

Madison Metro Transit – Public Subsidy Computations

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

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 Subsidy Computation formula.

Issue 1: Contingent Reserve*

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 of 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.

Recommendation:

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 \$2.0 million (+/- \$1.0 million). It is recommended that the reserve be built back up within a 4-year time frame through the charge of an additional expense to each funding partner, based on the portion of total hours of service provided. **Partners will not be able to opt out of this extra contingency fund charge.**

Once the desired goal of a \$2.0 million 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.

Issue 2a: 5th Quarter Payment (Budget v. Actual Expenses)

Current contractual agreements require a final payment/credit (5th 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 5th 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 1, above). After adequate level is reached, 5th quarter billing/credit would be based on changes in service hours and the budgeted cost per hour as defined in the Memorandum of Understanding (MOU).

Issue 2b: 5th Quarter Payment (Controlling Risk)

Since 5th quarter billing/credit is not determined until after end of 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).

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Recommendation:

Base 5th quarter billing/credit on budgeted hours of service and cost per hour as defined in MOU once contingent reserve has reached appropriate levels. As provided in Issue 2a above, staff recommends billing funding partners based on actual costs until an adequate level is reached to sustain the contingent reserve fund.

Issue 3: Contracts

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 MOU between the City of Madison (Metro) and funding partners. The MOU would define levels of service provided to partner (routes and service hours) and the estimated cost. The MOU will also serve as the basis for determining 5th quarter billing/credits that may apply to a funding partner.

Consequently, Metro would need to be informed by August 1st of any service changes, 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.

Issue 4a: Allocation of Expenses & Revenues (Unallocated revenues)

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.

Issue 4b: Allocation of Expenses & Revenues (Route 80-85)

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 the cost allocation formula.

*At its 10/11/07 meeting The Transit and Parking Commission approved that the recommendations in this document be implemented starting January 1, 2008 with the additional staff recommendation that the contingency reserve be implemented starting January 1, 2009.