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Metro

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EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
JUNE 15, 2006

SUBJECT: FAP REVISIONS

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file report on progress of negotiations with municipal operators (Munis) regarding revisions to the formula allocation process (FAP)

ISSUE

In March 2006 the Board, as a condition of approving FY07 funding for the Municipal Operators Service Improvement Program (MOSIP), directed staff and Munis to work together to bring a revised FAP to the Board in September 2006 for implementation in FY08 and report on progress in June 2006. The Board also approved the elimination of the "2-year lag" for an operator picking up abandoned services and directed staff and Munis to develop procedures to implement this change and present those guidelines to the Board in June.

DISCUSSION

Staff met with an ad hoc group of the Muni GMs on March 29, 2006 to begin the discussions. The first priority was to set a path forward on the elimination of the 2-year lag because those procedures were required to be completed and presented to the Board in June. An ad hoc committee of the Bus Operations Subcommittee (BOS) was tasked to complete this work. Metro staff provided the ad hoc committee with several alternative ways to implement the Board's direction showing what the impacts would be for a variety of service changes involving different operators. The General Managers Association approved procedures to eliminate the 2-year lag at its May 10 meeting. Those procedures will be presented in the 2007 Transit Fund Allocation item for Board consideration in the July 2006 cycle.

With respect to the FAP, the Munis submitted concepts for changes on April 25 that propose:

- accumulating all of the funding now distributed through the FAP into one pot
- allocating the funds under the current formula based on total system data
- suggests that approximately 50% of all Proposition C 40% funding be put into the FAP pot
- keeping fares in the formula but freezing them at the current level to eliminate any benefit of an operator lowering its base fare

- instituting a hard 20% farebox recovery ratio with financial penalties for non-compliance.
- to implement immediately (FY08) or phased in over time depending on whether the addition of more Prop C 40% into the pot keeps all operators whole

Staff met internally to consider what proportion of Prop C 40 % might be appropriate to include in the FAP pot. Staff has already developed ideas for a new formula that do not include fares and has previously presented these to the Munis.

At our meeting on May 30 staff noted that there is legislation now pending in Sacramento which could provide a substantial amount of additional STA revenues in time for the FY08 transit funding cycle. Staff suggested that such windfall be first used to "fix the FAP" and then to protect existing services. Staff presented some general concepts for streamlining the FAP and replacing the concept of fare units. Staff suggested that total FAP dollars be divided in half for allocation. One half should be allocated based on service provided and the other half allocated based on productivity. Staff agreed to provide additional funding scenarios based on several service and productivity measures that were discussed.

Board staff and Muni GMs have been updated each month at their respective meetings.

The FAP was last amended in 1989 and was codified in State law in 1996. State law now requires a three-quarters majority vote of the Board to implement any change. Over time new operators have come into existence and new FAP-like bus funding programs have been created with slightly different rules. For the purpose of this report, all of these additional programs and the original FAP are collectively referred to as FAP. See Attachment for more detailed background.

NEXT STEPS

1. Continue meeting with Muni GMs
2. Report on progress in September 2006

ATTACHMENT

Formula Allocation Procedure

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Summary of Policy

The Formula Allocation Procedure (FAP) is used to allocate countywide bus transit funds among the bus operators in Los Angeles County, as described in state law—§ 99285 (d) of the Public Utilities Code. The funds include State Transportation Assistance, Transportation Development Act, Federal § 5307 (formerly § 9) and Proposition A.

The law states that calculation for the distribution of funds shall be based upon transit performance data for bus operations that covers the most recent year for which audited data is available. Each of those operator's shares shall be calculated as follows: 50% of the operator's vehicle service miles and 50% of the operator's passenger revenues divided by its base cash fare.

The FAP controls the allocation of transit funds two fiscal years later, e.g., statistics of FY02 determine the percentage of the allocations in FY04. Those percentages are applied to the revenue estimates for FY04. Other funds allocated by the Board's "fair share" policy also refer to these statistics.

According to state law, if the Board chooses to change the FAP, at least ¾ of the directors must agree.

Historical Perspective

In December 1979 the Los Angeles County Transportation Commission (LACTC) adopted an allocation formula for state and federal transit subsidies for qualified transit operators, as required by state law. The subsidies included Transportation Development Act funds, federal formula funds, § 9, available for transit subsidies, and State Transit Assistance funds distributed by formula.

The formula was calculated as follows:

- 50% weight to in-service revenue vehicle miles
- 25% weight to passenger boardings
- 25% weight to linked passenger trips (i.e., ridership other than transfers)

Changes to the formula required the approval of at least eight Commissioners.

In December 1986 the LACTC adopted a new formula that attempted to reward transit operators for efficiency. The formula was changed to the following:

- 50% weight on in-service revenue vehicle mileage
- 50% weight on fare units (defined as total fare box revenue divided by the base fare)

Since 1991, the Transit Operator Formula Funds Guidelines—Formula Allocation Procedure—require operators to receive funds from the Proposition A Discretionary Program, which includes a base share plus CPI each year, based on projected receipts.

In September 1996, three years after the SCRTD/LACTC merger, the state legislature passed SB 1755, which is popularly referred to as the Calderon bill. The legislation ensures that each "included" and "eligible" municipal operator will not receive less than the proportional share of funds allocated during FY 1995. To change the funding amounts, or the formula by which funding is determined, ¾ of the Board must agree. The funds that are subject to Calderon are Federal § 5307, State Transit Assistance, Transportation Development Act (Article 4), Proposition A 40% Discretionary, the City of Commerce's Zero-fare Compensation, which is funded with Proposition A Interest, and four programs funded with Proposition C 40% Discretionary (Foothill Transit Mitigation,

Transit Service Expansion, Discretionary Base Restructuring and the Bus System Improvement Plan). The legislation affected municipal operators' funding, including the agency's, became effective with the 1996-97 fiscal year.

Last Board Action

March 27, 1996 – Formula Allocation Procedure

The Board approved as amended, State Legislative bills:
SB 2495 (Margett) No Action;
AB 2833 (Villaraigosa) Support;
SB 1755 (Calderon) Support in concept, work with author on amendments;
SB 1868 (Hayden) No Action;
AB 2847 (Sweeney) Support;
SB 1590 (O'Connell) Support
The legislature passed the bill in August 1996, and the governor signed it one month later, effectively codifying the formula, and allowing for changes only with a ¾ vote of the Board.

Attachment

Explanation of Formula Allocation by Elements

See Related

Formula Allocation Procedure – Special Provisions

Public Utilities Code § 99280 – 99299

Public Utilities Code § 99207, § 99207.5

Municipal Operator Service Improvement Program

Bus System Improvement Plan

Explanation of Formula Allocation Procedure Elements

State Transportation Assistance (STA)

Purpose

State Transportation Assistance funds are allocated to local transportation agencies and are eligible for public transit capital and operations programs. The operator revenue share is used for transit operations or capital. The population share is used for transit operations.

Funding

The total amount of STA funds distributed to Los Angeles County for FY 2004 is $28.7 million.

Summary of Method

MTA allocates STA revenue share funds to the MTA and municipal operators according to the Formula Allocation Procedure. The STA population share is allocated through the annual budget process, traditionally to MTA for rail operations or capital.

Relevant Information

The State Controller allocates 50% of the Public Transportation Account funds to the State Transit Assistance fund. One-half of the 50% is allocated to the MTA based on the ratio of Los Angeles County's population to the State's population. The other half of the 50% is allocated to the MTA based on the ratio of the total County transit operators' fare revenues to total revenues of transit operators in the State.

Transportation Development Act (TDA)—Article 4

Purpose

TDA—Article 4 funds are allocated for public transportation systems. They are used for bus capital and operating expenses. In the Los Angeles area, funds are often used as a local match to FTA §5309 (3) and 5307 (9) funds.

Funding

TDA—Article 4 funds for FY 2004 are projected to be $261.6 million. Up to 93% of total available TDA funds are allocated to municipal transit operators, transit districts, and joint powers authorities.

Summary of Method

TDA—Article 4 money, including interest earned, is allocated through the Formula Allocation Procedure.

Relevant Information

The Transportation Development Act (TDA) creates a Local Transportation Fund in each county in which a ¼ cent of the state sales tax is annually deposited. Each county's allocation is based on the sales tax collected within that county.

Explanation of Formula Allocation Procedure Elements

Section 5307- Urbanized Area Formula Funds Program

Purpose

§ 5307 Urbanized Area Formula funds are allocated by Federal formula to urbanized areas and governors for transit capital. (In urbanized areas of over 200,000, as determined by the U.S. Census Bureau, funds are apportioned and flow directly to a designated recipient, the Metropolitan Planning Organization.) The funds may also be used for operating assistance, maintenance expenses and transportation-related planning that has a transit component.

Funding

The forecasted amount for the entire County of Los Angeles, in FY 2004, is $179.6 million.

Summary of Method

Locally, 85% is distributed through the Formula Allocation Procedure and the Capital Allocation Process distributes 15%. In addition, 1% of the overall funds received annually are used for Transit Enhancement projects, such as historic preservation, bus shelters, landscaping, public art, and pedestrian access and walkways.

Relevant Information

§ 5307 has an 80% Federal participation with a 20% local match. However, Federal participation is 83% if the local agency purchases buses that are compliant with the ADA and the Clean Air Act. The local match can be as low as 10% in certain instances, such as innovative environmental standards.

Formula Equivalent Funds

Purpose

Antelope Valley, Santa Clarita, LADOT and Foothill Transit (Bus Service Continuation Project) receive "formula equivalent funds," which are above FAP funding levels. The funds are used to support bus operations.

Funding

According to the Funding Marks for FY 2004, formula equivalent funds allocated to "eligible" operators, LADOT and Foothill BSCP will total almost $18 million.

Summary of Method

These operators are funded with a combination of Proposition A Discretionary funds that grow over CPI, if available, and Proposition A Incentive funds.

If the growth of Proposition A 40% revenues are above CPI, they will be used to fund the "eligible" operators. If the growth of Proposition A 40% is not greater than CPI, the "eligible" operators receive Incentive funds. The Incentive program is then funded with Proposition C 40% money, since the funding guidelines give "eligible" operators first priority on Incentive funds.

Relevant Information

Formula Equivalent Funds were created in 1991 when Antelope Valley and Santa Clarita became "eligible" operators and LADOT became an "included" operator. Additional funds were required in order to keep the previous operators whole.

Proposition A Incentive Program

Purpose

Proposition A Incentive funds are used to support the bus operations of "eligible" operators when sales tax growth is less than CPI. The primary program supports subregional paratransit programs, special transit programs and community transportation programs. The primary users of these funds are paratransit programs.

Funding

According to the FY 2004 funding marks, Proposition A Incentive funds are approximately $10.7 million.

Summary of Method

The Proposition A Incentive Program is funded from 5% of the Proposition A Discretionary revenues. Funds are allocated to service providers selected through a competitive process and who maintain certain financial services standards as described in the Incentive Program guidelines.

Relevant Information

Only the County of Los Angeles, cities and public transit operators are eligible to apply for Proposition A Incentive Program funds. Private operators or other agencies can only receive these funds through sponsorship by an "eligible" operator.

Zero Fare Compensation for City of Commerce

Purpose

Since, the City of Commerce is an "included" operator, it is entitled to a transit subsidy. However, the City of Commerce does not collect revenue for its transit services, so it is not possible to calculate its subsidy with the Formula Allocation Procedure, which uses passenger revenue as one of the variables. Consequently, an alternative method for calculating the City of Commerce's transit subsidy was created.

Funding

According to the funding marks, the City of Commerce will receive almost $400,000 in transit subsidy during FY 2004.

Summary of Method

MTA multiplies the funding share based on Commerce's vehicle service miles by two.

Relevant Information

No documents have been found regarding Commerce's decision to provide free service or supporting the alternative method for calculating the transit subsidy.

Foothill Transit Mitigation

Purpose

These additional funds were made available in order to keep whole the previous "included" operators' funding, while allowing Foothill to receive formula funding as an "included" operator.

Funding

According to the funding marks, MTA and the municipal operators will receive approximately $5.55 million in FY 2004.

Summary of Method

The calculation takes Foothill's statistics (i.e., vehicle service miles, passenger revenue and base fare) from 1995 and adds them to the latest audited NTD statistics of the other "included" operators (with a 0.25% cap for Dial-A-Rides). That number is subtracted from the latest audited statistics for all operators. The difference is the growth in Foothill Transit since it became an "included" operator. Each operator's portion of its share (corrected for the DAR cap and excluding "eligible" operators and LADOT) is multiplied by the total amount of TDA Article 4 and STA. Dial-A-Ride operators do not receive mitigation.

Relevant Information

In March 1996, the Board approved the allocation of $1.6 million in Proposition C 40% Discretionary funds to mitigate the impact of the addition of Foothill as an "included" operator.

Transit Service Expansion (TSE)

Purpose

The Transit Service Expansion program attempts to increase transit ridership by providing funds for additional service in urban and suburban areas. The program prefers new service to expansion of existing service. Nine municipal operators receive these funds for their projects.

Funding

According to the funding marks, the Transit Service Expansion program will receive $5.8 million in FY 2004.

Summary of Method

The Transit Service Expansion program is funded from Proposition C 40% Discretionary. Funding levels were held at the 1996 level until FY 2002 when they were increased by CPI. Subsequent funding has increased by CPI each year.

Relevant Information

The Los Angeles County Transportation Commission created the Transit Service Expansion Program as a pilot program, in 1990. Services must meet criteria created by the Board to stay in the program.

Discretionary Base Restructuring

Purpose

Statistics of the services that were in place before adding Proposition A 40% to the formula were allowed to be counted in the FAP. These additional funds were provided to recognize additional services offered after the Proposition A 40% service base was "frozen."

Funding

According to the funding marks, four municipal operators (Commerce, Foothill, Montebello and Torrance) receive in total approximately $3 million.

Summary of Method

The funding for this program comes from Proposition C 40% Discretionary.

Relevant Information

Originally, this program was funded with Proposition A 40% Discretionary funds.

Bus System Improvement Program (BSIP)

Purpose

The Bus Service Improvement Program (BSIP) was created in 1995 to reduce overcrowding in the most transit dependent areas. Funds are distributed to municipal operators who qualified for the program. Currently, there are fourteen, including MTA.

Funding

According to the funding marks, the Bus System Improvement Program will receive approximately $11.3 million, during FY 2004.

Summary of Method

The Bus System Improvement program is funded from Proposition C 40% Discretionary. Funding levels were held at the 1996 level until FY 2002, when they were increased by CPI. Subsequent funding has increased by CPI each year.

Relevant Information

The Board adopted bus system improvement as its highest priority, in September 1995. A working group that included MTA staff, municipal operators and ASI developed the BSIP. The group later expanded its membership to include Local Transit System operators.

Explanation of Formula Allocation Procedure Elements

Municipal Operator Bus Service Improvement Program (MOSIP)

Purpose

MOSIP is intended to improve service to the transit dependent in Los Angeles County by reducing overcrowding and expanding services. The money can be used for bus operations and capital.

Funding

Municipal operators will receive almost $16 million in FY 2004.

Summary of Method

From July 1, 2001 through June 30, 2006, MTA will have allocated to the "included" and "eligible" municipal operators in Los Angeles County $15 million per year plus a 3% per year cumulative annual increase.

Relevant Information

The municipal operators were pursuing State legislation to require MTA to provide "fair share" funding from Proposition C 40%. In exchange for the creation of this funding program, the municipal operators agreed not to pursue additional legislation.

Proposition A and C Interest Funds

Purpose

These funds may be allocated to MTA and the municipal operators through the annual budget process.

Summary of Method

These funds are allocated on a "fair share" basis in addition to the Formula Allocation Procedure (FAP). The formula for allocating "fair share" funds is different from the FAP.

Relevant Information

In 1995 the Board adopted four criteria regarding the use of the interest funds.

1. "That Proposition A/C Interest funds are discretionary, to be appropriated at the discretion of the Board.

2. However, if the Board elects to use any of the Proposition A/C Interest funds directly to mitigate an MTA Operations shortfall or for other purposes or existing programs for bus operation or capital that have historically used the formula allocation process, then these funds shall be distributed through the appropriate formula allocation processes adopted by the Board.

3. Further, if Proposition A/C Interest funds are employed in an indirect manner, the result of which provides additional funds for programs described in item 2 above, then these funds shall also be distributed through the appropriate formula allocation process adopted by the Board.

4. Notwithstanding items 2 and 3 above, if the Board elects to use these funds for new programs or services, then the appropriation shall be through processes adopted by the Board, in conjunction with the Municipal Operators and other affected local jurisdictions, which may or may not include formula allocation."