

**Metro Board Meeting**

June 28, 2007

**MOTION**

Director Antonovich

Metro bus and rail services are facing cuts and restructuring as a result of the Enterprise Fund structural deficit, which is projected at \$70 million in FY 08 and over \$100 million in FY 09.

It is imperative that the Metro Board of Directors takes a hard look at the legitimacy of every charge against the Enterprise Fund, our farebox recovery ratio, the amounts and types of support service charges, and the ratio of support services to actual operating and operation capital expenditures to ensure that the Enterprise Fund is being spent in the most appropriate and effective manner in respect to the Operations component of the Metro mission.

The FY08 proposed budget recommends an Enterprise Fund budget of \$1,160,200,000, with an estimated \$140,000,000 budgeted as Support Services for the following Business Units within the Enterprise Fund: Communications, Financial Services, Administrative Services, Construction, Countywide Planning and Development, Economic Development and Management Audit Services.

Support Services charges currently represent an estimated 12% of the entire Enterprise Fund budget which is higher than the five-year average of 9.66% for the same charges from FY02 – FY06. This percentage has been as low as 8.4% as recently as FY06 and 8.5% in FY06. It seems reasonable and comfortable to cap the Support Services at a maximum of 9.0% of the Enterprise Fund given Metro's history and prior experience of having a lower percentage in previous budget, and given the recent reductions in revenue service hours without similar and expected reductions in Support Services.

If Support Services were curtailed to only 9.0% of the Metro Enterprise Fund budget in FY08, for example, then the estimated realized savings of \$35,582,000 in FY08 by itself would eliminate a large portion of our future Enterprise Fund structural deficit in FY09. Over the next few years this policy could help eliminate the overall Enterprise Fund structural deficit, preserve funding for Metro services, keep fares lower for our patrons while preserving planning and construction eligible funding that has previously been used to backfill the structural deficit.

**I THEREFORE MOVE** that the Metro Board of Directors take the following actions:

- (1) Introduce a maximum spending cap on Support Services charged against the Enterprise Fund by the aforementioned Business Units and any new Metro Business Units that come into existence. This cap shall be set at 9.0% of the Enterprise Fund in the FY09 budget and subsequent fiscal year budgets.
- (2) Reinvest all savings as a result of this Support Services cap directly into the Enterprise Fund structural deficit in FY09 and subsequent years until the structural deficit is resolved, before reinvesting these savings into new Operations expenditures.
- (3) Direct the CEO to present to the Board within 90 days a budget policy and/or amendments to the Financial Standards to be considered for FY09 and beyond.
  - a. This policy will clearly prioritize the programming of bus and rail operations, service sectors and operations capital projects first before the programming of support services and other secondary programs through the Enterprise Fund.
- (4) Instruct the CEO to appoint the Interim Chief Operating Officer to create, to make appointments to, and to chair an *ad hoc* committee:
  - a. This committee will comprise key Operations staff, Service Sector staff and representatives, Board staff and other key Metro staff (if necessary)
  - b. This committee will conduct an audit/evaluation of charges against the Enterprise Fund in FY06, FY07 and FY08
  - c. The committee chair will return to the Operations Committee, Finance and Budget Committee and Metro Board of Directors before November 1, 2007, with a report on the following:
    - An analysis of the charges made to the Enterprise Fund from FY06 to FY08
      - The analysis will contain an evaluation and description of the relevance of the totality of each charge to the Operations core functions
      - The analysis will present the percentage of each charge that should and should not be charged against the Enterprise Fund.
    - A recommendation of which charges to the Enterprise Fund should (in part or in full) either be charged against other parts of the Metro budget or eliminated from future budgets.

- A recommendation of policies governing the Support Services charges that will:
    - create a tiered prioritization of Support Services charges against the Enterprise Fund
    - ensure that charges deemed to be of higher priority for supporting the Operations core functions are programmed prior to charges of lesser priority
    - ensure that charges of lesser priority are identified and brought to the board for consideration prior to programming through the budget process to be charged against the Enterprise Fund.
  - A recommendation for a more stringent cap on Support Services than 9.0% for FY 09 and beyond for consideration by the Board.
  - A benchmark analysis of other major transit agencies' Enterprise Funds (or similar funds), their ratios of core-function charges versus secondary/support charges, and other relevant information to provide context to the Committee's report to the Board.
- (5) Instruct the CEO to incorporate the recommendations of the *ad hoc* committee into the FY09 Budget process, the FY09 Financial Standards and other relevant financial documents upon approval by the Board.
- (6) Instruct the CEO to identify clearly in all future relevant documents the amount of the savings generated by this new fiscal policy and its impact on the Enterprise Fund structural deficit in FY09 and beyond.