A DISCUSSION OF THE MUNICIPAL OPERATORS SERVICE IMPROVEMENT PROGRAM

January 13, 2006

INTRODUCTION

The Municipal Operators Service Improvement Program (MOSIP) was approved by the Board as a five-year program ending with FY06. In return for Metro funding MOSIP, the Municipal Operators agreed not to pursue legislation or any legal action that would alter the funding sources currently subject to the formula allocation procedure. The following table shows amounts of Proposition C40% funds that were allocated to the Municipal Operators in each year:

FY02	$14,508,065
FY03	$14,980,347
FY04	$15,301,694
FY05	$15,883,111
FY06	$16,882,634
TOTAL	$77,555,851

As all operators are currently working on preparing their FY07 budgets, the end of MOSIP has obvious financial challenges, and, therefore, will become an issue that the Metro Board of Directors will have to decide.

If the program were to be continued as stated in the board motion, it would result in a Proposition C40% allocation to the Municipal Operators of the following amounts:

FY07	$17,389,113
FY08	$17,910,786

This paper was prepared to assist the Board with deliberation on this issue.

BACKGROUND

MOSIP was adopted by the Board of Directors to resolve issues with the Municipal Operators regarding the “fair sharing” of discretionary sales tax revenues (Proposition C40%). According to the 1990 Ordinance imposing the ½-cent sales and use tax revenues, “Forty percent of the revenue from the ½-cent sales and use tax will be used to improve and expand rail and bus transit county-wide, to provide fare subsidies, increase graffiti prevention and removal, and increase energy-efficient, low polluting public transit service...” (Ordinance 49 Prop C, 1990).

A chronology of the “fair share” issue prior to 2001 is included in the Appendix – Attachment A.

April 26, 2001 Board Action

According to the April 2001 Board report, the MOSIP program was :

> "to respond to the Municipal Operators' request to formularize Proposition C40% funds programmed to the MTA's bus operation to meet consent decree and bus policing costs.
>
> Since the formation of the MTA, whenever discretionary operating funds were used for MTA Transit Operations, a proportionate share was typically allocated to the Municipal Operators. This share policy was not used when funds were allocated for service required by the consent decree. The MTA's position was that the consent decree was a regional responsibility and like funding for the rail system could be paid out of regional funds without matching distributions. The Municipal Operators argued that the concept applied to all funding for MTA bus operations and asked for proportionate distribution."

Metro staff was then directed by the Board to "work with the Municipal Operators to attempt to resolve the difference."

Metro and the Municipal Operators agreed on a service improvement program (MOSIP) where the scope was "to improve service countywide for the transit dependent by reducing overcrowding and expanding service. The program was envisioned to include more collaboration by the Municipal Operators and the MTA in identifying common goals and objectives and modifying the program to adjust to changing priorities that often occur over time."

As part of the April 26, 2001 action of the Board, Metro and the Municipal Operators agreed to "jointly draft an amendment to AB974 to incorporate the terms of the MOSIP agreement."

Also as part of the Board adoption of the program, the Municipal Operators agreed to begin discussions within 30 days of adoption to accomplish the following:

1. "Identify overlapping services operated by MTA and develop strategies for operating these services, which will result in savings to the MTA.

2. Work with the MTA on new countywide service expansion plan to reduce overcrowding, expand new service to transit dependents and provide, (sic) which will reduce MTA's future operations and capital costs.

3. Provide input into MTA's vehicle purchase plan with the intent of reducing the capital cost of MTA's transit vehicles.

4. Continue to work with the MTA on the Universal Fare System to implement a countywide fare instrument."

The Board report stated that the premise of the MOSIP funding would be that "the Municipal Operators will assist MTA in reducing its operating and capital costs which will offset the program funding. As part of this program, all participating parties would agree not to pursue legislation or any legal action to alter the funding sources currently subject to formula allocations."

Sixteen Municipal Operators receive funds under MOSIP. The original amount was established based on an estimate that $35 million of Proposition C40% funds would be needed for Metro Bus consent decree service in FY02. If the $35 million was Metro's share, a "fair share", for the Municipal Operators would be $15 million (see memo from Allan Lipsky to Steve Carnevale dated June 23, 2002 – Appendix - Attachment B). The $15 million was then distributed to each of the 16 municipal operators using a different formula from the established Formula Allocation Procedure (FAP). In effect, it is distributed in proportion to all of the funding they receive from the FAP and other funding formulas. The amount is inflated each year by 3%.

According to the Lipsky memo and the recollections of several staff involved in the negotiation, it was agreed that MOSIP settled the fair share agreement for the five years of MOSIP, even if Metro bus operations needed more than the fair share amount.

September 19, 2002 Board Action

In September 2002 the Municipal Operators requested an allocation of $3.8 million of Proposition C40% be awarded to them in addition to the MOSIP allocation for FY03. This request was in response to the June 2002 revision to the Financial Standards which resulted in the $10.7 million reclassification of regional costs from the General Fund to the Enterprise Fund and the reprogramming of Proposition A and Proposition C Administrative Funds to Proposition C40%. The Municipal Operators again requested that all Proposition C40% funds used for bus operations be "fair-shared" with them.

In lieu of the staff recommendation, Supervisor Burke proposed a motion that the Board program the $3.8 million to the Universal Fare System (UFS) project for implementation of the Regional UFS program for participating local and municipal operators (Supervisor Burke Motion – September 2002).

The fair-share issue has not been tested subsequently because Metro did not use Proposition C40% funds in excess of the original FY02 allocation (escalated each year by 3%). As the demands of the consent decree continued to grow, Metro was forced to deplete other fund balances, such as, the lease-lease back revenues, right-of-way leasing revenues and property sales revenues, and increased borrowing.

Other bus subsidies (Proposition A40%, TDA, Federal formula funds) are distributed to Metro and the Municipal Operators through the FAP. Other subsidies to the Municipal Operators include Proposition C40% for Bus Service Improvement, Foothill Mitigation, Transit Service Expansion and Proposition C5% for security. These subsidies are forecasted to grow in the 10-Year Forecast and the Long Range Transportation Plan at the rate of inflation. There has been no decline of FAP subsidies to the Municipal Operators.

Included in the Appendix are six charts that show the relative data of key transit performance indicators of each bus operator Attachments C-H. Also included in the Appendix is a table titled "FY07 FAP Subsidy", -Attachment I. All seven of these tables demonstrate the uneven distribution of the FAP funds based on singular common measures. For each of the factors, the amount per unit that MTA receives is consistently in the bottom quartile, except for vehicle service miles, VSM, where Metro ranks 7th out of 17.

ACTUAL USES OF THE MOSIP FUNDS

Metro executes a memorandum of understanding (MOU) with each Municipal Operator for administration of their MOSIP funds. The Municipal Operators are required to provide Metro with a work plan each fiscal year. Metro oversees the MOU and pays the invoices. The Municipal Operators provide a self-certification that the funds were used in accordance with the stated MOSIP goal.

Some examples of how the funds have been used are listed in the Appendix – Attachment J.

The MOU contains a provision, which states that if the funds are not expended within four years of programming, the funds will lapse and will return to the Prop C40% pool. The fund lapsing is monitored by the MTA as part of their overall fund management responsibilities. To date, no funds have lapsed.

CHALLENGES TO CONTINUING MOSIP

The primary challenge to continuing MOSIP is that there are not enough funds available in the next ten years to fund the existing list of operating and capital projects. The 10-Year Forecast and the Long Range Transportation Plan have both projected a deficit in excess of $1 billion for the next 10 years.

In addition to Metro and the Municipal Operators operating and capital needs, the Long Range Transportation Plan has also identified growing needs for ASI, rail operating and rehabilitation costs, increasing security costs, and the possibility of funding projects beyond the Plan's constrained list. Metro's responsibility for considering all transportation needs in the County require that decisions such as continuation of MOSIP be made in concert with a complete planning process, not as individual resource allocations.

In addition to the many unfunded transportation needs in the County, Metro Operations is facing a preliminary projected operating deficit for FY07 in excess of $100 million. Extension of MOSIP will have the effect of pressuring Metro to raise fares, already the highest in the region, while allowing the Municipal Operators to keep their fares low.

Under the current FAP formulas, a fare increase works to the detriment of Metro by reducing its shares of these monies. The subsidy reductions further exacerbate Metro's deficit causing the need for even higher fares. In order to mitigate these negative impacts, the Board should consider implementing either a region-wide fare structure, or remove the penalty from the FAP, which would provide incentive to the Municipal Operators to raise their fares. Implementation of this regional program would increase total funding available to bus operators throughout the county.

CONCLUSION

The Long Range Transportation Plan and the 10-Year Forecast both predict annual deficits for Metro well over $100 million per year. Funding for MOSIP was not included in the 10-Year Forecast as the program was scheduled to end in FY06. It is unknown at this time what actions will be required to reduce the deficit. Therefore, any action by the Board to continue MOSIP should only be done after a comprehensive review of the impacts of such an action and what options or alternatives might exist. For example, if MOSIP were continued, the Board should determine at what amount the program should be funded and what revenue source should be used.

There are numerous factors that the Board may wish to include in the MOSIP program as conditions going forward. Some examples are the following:

- Eliminating further discussion about "fair-sharing"
- Dedicating a portion of MOSIP to TAP operation
- Changing the FAP to eliminate fare change disincentives
- Funding increases to Access Services Inc.
- Insuring that the funds are used for the purpose intended by the Board

The Board could also consider distributing the funds through a call-for-projects process to ensure that the funds go to the operators with the most pressing operating and capital needs.

Many questions still remain of both the MOSIP and the FAP, therefore, staff is continuing to explore additional analysis and may send out supplemental information at a later date. This issue is too important to determine without a more careful consideration of all the impacts to long range transportation plans and programs in Los Angeles County.

APPENDIX

Fair Share

Chronology – Fiscal Year

Late '80's – LACTC adopts formula allocation procedure (FAP). Funding covered: Transportation Development Act (TDA), State Transit Assistance (STA) Revenue Share, Federal Section 9 (now, Section 5307) capital funds with operating cap, 95% of Prop A 40% Discretionary. Prop A 40% limited to CPI.

1992 – Recession Shortfall – Based on the significant impact of the recession on the RTD, additional funds were granted to all operators due to the recession by appropriating additional non-FAP revenues to be distributed on the FAP basis.

1995 – MTA budget deficit resulting from Consent Decree injunction proposed to be filled with Prop A and C Interest for FY95 and proposed in FY96 budget. Muni's request "fair share". Board agrees to "non-precedent setting" allocation as if Prop A and C Interest were subject to FAP.

1996 – Prop A and C Interest Allocation Guidelines adopted by MTA Board. If any of these funds are used for MTA bus, a proportionate share shall be allocated to the Muni's. FY97 budget proposal included Prop A and C interest allocations to MTA bus operations to fill budget gap since operating costs exceeded fares plus FAP subsidies with fair share to Muni's.

1997 – Consent Decree signed by MTA in October 1996. In order to implement MTA service increases, the Bus Service Improvement Program was adopted in FY97, approximately $10 million of Prop C 40% (partial year). MTA's share, about $7 million, was to be used for Consent Decree service increases with a proportionate share to the Muni's. Foothill Mitigation program, funded by Prop C 40%, is adopted to recognize Foothill Transit's change to "included operator" status and, therefore, inclusion in the FAP. The additional Prop C funds were necessary to "keep whole" the pre-existing operators, including MTA, in percentage and dollar terms.

1997 – MTA programs $35 million of Prop C 40% to MTA Bus for "Consent Decree" service (full year) without sharing for Muni's since Prop C 40% allocations were not subject to Calderon bill. Muni's objected.

1998 – Regional Transportation Alternatives Analysis (RTAA) – The Accelerated Bus Procurement plan, UFS and ATMS projects drew upon regional funds, CMAQ, RSTP, etc., for capital for the first time. Based on Muni requests, the Board approved additional amounts to the Muni's for bus technology improvement (ATMS) and UFS. The term fair share was not mentioned, however, the amounts reflected a proportionate split overall.

1999 – MTA continues to allocate Prop C 40% for MTA bus operations without sharing. Board directs staff to work with Muni's for resolution of fair share issue.

2001 – In response to MTA staff continuing to not recommend sharing, Muni's initiate second Calderon bill (AB974). The Muni's proposal would have required the fair sharing of "any" non-FAP (aka "regional") funds used for MTA bus be subject to the FAP distribution. Regional funds include Prop C 40% and any other non-FAP funds, i.e., CMAQ, RSTP, Bonds, etc. After further discussions with the Muni's and the MTA, the author withdrew the bill.

2001 – Municipal Operators Service Improvement Plan (MOSIP) adopted by Board. MOSIP guarantees $15 million of Prop C 40% per year for 5 years to Muni's based on historical MTA uses of regional funds for MTA bus.

2002 – Clarification of Financial Standards results in the need for MTA bus to draw upon additional Prop C 40% to pay for the transfer of the costs of regional activities and other activities previously paid by Prop A and C Admin. County Counsel reported, based on a history of negotiations, it appears that the "intent" of $15 million guarantee MOSIP was to satisfy previous and future, for 5 years, Muni fair share issues for the use of any and all non-FAP for MTA bus. Some Muni's do not agree. Any grants to the Muni's above the $15 million are subject to the Board's discretion.

DATE: June 25, 2002

Steve Carnevale, County Counsel

FROM: Allan G. Lipsky

SUBJECT: **Municipal Operators "Fair Share" Obligations**

The agreement with the Municipal Operators was specifically that there would be no fair share distributions for the duration of the $15 million service improvement program.

This settlement was negotiated based on an estimate of $50 million of Prop C 40% funds used for MTA bus operations. If this $50 million was "fair shared", the muni operators would have received $15 million. However, fair sharing all Prop C 40% allocated to MTA bus operations would not have provided the muni operators a guaranteed long-term funding source. Therefore, we agreed on a $15 million fixed amount (plus 3% annually to cover inflation) irrespective of the MTA's actual Prop C 40% draw.

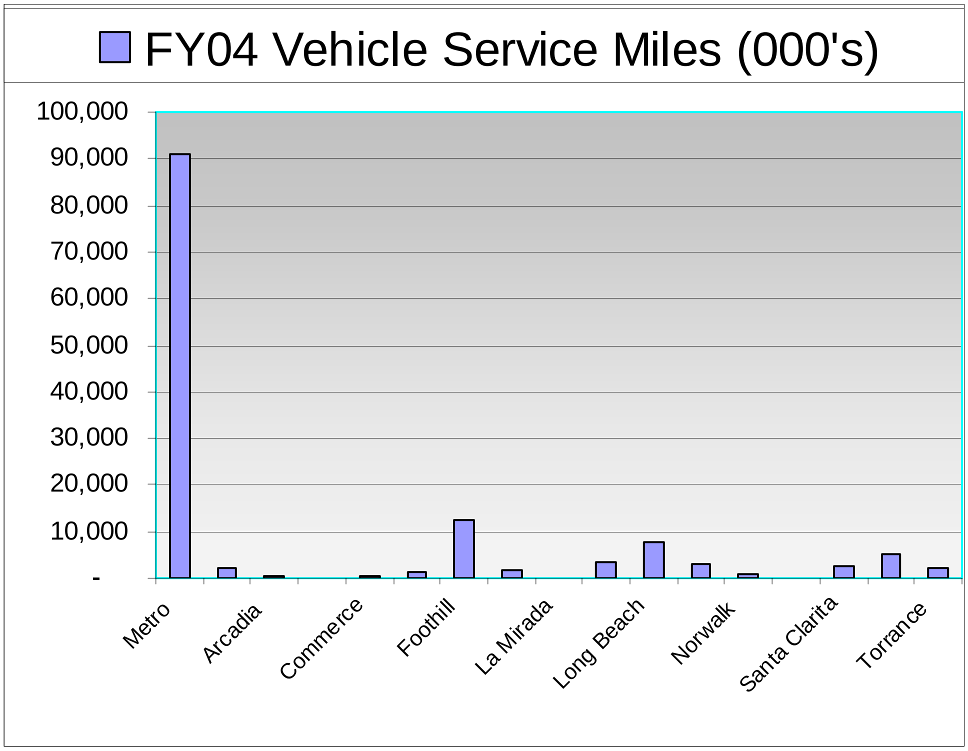
We specifically discussed whether the muni operators would make a demand for additional funds if the MTA received more than $50 million and the muni negotiators (Larry Jackson and John Catoe) told me they would not.

Our staff (Nalini Ahuja) understood that the muni service improvement cancelled any fair share requirements and prepared the budget for FY 2001-2002 without any fair share and the munis did not raise any issue.

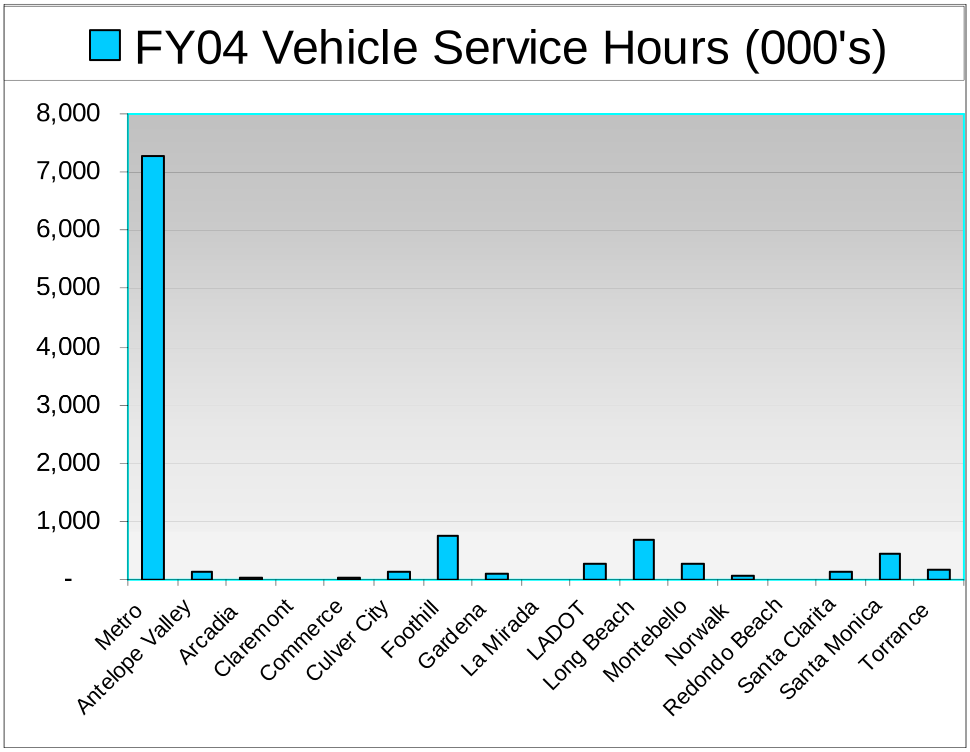
Based on this agreement the Board report, which states that the munis are entitled to additional fair share distribution, is not correct.

J. Catoe

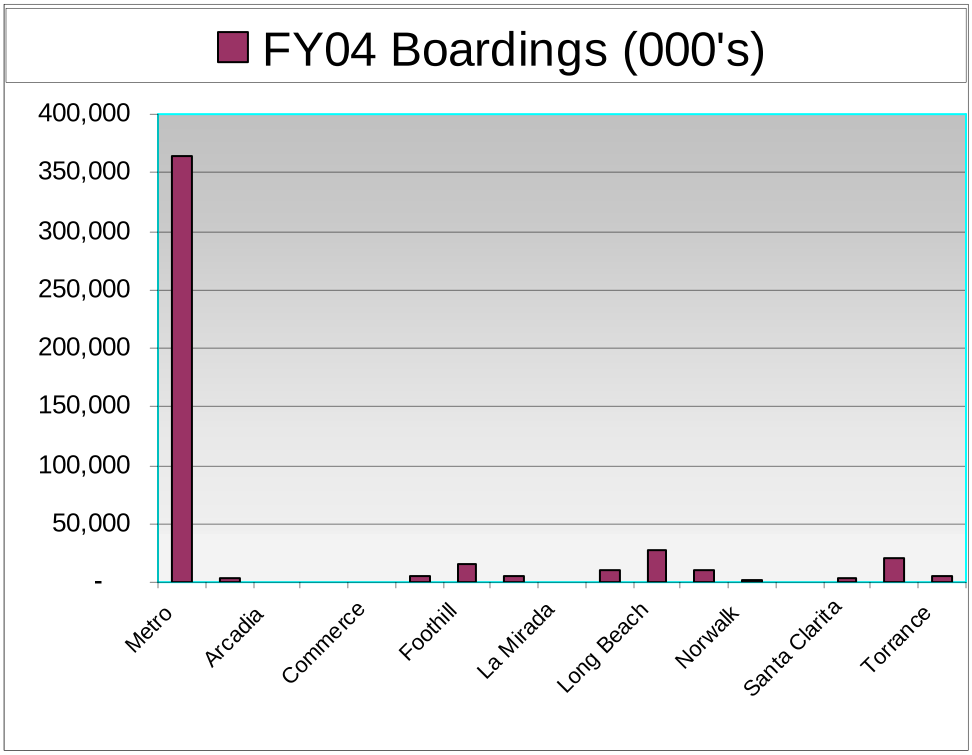
TPM Chart – Attachment C



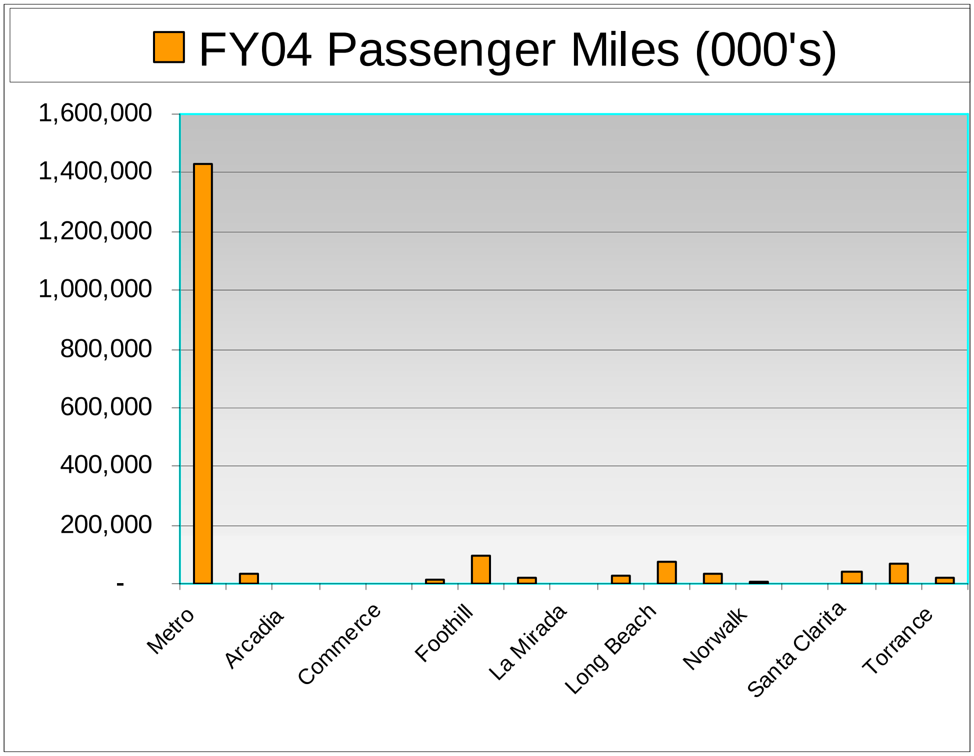
TPM Chart – Attachment D



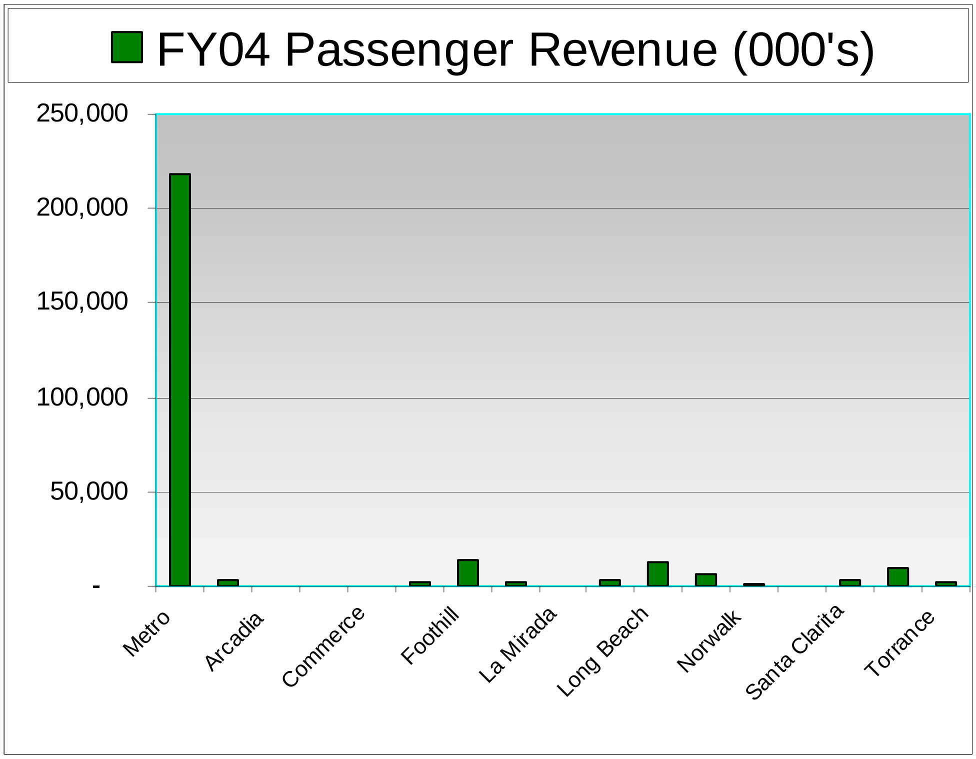
TPM Chart Attachment E



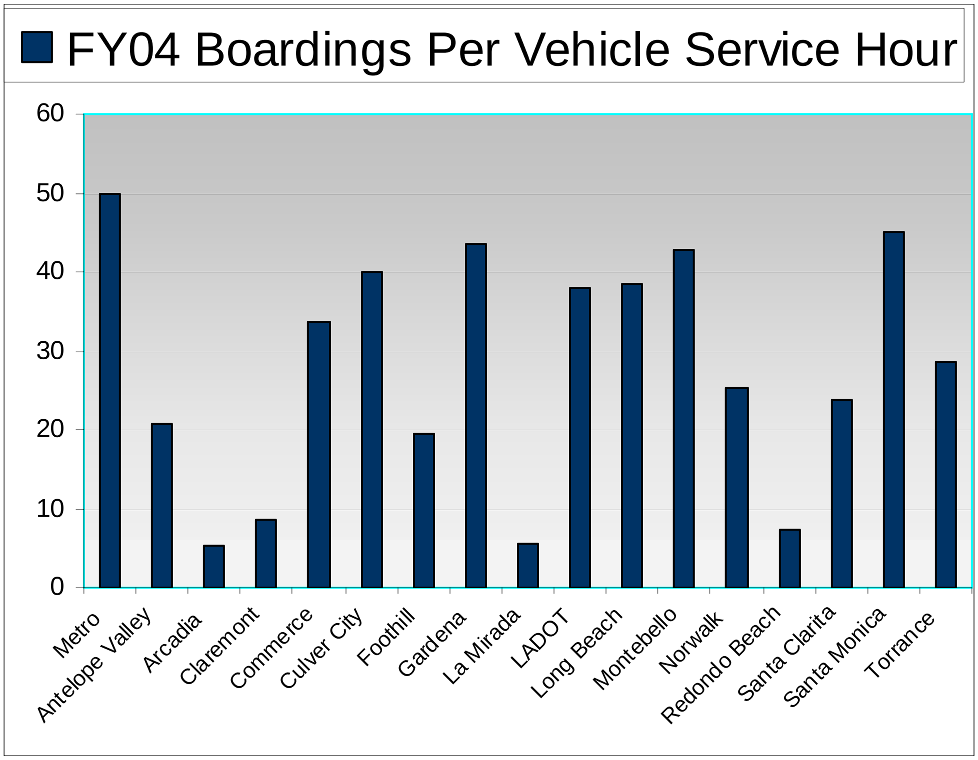
TPM Chart – Attachment F



TPM Chart Attachment – G



TPM Chart – Attachment H



FY07 FAP Subsidy
Single Pool

	Subsidy				
Operator	Per Boarding	Per Passenger Mile	Per VSM	Per VSH	Per Fare Unit
MTA Bus Ops	1.162	0.296	4.657	58.020	2.420
Antelope Valley	1.153	0.084	1.311	23.977	1.227
Arcadia	3.957	1.154	1.903	21.502	7.079
Claremont	3.687	1.276	2.219	32.143	5.164
Commerce	1.408	0.420	3.410	47.376	3.410
Culver City	1.436	0.463	5.462	57.525	2.343
Foothill	2.615	0.403	3.098	50.944	3.058
Gardena	1.851	0.507	5.662	80.461	2.190
La Mirada	4.591	0.973	2.061	26.019	6.264
LADOT	1.130	0.430	3.285	42.796	3.591
Long Beach	1.344	0.496	4.675	51.652	2.581
Montebello	1.328	0.433	4.917	56.733	2.049
Norwalk	2.051	0.524	3.802	52.122	2.491
Redondo Beach	3.655	1.135	2.038	26.500	7.571
Santa Clarita	1.085	0.090	1.320	25.764	1.342
Santa Monica	1.407	0.411	5.810	63.448	2.230
Torrance	2.165	0.472	4.880	61.716	2.191
Average-Muni	1.582	0.382	3.876	51.939	2.446
Average-All	1.257	0.316	4.403	56.139	2.428

Total FY07 subsidy, excl one time revenue and CD/MOSIP = $592,874,000
FAP and FAP type (BSIP, TSE, etc.) funding are treated as a single pool

High
Low

Attachment J

MUNICIPAL OPERATORS SERVICE IMPROVEMENT PROGRAM (MOSIP)
As of November 30, 2005

Muni Operator	Amount Programmed	Remaining Unspent Balance	Uses for MOSIP Funds
Antelope Valley Transit	$2,910,207	$1,277,194	Capital Maintenance & Operations Facility; 3 buses; ITS project; local transit transfer site; support vehicles; maintenance & admin equipment; information kiosks
Arcadia Transit	$316,235	$63,865 FY06 only	Expand Dial-a-ride and implement new programs; pilot non-emergency medical transportation pro for seniors and disabled; shuttle service Sierra Madre Villa to Park & Ride Lot; increase purchased transportation hours
Claremont Dial a Ride	$97,991	$18,816 FY06 only	Provide service to Alexander Hughes Community Center; introduce low-income pass
Commerce Municipal Bus Lines	$205, 874	$85,076	Replace paratransit vans, transit buses, and transit support vehicles; bus stop improvements; construction of CNG stations
Culver City Municipal Bus Lines	$3,455,759	$753,322 FY06 only	Operating expenses; expansion of Route 6; extension of service to Green Line station at Aviation; purchase automatic vehicle locator system; CNG fueling station; 8 CNG buses; UFS; bus stop improvement pro; bike rack pro
Foothill Transit	$16,808,901	$5,483,438	Emission control equipment; facility improvements, CNG facility; Lakes Park & Ride; Transit carousels; El Monte Sta rehab; Covina Transit center; equipment; farebox replacements; parking lot sweepers; fleet maintenance software; silent radio; electronic arrival signage; Pomona structural repairs; farebox replacement; fleet maintenance software;
Gardena Municipal Bus Lines	$4,212,592	$2,535,691	Purchase 18 hybrid electric buses
La Mirada Transit	$157,304	$0	Replace vehicles; security cameras; UFS
LADOT	$3,906,421	$1,050,313	DASH King-East; DASH Chesterfield Sq

Muni Operator	Amount Programmed	Remaining Unspent Balance	Uses for MOSIP Funds
Long Beach Public Transp Co.	$15,237,843	$0	Additional service on Lines 1,5,7,60,170,190; additional trippers on Lines 190 and 100; increase weekday frequency to 5 min peak on Line 40; ltd stop svc on Line 60; capital bus components; bus rehabilitation; bus stop amenities; IS equipment; capitalization of preventive maintenance; safety improvements; shop equipment; tire leases; fleet replacement; safety and security improvements; fuel tank upgrade; fleet replacement office furniture and equipment; training and educational assistance
Montebello Bus Lines	$5,595,580	$1,366,877 FY06 only	Operate 15,700 hours of service on Line 50; a portion of Line 20 extension
Norwalk Transit System	$1,668,442	$0	Expand route 1 weekend service
Redondo Beach Wave	$51,197	$10,709 FY06 only	Community outreach; restructuring study; initiation of two routes;
Santa Clarita Transit	$3,699,719	$2,272,719	Bus capital; Route 8 expansion
Santa Monica Big Blue Bus	$15,350,959	$12,443,002	New administration/ maintenance facility
Torrance Transit System	$3,880,829	$1,593,556	Bus refurbishment; bus bench replacement; transit enhancements; operating expenses for service additions to LA Airport; Artesia Station; Del Amo Fashion center; other capital
TOTAL	$77,555,853	$28,954,578	

BOARD MEETING
APRIL 26, 2001

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

SUBJECT: MUNICIPAL OPERATOR SERVICE IMPROVEMENT PROGRAM

ACTION: AUTHORIZE STAFF TO IMPLEMENT THE MUNICIPAL OPERATOR SERVICE IMPROVEMENT PROGRAM AND EXECUTE THE RESULTING FUNDING AGREEMENTS

RECOMMENDATION

A. Approve the creation of an ongoing Municipal Operator Bus Service Improvement Program beginning in FY 02 to improve service to the transit dependent countywide by reducing overcrowding and expanding services.

B. Authorize the Chief Executive Officer or his designee to execute funding agreements with the Municipal Operators, which will include the joint agreement that for the duration of the program neither the MTA nor the Municipal Operators will pursue legislation, legal or other actions to alter the funding sources currently subject to formula allocations

C. Program $15 million of Proposition C 40% funds for FY 2002 to fund the first year of the Program. Funding of $15 million of Prop C 40% funds will be programmed in each of the following four years for a total of $75 million, plus 3% cumulative annual increases.

D. Support a jointly draft amendment to AB974 to incorporate the terms of this agreement between the MTA and the Municipal Operators.

ISSUE

The Municipal Operators have requested the MTA to formularize Proposition C 40% funds programmed to the MTA's bus operation to meet Consent Decree and bus policing costs. The Consent Decree states that:

> Consistent with MTA's other statutory responsibilities and obligations, MTA's first priority for the use of all bus-eligible revenue realized in excess of funds already specifically budgeted for other purposes shall be to improve bus service for the transit-dependent by implementing MTA's obligations pursuant to this Consent Decree.

In order to satisfy both its statutory responsibilities as the county transportation planning and programming agency as recognized in the Consent Decree, and its other Consent Decree obligations the MTA has been working with the Municipal Operators to develop a Countywide program which conditions a new distribution of Proposition C 40% funds for improved bus service for the transit dependent.

POLICY IMPLICATIONS

There are several major policy issues to be addressed. One issue is whether any share policy should apply to Proposition C 40% funds that are used to meet the requirements of the Consent Decree, which is exclusively an MTA obligation. Another issue is whether the Board should approve any new funding for Municipal Operators.

OPTIONS

One option is to continue excluding the funding of Consent Decree expenses from the existing formula allocation practice. This option was rejected because Consent Decree related operations have been absorbing an increasing share of Proposition C 40% revenues. As spending on the Consent Decree becomes a larger and larger share of the MTA's bus budget, it becomes increasingly difficult to support its total exclusion from formulization.

Another option is to deal with this issue in the state legislature. The Municipal Operators, are currently seeking legislation to compel inclusion of all Proposition C 40% bus related funding, as well as other bus related funds, in the pool of funds distributed to bus operators Countywide under the current statutory Formula Allocation Procedure. Depending upon the final terms, such legislation could greatly expand the amount of funds subject to statutory formula allocation. This was rejected also because it would not guarantee the Muni's a recurring source of funding and would not guarantee that the distributed funds are spent for Consent Decree specified purposes.

The third and recommended option is a compromise between the above two options to provide additional funding to the Municipal Operators without unreasonably reducing the MTA's limited operating revenues. In addition this option provides a basis for the Municipal Operators to help reduce the MTA's current and future operations and capital costs and further the countywide goals of the Consent Decree.

FINANCIAL IMPACT

Under the proposal, the MTA and the Munis will agree on the amount of Prop C funds which will be distributed over the next five years. The Municipal Operators will not receive retroactive funding for Fiscal Years 1998 through 2001. Beginning in FY 2002, the program will provide_$15 million in each of the next five years including an annual 3% cumulative increase beginning in year two.

DISCUSSION

Since the formation of the MTA, whenever discretionary operating funds were used for MTA Transit Operations, a proportionate, share was typically allocated to the Municipal Operators. This share policy was not used when funds were allocated for service required by the Consent Decree. The MTA's position was that the Consent Decree was a regional responsibility, and like funding for the rail system, could be paid out of regional funds without matching distributions. The Municipal Operators argued that the concept applied to all funding for MTA bus operations and asked for proportionate distribution. MTA staff was then directed by the Board to work with the Municipal Operators to attempt to resolve the difference. This process was accelerated during the past month when the framework for this program was conceptually approved by all parties. The proposed program scope was to improve service countywide for the transit dependent by reducing overcrowding and expanding service. The program was envisioned to include more collaboration by the Municipal Operators and the MTA in identifying common goals and objectives and modifying the program to adjust to changing priorities that often occur over time. A significant obstacle to the proposed program has been the MTA's obligation under the Consent Decree to prioritize bus eligible funds to meet the Consent Decree costs. However, in his September 23, 1999 Memorandum Opinion and Order, Judge Hatter appears to recognize the benefits of having the Municipal Operators included in developing countywide service plans to achieve the Consent Decree's objectives.

Judge Hatter's order specifically stated that:

> "the Special Master...should consider, with the input of the joint working Group, the MTA and the Bus Riders other capacity increasing measures beyond the purchase of additional buses. For example, the Special Master should consider...the possibility of reducing or eliminating MTA service to those municipalities served by the sixteen municipal bus lines that offer overlapping service to the service provided by MTA."

After thoughtful consideration MTA staff and representatives of the Municipal Operators have agreed to jointly draft an amendment to AB974 to incorporate the terms of this agreement. It should be noted that consistent with existing legislation regarding the statutory formula allocation practice, a three-fourths vote of the Board would be required to change the Municipal Operator Service Improvement Program.

To reduce the operating costs of the MTA the Municipal Operators have agreed to begin discussions within 30 days to:

1. Identify overlapping services operated by MTA and develop strategies for operating these services, which will result in savings to the MTA.

2. Work with the MTA on new countywide service expansion plan to reduce over crowding, expand new services to transit dependents and provide ,which will reduce MTA's future operations and capital costs.

3. Provide input into MTA's vehicle purchase plan with the intent of reducing the capital cost of MTA's transit vehicles.

4. Continue to work with the MTA on the Universal Fare System to implement a countywide fare instrument.

The premise of the funding for this program would be that the Municipal Operators will assist MTA in reducing its operating and capital costs, which will help offset the program funding. As part of this program, all participating parties would agree not to pursue legislation or any legal action to alter the funding sources currently subject to formula allocations.

NEXT STEPS

If approved by the Board, staff will begin meeting with the Municipal Operators to implement the program beginning July 1, 2001 for FY 2002.

Prepared by: Jim McLaughlin

Jim McLaughlin
Director of Transit Planning

Allan Lipsky
Office of the Chief Executive Officer

METRO

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
SEPTEMBER 19, 2002

SUBJECT: ALLOCATION OF PROPOSITION C 40% FUNDS

ACTION: APPROVE ADDITIONAL FUNDING FOR MUNICIPAL OPERATORS

RECOMMENDATION

A. Approve a one-time allocation to the Municipal Operators of up to $3,854,000, to be spent within two years of this approval as a non-precedent-setting action that will not impact the $15,420,000 Municipal Operator Service Improvement Program (MOSIP) funds that have been approved in the FY03 budget; and

B. Establish a taskforce including representation from Municipal Operators to re-evaluate a more efficient and equitable system for all regional funding.

ISSUE

The June 2002 revision to the Financial Standards resulted in the $10.7 million reclassification of regional costs from the General Fund to the Enterprise Fund and the reprogramming of funding from Proposition A and C Administrative Funds to Proposition C 40%. The Municipal Operators (Muni's) have requested that all Proposition C 40% funds used for bus operations be "fair shared" with them. Therefore, staff is recommending a one-time allocation of $3,854,000 to the municipal operator program but only if the funds are expended by each operator within two years.

According to the 1990 Ordinance imposing the ½ cent sales and use tax revenues, "Forty percent of the revenue from the ½ cent sales and use tax will be used to improve and expand rail and bus transit County-wide, to provide fare subsidies, increase graffiti prevention and removal, and increase energy-efficient, low-polluting public transit service. Funds from this revenue source will not be used for capital improvements for the Metro Rail Project between Union Station and Hollywood" (Ordinance 49, Prop C, 1990).

Further, existing Proposition C 40% fund balances are fully expended in the 10-year Forecast of Revenues and Expenditures for the fiscal years 2003 – 2012 submitted to the Federal Transportation Authority in the latest 5309 filing.

POLICY IMPLICATIONS

Approval of this recommendation will reduce funds available for future bus and/or rail operating and/or capital projects and programs to be executed by the MTA and/or the Muni's.

This action will not change MTA's policy of retaining discretionary control over Proposition C 40% expenditures.

The Muni's continue to express their concern that if the MTA chooses to allocate Prop C 40% funds to MTA bus operations, a fair share amount must also be allocated to them. Although there is no legal requirement or board policy stating that Prop C 40% funds must be "fair shared", on occasion the MTA has shared these funds with the Muni Operators. Approval of this action should not be interpreted that that the MTA will always share Prop C 40% funds "fairly" with Muni Operators, unless the Board in some future action chooses to do so.

FINANCIAL IMPACT

There are $227.6 million of new Prop C 40% revenues and $102 million of carryover funds available during FY03. This action will increase the Prop C 40% expenditures by $3.9 million from $233.8 million in the approved FY03 budget to $241.3 million.

DISCUSSION

Although in a number of instances the MTA has "fair shared" Prop C 40% funds, it has not always done so and substantial funding used for Consent Decree compliance was not shared after 1997 (see Attachment 1 for a chronology of the fair-sharing practice). By approving this action as a one-time only, non-precedent setting action, the MTA Board will reserve its right into the future to determine if discretionary funding should be allocated to all operators based on need for service improvements, not based on entitlements.

NEXT STEPS

Over the years different approaches to regional funding of transit operations have produced a variety of formulas and programs. Staff believes that these approaches should be completely re-evaluated to see if a more efficient and equitable system can be developed. To accomplish this, staff will form a task force including representatives of the Muni's to review all regional funding issues and present recommendations to the Board for approval.

ATTACHMENTS

"Fair Share" Chronology

Richard Brumbaugh
Chief Financial Officer

Roger Snoble
Chief Executive Officer

ATTACHMENT 1

Fair Share

Chronology – Fiscal Year

Late '80's – LACTC adopts formula allocation procedure (FAP). Funding covered: Transportation Development Act (TDA), State Transit Assistance (STA) Revenue Share, Federal Section 9 (now, Section 5307) capital funds with operating cap, 95% of Prop A 40% Discretionary. Prop A 40% limited to CPI.

1992 – Recession Shortfall – Based on the significant impact of the recession on the RTD, additional funds were granted to all operators due to the recession by appropriating additional non-FAP revenues to be distributed on the FAP basis.

1995 – MTA budget deficit resulting from Consent Decree injunction proposed to be filled with Prop A and C Interest for FY95 and proposed in FY96 budget. Muni's request "fair share". Board agrees to "non-precedent setting" allocation as if Prop A and C Interest were subject to FAP.

1996 – Prop A and C Interest Allocation Guidelines adopted by MTA Board. If any of these funds are used for MTA bus, a proportionate share shall be allocated to the Muni's. FY97 budget proposal included Prop A and C interest allocations to MTA bus operations to fill budget gap since operating costs exceeded fares plus FAP subsidies with fair share to Muni's.

1997 – Consent Decree signed by MTA in October 1996. In order to implement MTA service increases, the Bus Service Improvement Program was adopted in FY97, approximately $10 million of Prop C 40% (partial year). MTA's share, about $7 million, was to be used for Consent Decree service increases with a proportionate share to the Muni's. Foothill Mitigation program, funded by Prop C 40%, is adopted to recognize Foothill Transit's change to "included operator" status and, therefore, inclusion in the FAP. The additional Prop C funds were necessary to "keep whole" the pre-existing operators, including MTA, in percentage and dollar terms.

1997 – MTA programs $35 million of Prop C 40% to MTA Bus for "Consent Decree" service (full year) without sharing for Muni's since Prop C 40% allocations were not subject to Calderon bill. Muni's objected.

1998 – Regional Transportation Alternatives Analysis (RTAA) – The Accelerated Bus Procurement plan, UFS and ATMS projects drew upon regional funds, CMAQ, RSTP, etc., for capital for the first time. Based on Muni requests, the Board approved additional amounts to the Muni's for bus technology improvement (ATMS) and UFS. The term fair share was not mentioned, however, the amounts reflected a proportionate split overall.

1999 – MTA continues to allocate Prop C 40% for MTA bus operations without sharing. Board directs staff to work with Muni's for resolution of fair share issue.

2001 – In response to MTA staff continuing to not recommend sharing, Muni's initiate second Calderon bill (AB974). The Muni's proposal would have required the fair sharing of "any" non-FAP (aka "regional") funds used for MTA bus be subject to the FAP distribution. Regional funds include Prop C 40% and any other non-FAP funds, i.e., CMAQ, RSTP, Bonds, etc. After further discussions with the Muni's and the MTA, the author withdrew the bill.

2001 – Municipal Operators Service Improvement Plan (MOSIP) adopted by Board. MOSIP guarantees $15 million of Prop C 40% per year for 5 years to Muni's based on historical MTA uses of regional funds for MTA bus.

2002 – Clarification of Financial Standards results in the need for MTA bus to draw upon additional Prop C 40% to pay for the transfer of the costs of regional activities and other activities previously paid by Prop A and C Admin. County Counsel reported, based on a history of negotiations, it appears that the "intent" of $15 million guarantee MOSIP was to satisfy previous and future, for 5 years, Muni fair share issues for the use of any and all non-FAP for MTA bus. Some Muni's do not agree. Any grants to the Muni's above the $15 million are subject to the Board's discretion.

handout
9-19-02
EMAC

Motion by Supervisor Burke

Item No. 27
Re: the ALLOCATION OF PROP C 40% FUNDS

In item number 27, staff is recommending that this Board approve an allocation of $3.854 million to the Municipal Operators in addition to the $15.42 million allocated under the Municipal Operator Service Improvement Program (MOSIP).

Meanwhile, the MTA is also committed to implementing a Regional Universal Fare System (UFS) including assisting the participating Municipal Operators with the regional costs associated with those efforts. In as much as the MTA is not required to "fair share" the Prop C 40% discretionary funds with Municipal Operators; prior to any ad hoc revision of the MOSIP, the MTA's first priority to the Municipal Operators in this regard should be to ensure the full funding of UFS regional costs.

I, Therefore, Move that the $3.854 million of Prop C 40% funds be programmed to the UFS Project for implementation of the Regional UFS Program for participating local and municipal operators.