

# **Madison Metro Transit – Public Partner Computations**

## **Staff Recommendations for the Contracted Service Oversight Subcommittee and Ad Hoc Funding Subcommittee**

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The following are the recommendations of Metro Transit staff to the Contracted Service Oversight Subcommittee and Ad Hoc Funding Subcommittee in regards to issues associated with the Public Partner Computation formula.

### **Issue 1: Contracts**

*Ad Hoc Funding Subcommittee Recommendation 3*

The contracts between the City of Madison and Metro’s funding partners are outdated and do not accurately reflect current services provided.

#### **Recommendation:**

Maintain flexibility of open-ended contract dates with provision to have annual Memorandum of Understanding (MOU) between the City of Madison (Metro) and funding partners. The MOU would define levels of service provided to partner (routes, service hours) and the estimated cost. The MOU would also serve as the basis for determining 5<sup>th</sup> quarter billing/credits that may apply to a funding partner (see Issue 3a and 3b).

Consequently, Metro would need to be informed by August 1<sup>st</sup> of any significant service increases-modifications to incorporate the changes into Metro’s budget and include them as part of the MOU. Upon request, Metro will provide a cost per hour estimate for any proposed service changes for planning purposes. It is understood that some changes won’t be known until after until after budgets are set. Metro will work with the partner in these cases.

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### **Issue 2a: Allocation of Expenses & Revenues (Unallocated revenues)**

*Ad Hoc Funding Subcommittee Recommendation 4a*

Under current cost allocation formula, non-farebox related revenues are only credited to the City of Madison. Non-farebox related revenues include Medical Assistance Waiver funds, advertising revenues and other miscellaneous revenues collected by Metro.

#### **Recommendation:**

Allocate non-farebox related revenues amongst all funding partners based on partner’s percentage of total service hours.

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### **Issue 2b: Allocation of Expenses & Revenues (Routes 80 – 85)**

*Ad Hoc Funding Subcommittee Recommendation 4b*

UW-Madison provides free fare service for routes 80 through 85. In order to offset the impact of lost revenues during the switch from a fare to free fare service, Metro billed the UW-Madison separately for the estimated revenue. The UW-Madison then received “credit” in the cost allocation formula for the revenues. Since there is no written agreement between UW-Madison and Metro, it is unclear how the estimated revenue is determined.

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**Recommendation:**

Eliminate separate billing for “lost” revenue associated with routes 80-85 and the subsequent credit that is applied in cost allocation formula.

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**Issue 3a: 5<sup>th</sup> Quarter Payment (Budget v. Actual Expenses)**

*Ad Hoc Funding Subcommittee Recommendation 2a*

Current contractual agreements require a final payment/credit (5<sup>th</sup> quarter) be made to/from Metro’s partners after determination of final expenses and revenues based on year-end audit findings. However, for the last few years, the 5<sup>th</sup> quarter payment/credit has been based on changes in service hours and budgeted expenses and revenues.

**Recommendation:**

Staff recommends billing funding partners based on actual costs until adequate contingent reserves are maintained (see Issue 4, below). After adequate level is reached, 5<sup>th</sup> quarter billing/credit would be based on changes in service hours and the budgeted cost per hour as defined in the MOU. (See Issue 1, above.)

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**Issue 3b: 5<sup>th</sup> Quarter Payment (Controlling Risk)**

*Ad Hoc Funding Subcommittee Recommendation 2b*

Since 5<sup>th</sup> quarter billing/credit is not determined until after the end of the fiscal year for partners and the current contract calls for cost allocation formula to be determined based on actual revenues/expenses, partners are subject to unanticipated financial risks that may occur during the year (e.g., fluctuations in diesel cost).

**Recommendation:**

Base 5<sup>th</sup> quarter billing/credit on budgeted hours of service and cost per hour as defined in MOU once contingent reserve has reached appropriate level. As provided in Issue 3a above, staff recommends billing funding partners based on actual costs until an adequate level is reached to sustain the contingent reserve fund.

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**Issue 4: Contingent Reserve**

*Ad Hoc Funding Subcommittee Recommendation 1*

Metro’s contingent reserve has declined from \$2,288,576 in 2002 to \$124,384 in 2006. The decline is associated with the use of these funds to purchase paratransit vehicles in 2004 and escalating diesel prices in 2005 and 2006. For the past several years, the final adjusting payment made by Metro’s partners was based on changes in hours of service provided during the year and not on actual costs as determined by end-of-year audit findings.

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**Recommendation:**

For the purposes of calculating each partner's contingency reserve share, a formula of 15% of the partner's share will be the contingency reserve level set for that partner.

A partner may choose to opt out of the contingency reserve. If a partner opts out, they will always pay actual costs. In those cases, Issues 3a and 3b above are null and void.

In order to maintain a fiscally responsible reserve that allows Metro to adapt to unforeseen fluctuations in expenses, Metro staff recommends maintaining a contingent reserve of equal to \$2.0 million (+/- \$1.0 million) 15% of the City of Madison and all other partners' local share amount. It is recommended that the reserve be built back up within a 4-year time frame through the charge of an additional expense of 4% of its local share to each funding partner, based on the portion of total hours of service provided.

Once the desired goal of a \$2.0 million 15% contingent reserve is met, the reserve funds will be used to offset fluctuations in operating costs between what was budgeted and actual expenses incurred during the fiscal year.

The contingent reserve funds will be invested. A methodology for calculating each partner's share of the return on that investment will be included in contracts, and partners will receive the benefit of that investment.

Once a partner's share of the contingent reserve reaches the 15% goal, that partner can use the contingency funds if their 5<sup>th</sup> quarter invoice requires a payment. A partner that has reached the 15% contingent reserve and has a 5<sup>th</sup> Quarter credit will receive a payment equal to its local share credit and its contingency amount over 15%.

A partner that has reached the 15% contingency goal and uses the contingency fund for a 5<sup>th</sup> quarter payment will be billed not more than 4% of their local share each year until the contingency fund is back at the 15% goal. Partners can use the contingency fund for consecutive years after the initial goal is reached even if they aren't back up to the 15% goal by paying 4% per year.