Funded, Fixed-Route Operators

Funds allocated to Metro will be for operating and/or capital needs. Funds allocated to sub-regional operators/local jurisdictions will be for capital needs only. Staff has made a preliminary estimate of the capital needs of the sub-regional operators/local jurisdictions to be \$8 million, and will return to the Board of Directors in Fall 2005 with specific funding recommendations up to that amount. Staff will assess the individual capital needs of the sub-regional operators/local jurisdictions and allocate funding to assist in meeting those needs.

Eligible capital project needs would include, but would not necessarily be limited to:

- Replacement of vehicles for sub-regional paratransit or locally funded, fixed-route services.
- Vehicle purchases for implementation of Metro Connections recommendations.

A 20% local match will be required from the sub-regional operators/local jurisdictions.

Because funds are available to sub-regional operators/local jurisdictions for capital projects only, funds will be programmed for Fiscal Years 2005-06, 2006-07, and 2007-08. This will allow operators/jurisdictions to tailor funds to fit vehicle retirement and replacement schedules, or to plan and implement Metro Connections recommendations.

Funds will come from Proposition A Incentive Program reserves. Funding will be allocated between Metro, sub-regional operators and local jurisdictions as follows:

Agency	Amount (up to:)	Year/Years of Allocation	Allocation Process
Metro	\$ 10 million	FY 2005/2006	Metro Budget/Capital Plan
Sub-Regional Paratransit Operators/Local Jurisdictions	\$ 8 million	FY 2006/2007/2008	Projects to be approved by the Board in Fall 2005
TOTAL:	\$ 18 million		

Allocation of FY 2003-04 and 2004-05 Proposition A 40% Discretionary Growth-Over-Inflation Funds to Metro and Municipal Operators

The Proposition A 40% Discretionary funds proposed for this allocation derive from un-programmed FY 2003-04 and FY 2004-05 Proposition A 40% Discretionary Growth-Over-Inflation. Section 3.3 of the Proposition C 40% Discretionary Fund Guidelines is suspended for two years, so that these funds may be allocated according to the FY 2004-05 Formula Allocation Procedure (FAP), as shown below:

Proposition A 40%-Growth Over Inflation

	% Shares	Percentage Share	Prop A GOI		Total
			FY 2003-04	FY 2004-05	
Arcadia	0.1197957%	0.1132400%	\$ 15,530	\$ 15,818	\$ 31,348
Claremont	0.0405462%	0.0383274%	\$ 5,256	\$ 5,354	\$ 10,610
Commerce	0.0849049%	0.0802585%	\$ 11,007	\$ 11,211	\$ 22,218
Culver City	1.4147396%	1.3373193%	\$ 183,400	\$ 186,807	\$ 370,206
Foothill	7.3479397%	6.9458303%	\$ 952,551	\$ 970,244	\$ 1,922,795
Gardena	1.7197264%	1.6256159%	\$ 222,937	\$ 227,078	\$ 450,015
La Mirada	0.0666008%	0.0629561%	\$ 8,634	\$ 8,794	\$ 17,428
Long Beach	6.1708442%	5.8331503%	\$ 799,958	\$ 814,817	\$ 1,614,775
Montebello	2.5900882%	2.4483480%	\$ 335,766	\$ 342,003	\$ 677,770
Metro Operations	72.3270769%	68.3690428%	\$ 9,376,131	\$ 9,550,287	\$ 18,926,418
Norwalk	0.7208797%	0.6814302%	\$ 93,451	\$ 95,187	\$ 188,638
Redondo Beach	0.0227085%	0.0214658%	\$ 2,944	\$ 2,999	\$ 5,942
Santa Monica	5.8756936%	5.5541515%	\$ 761,696	\$ 775,844	\$ 1,537,541
Torrance	1.4984554%	1.4164538%	\$ 194,252	\$ 197,861	\$ 392,113
Antelope Valley	1.2470278%	1.1787853%	\$ 161,659	\$ 164,661	\$ 326,320
Santa Clarita	1.6639371%	1.5728797%	\$ 215,705	\$ 219,711	\$ 435,416
City of LA DOT	1.8415915%	1.7408120%	\$ 238,735	\$ 243,169	\$ 481,904
Foothill - BSCP	1.0366634%	0.9799329%	\$ 134,388	\$ 136,884	\$ 271,272
Total Funds Allocated	105.79%	100.00%	13,714,000.00	13,968,730.00	27,682,730.00

The funds will be administered according to the Proposed Countywide Transit Needs Guidelines described in Attachment C.

Countywide Transit Needs Guidelines

INTRODUCTION

These guidelines summarize the funding policies and administrative procedures for the programming of funds to maintain and improve transit services countywide.

PROGRAMMING OBJECTIVES

Funds programmed are to be used for maintaining services to transit users countywide in a financially challenging environment of increasing fuel, insurance and other operating costs and budget shortfalls. The program is flexible to allow operators to determine how best to accomplish their individual needs. The objectives of the program are:

- a) To maintain service to transit users countywide;
- b) To assist Metro in reducing its operating and capital costs through collaboration between the municipal operators and Metro;
- c) To identify overlapping services and develop strategies to operate those services at a reduced cost;
- d) To work with Metro on new countywide service expansion plans to reduce overcrowding and expand new services to the transit dependent;
- e) To provide input into Metro's vehicle purchase plan to reduce costs; and
- f) To continue work with Metro on countywide fare media options and the Universal Fare System to achieve a seamless ride for Los Angeles County transit patrons.

PROGRAMMED AMOUNT AND ALLOCATION PERIOD

This programming of funds is a one-year, one-time allocation of funds to be used in FY 2004-05 or 2005-06, depending on the needs of the individual operator. The funding allocation shares of the operators are shown in Attachment B.

RESERVE/CARRY-OVER REQUIREMENTS

An operator may reserve or carry over its allocation to the next fiscal year; however the funds will retain their original year of allocation for the purpose of applying the lapsing requirement.

An operator may assign its funds for a given fiscal year to another operator that is able to use them according to the scope, purpose, and objectives and within the lapsing requirement timeframe.

LAPSING REQUIREMENT

Given the objective of the program to maintain transit service, operators are encouraged to spend these funds in a timely manner.

Operators have four years, that is the year of allocation plus three years, to spend the funds allocated through this programming. Lapsed funds will revert back to a joint municipal operator fund, which will be allocated proportionally to all other municipal operators.

AUDIT/REPORTING REQUIREMENTS

Use of these funds will be audited as part of the annual audit of each municipal operator. Operators will retain all documents and records related to this program and the use of funds for a period of three years after the year in which the funds are expended. Municipal operator and Metro records of the use of these funds for operating transit services will be kept and reported separately on Transit Performance Measurement (TPM) forms, and not included in Formula Allocation Procedure (FAP)-funded uses. If funds are used for capital purposes, they should be reported separately on the capital project tables in the Short Range Transit Plan (SRTP).

Semi-Annual Report: Operators will provide a semi-annual report to Metro describing how services are meeting the programming objectives. For capital projects, the semi-annual report should describe the project progress and estimated completion date.

Comments Received from Metro Technical Advisory Committee and Subcommittees

March 22, 2005: The Bus Operators Subcommittee (BOS) deferred action to the bus operators' General Managers.

March 24, 2005: The Local Transit Systems Subcommittee (LTSS) passed a resolution to support the staff recommendation with the following caveats: 1) LTSS member capital needs may exceed \$8 million; and 2) Any amount over \$18 million be kept in the Proposition A Incentive Reserve Fund. 11 voted in favor, 3 opposed and 1 abstained.

March 31, 2005: The General Managers took the following position: that the \$18 million be offered to the current recipients of the Proposition A Incentive Fund, and if there are remaining funds they are to be allocated to Metro and the municipal operators according to the Fund Allocation Procedure.

April 6, 2005: The Technical Advisory Committee (TAC) passed a resolution that the entire balance (\$18 million) should be made available through a mini-Call for Projects for which Proposition A Incentive Program Eligible Participants can participate and any balance be reserved for the Incentive Program Eligible Participants. 12 voted in favor, 8 opposed, and 6 abstained.

April 21, 2005: The LTSS held a special meeting and revised its position on the Countywide Transit Needs item. A motion was passed "that we concur with the TAC motion that the entire balance in the Incentive Grant Reserve be available for the Incentive Program eligible participants and that Metro staff work with LTSS members to develop and implement guidelines and a process for the Incentive Program eligible participants to access the Reserve."

