



Metro

Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.2000 Tel
metro.net

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**PLANNING AND PROGRAMMING COMMITTEE
SEPTEMBER 20, 2006**

SUBJECT: REVISED METROLINK COST-SHARING FORMULA

**ACTION: APPROVE PROPOSED METHOD FOR ALLOCATING
METROLINK NET OPERATING COSTS**

RECOMMENDATION

Approve the Alternative C - proposed formula (Revised SCRRA - 25% Stations/TVMs) shown in Attachment A as the new method for allocating Metrolink's net operating costs among the member agencies beginning with the FY 2007-08 Metrolink Budget.

ISSUE

Metro staff has previously informed the Board of Directors of its concerns regarding the method for allocating Metrolink's net operating costs. At the May 2006 Board meeting, staff was directed to work with Metrolink and the other four member agencies and return with an updated formula.

POLICY IMPLICATIONS

The purpose of the new allocation method is to distribute the net operating costs of the Metrolink operations budget among the member agencies. The proposed method is a fair, equitable, performance-driven allocation.

ALTERNATIVES CONSIDERED

Staff discussed several alternative formulae. None of the other formulae were as effective as the proposed formula in measuring costs with cost-driving statistics, as well as benefits in terms of numbers of stations in each county. Thus, staff does not recommend using the alternative formulae. Staff believes the proposed performance driven formula results in a fair and equitable cost allocation.

FINANCIAL IMPACT

Metro funding for Metrolink's annual operating subsidy consists of Proposition C 10% funds. The program is included in the constrained element of the 2001 Long Range Transportation Plan. The new allocation formula would be applied to Metrolink's net operating costs, which are total operating costs of \$135 million less \$73.3 million of revenues, including fares. The new method would be used to

develop the FY 2007-08 budget and would save Metro approximately \$1 million per year over the FY 2006-07 budget formula. Metro's contribution for Metrolink operations in the FY 2006-07 budget is 53.5%. This would reduce to an estimated 51.9% in FY 2007-08. In the longer term, with anticipated growth in Metrolink operations in other counties plus this revised formula, Metro's share is estimated to reduce to approximately 40% or less and save \$4 million to \$6 million annually.

DISCUSSION

The Metrolink system, which the SCRRA operates, provides regional passenger service between communities, employment centers and activity venues in Los Angeles County and the four surrounding counties of Ventura, Riverside, San Bernardino and Orange, as well as northern San Diego County.

Background

Net operating costs make up approximately one-half of the Metrolink operating budget and include maintenance of the trains and equipment, insurance, administrative and overhead costs. Over time, member agencies have developed a set of projected statistics (the percentage of stations and route miles located in each county, and the percentage of train miles operated in each county) and shared the base costs accordingly. Paying according to projected statistics did not work well, as service change concepts and construction projects were sometimes reconsidered or delayed, causing inaccuracy and volatility in the county shares of the budget. Beginning with FY 1998-99, the statistics were frozen, with Metro's share at approximately 56%, as an interim measure to mitigate the volatility.

In the approximately eight years since the net operating cost-sharing formula was frozen, extensive service additions have been implemented, with much of the new service operating outside of Los Angeles County. This created an accuracy issue because of the gap between frozen and actual data. The interim agreement reached for the development of the FY 2005-06 and 2006-07 budgets has partially solved the problem, in that half of the net operating costs is now allocated using recent data, and only half of the costs are allocated using frozen data. The proposed formula results in an equitable allocation between the member agencies, reflecting both the cost to deliver service to each county, and the benefit received by each county. The proposed formula uses current statistics that would get updated annually.

Proposed Formula: Attachment A and B - Formula C

SCRRA staff and the member agencies have jointly developed a new allocation method called the Revised SCRRA Allocation - 25% Stations/TVMs. The new method attempts to allocate costs according to how they are incurred by associating each individual line item of the base operating cost to a service or infrastructure statistic of the five member counties. Attachment A describes the revised formula, as well as several of the other formulae discussed by the member agencies. The financial impacts of adopting the revised formula are shown on Attachment B.

Beginning with the FY 2007-08 Metrolink Budget, the revised formula would be used, and the old revised base formula, with frozen data (from FY 1995-96 and 1996-97) would be completely phased out.

Details of Proposed Formula

The proposed formula: 1) shifts the emphasis from train miles to route miles for many of the more fixed-type costs, 2) allocates 25% of the cost of maintenance of train equipment by stations in order to represent the benefit as well as the cost of the service (the remaining 75% is allocated according to train miles), and 3) allocates the cost of TVM maintenance and collection based on the number of TVMs in each county. Attachment B shows the costs to Metro and the other member agencies under the three main formulae as well as the current (FY 2006-07) method, and the projected cost savings.

NEXT STEPS

The proposed formula would be used for the development of the FY 2007-08 Metrolink Budget in Spring 2007. Staff will seek Metro Board approval of the Metrolink Budget and Metro's financial contribution to it in May 2007.

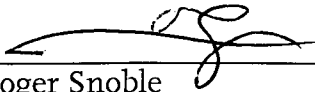
ATTACHMENT(S)

- A. Alternative Methods for Allocation of Metrolink Net Operating Costs
- B. Summary of Financial Impacts Under Various Cost Sharing Methods Forecasted to 2015

Prepared by: Nalini Ahuja, Director, Local Programming
Patricia Chen, Project Manager, Local Programming



Carol Inge
Chief Planning Officer



Roger Snoble
Chief Executive Officer

METROLINK OPERATIONS BUDGET
LINE ITEM ALLOCATION COMPARISON

Attachment A

	A. Revised Base Formula Used for 50% of the allocation in FY 06 + FY07	B. SANBAG Formula Used for 50% of the allocation in FY 06 + FY 07	C. Proposed Formula (Revised SCRRA - 25% Stations, TVM's)
NET Operating Costs Base Allocation Equipment Maintenance Operating Contingency (Bombardier) Non-Scheduled Rolling Stock Repairs Operating Facilities Maintenance Other Operating Train Services Security - Sheriff Security - Guards Public Safety Program Utilities/Leases Passenger Relations - Call Boxes Contingency (Non-Train Operating) TVM Maintenance/Revenue Collection Station Maintenance - Non-Union Station Station Maintenance - Union Station Passenger Service Representatives Passenger Relations - Call Center/Other Marketing/Market Research Media & External Communications Liability/Property/Auto Claims Claims Administration Salaries & Fringe Benefits Non-Labor Costs Allocated Overhead Services	Train Miles Train Miles Excluding San Diego County/25% Unduplicated Point-in-Time Point-in-Time/Direct Point-in-Time Even Split to Operating Lines Point-in-Time Point-in-Time Point-in-Time Point-in-Time Point-in-Time Point-in-Time Direct Revenue Moves through LAUS Direct Point-in-Time Point-in-Time Point-in-Time Point-in-Time Point-in-Time Point-in-Time Point-in-Time Point-in-Time/Direct	95% Train Miles Lagged / 5% Unduplicated Stations 100% Unduplicated Route Miles (excl SD County) 100% Unduplicated Route Miles (excl SD County) 100% Unduplicated Route Miles (excl SD County) 100% Unduplicated Route Miles (excl SD County) 100% Unduplicated Route Miles (excl SD County) 100% Unduplicated Route Miles (excl SD County)	75% Train Miles - Lagged/25% Unduplicated Stations Train Miles - Lagged Train Miles - Lagged Train Miles - Lagged Unduplicated Route Miles (Excl SD Co) Train Miles - Lagged Unduplicated Route Miles (Excl SD Co) Unduplicated Route Miles (Excl SD Co) Unduplicated Route Miles (Excl SD Co) Unduplicated Stations Unduplicated Route Miles (Excl SD Co) TVMs Unduplicated Stations Revenue Moves thru LAUS Unduplicated Route Miles (Excl SD Co) Ridership Distribution - Lagged Ridership Distribution - Lagged Unduplicated Route Miles (Excl SD Co) Train Miles - Lagged Train Miles - Lagged Train Miles - Lagged Unduplicated Route Miles (Excl SD Co) Unduplicated Route Miles (Excl SD Co) Unduplicated Route Miles (Excl SD Co) Unduplicated Route Miles (Excl SD Co)
Train Mile Allocation Train Operations Fuel Operating Contingency (Amtrak) Direct to Line Segments/Territories Rail Agreements MoW - Line Segments MoW - Extra-Ordinary Maintenance Holiday Trains Amtrak Transfers Route Miles Dispatched Dispatching Ridership/Revenue Distributions Transfers to Other Operators Supplemental Additional Security	Train Miles- Current Train Miles- Current Train Miles- Current Direct To Lines/Then to Members Direct To Lines/Then to Members Direct To Lines/Then to Members Direct To Lines/Then to Members Direct To Lines/Then to Members Train Miles Ridership/Revenue Distribution Ridership/Revenue Distribution	Train Miles- Current Train Miles- Current Train Miles- Current Direct To Lines/Then to Members Train Miles of Service on Territory Train Miles of Service on Territory Direct To Lines/Then to Members Direct To Lines/Then to Members Route Miles Dispatched Ridership/Revenue Distribution Ridership/Revenue Distribution	Train Miles- Current Train Miles- Current Train Miles- Current Direct To Lines/Then to Members Train Miles of Service on Territory Train Miles of Service on Territory Direct To Lines/Then to Members Direct To Lines/Then to Members Route Miles Dispatched Ridership/Revenue Distribution Ridership/Revenue Distribution

SUMMARY OF FINANCIAL IMPACTS UNDER VARIOUS COST SHARING METHODS FORECASTED TO 2015

(\$ in 000's)

	Metro	% of Budget	OCTA	% of Budget	RCTC	% of Budget	SANBAG	% of Budget	VCTC	% of Budget	TOTAL (1)
FY06-07 BUDGET (1/2 A + 1/2 B)											
A. Revised Base Formula	32,922.9	53.5%	11,465.6	18.6%	5,508.7	9.0%	6,852.4	11.1%	4,756.4	7.7%	61,506.0
B. SANBAG Formula	31,973.9	52.0%	13,236.7	21.5%	5,238.3	8.5%	6,682.2	10.9%	4,375.0	7.1%	61,506.0
C. Proposed Formula (2)	32,030.8	52.1%	12,054.3	19.6%	5,887.2	9.6%	6,433.0	10.5%	5,100.8	8.3%	61,506.0
Savings: Current - Proposed	31,931.8	51.9%	12,241.4	19.9%	5,881.6	9.6%	6,624.1	10.8%	4,827.1	7.8%	61,506.0
	991.1		(775.8)		(372.9)		228.3		(70.7)		-
2012											
A. Revised Base Formula	28,489.1	37.9%	25,397.7	33.8%	9,909.6	13.2%	6,836.3	9.1%	4,545.4	6.0%	75,178.3
B. SANBAG Formula	29,924.1	39.8%	23,320.1	31.0%	9,881.1	13.1%	6,632.6	8.8%	5,420.3	7.2%	75,178.3
C. SCRRA Formula	29,690.4	39.5%	24,397.3	32.5%	9,574.2	12.7%	6,806.1	9.1%	4,710.3	6.3%	75,178.3
D. Proposed Formula (2)	29,983.9	39.9%	22,921.6	30.5%	10,243.0	13.6%	6,764.0	9.0%	5,265.7	7.0%	75,178.3
Current FY 06-07 Formula	34,524.5	45.9%	20,244.6	26.9%	7,491.2	10.0%	7,419.1	9.9%	5,498.9	7.3%	75,178.3
Savings: Current - Proposed	4,540.6		(2,677.0)		(2,751.8)		655.1		233.2		-
2015											
A. Revised Base Formula	38,682.7	35.7%	30,930.1	28.6%	16,161.2	14.9%	9,564.8	8.8%	12,929.5	11.9%	108,268.2
B. SANBAG Formula	40,102.4	37.0%	28,715.5	26.5%	16,005.8	14.8%	9,312.0	8.6%	14,132.6	13.1%	108,268.2
C. SCRRA Formula	40,004.8	36.9%	29,514.9	27.3%	15,651.3	14.5%	9,592.1	8.9%	13,505.2	12.5%	108,268.2
D. Proposed Formula (2)	39,717.6	36.7%	28,597.9	26.4%	16,700.2	15.4%	9,443.8	8.7%	13,808.8	12.8%	108,268.2
Current FY 06-07 Formula	46,198.1	42.7%	26,059.9	24.1%	12,453.5	11.5%	10,268.5	9.5%	13,288.2	12.3%	108,268.2
Savings: Current - Proposed	6,480.5		(2,538.0)		(4,246.7)		824.7		(520.6)		-

Notes:

1. Annual Escalation: 4% Expenditures, 3.5% Revenues (in addition to expansion costs and revenue growth due to increasing ridership).

2. The full name of the proposed formula is Revised SCRRA 25% Stations, TVM's.