
Memorandum

To: Transit and Parking Commission
From: Contracted Service Oversight Subcommittee
Subject: Service Partner Contract Guidelines
Date: 5/3/2012

Service partner contracts with Metro Transit are old and need to be updated. At the March 23, 2012 meeting, the Contracted Service Oversight Subcommittee voted to adopt the following guidelines and recommend them to the Transit and Parking Commission as guidance for the boilerplate partner contract.

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The contracts between the City of Madison and Metro's funding partners are outdated and do not accurately reflect current services provided.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 5th quarter billing/credits that may apply to a funding partner (see Issue 3a and 3b).

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

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.

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.

Recommendation:

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

Issue 3a: 5th Quarter Payment (Budget v. Actual Expenses)

Ad Hoc Funding Subcommittee Recommendation 2a

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 4, below). 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 MOU. (See Issue 1, above.)

Issue 3b: 5th Quarter Payment (Controlling Risk)

Ad Hoc Funding Subcommittee Recommendation 2b

Since 5th 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 5th 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.

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.

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 goal 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.

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.

A partner can use the contingency funds if their 5th quarter invoice requires a payment. A partner that has reached the 15% contingent reserve and has a 5th Quarter credit will receive a payment equal to its local share credit and its contingency amount over 15%. Otherwise, the 5th quarter credit will be applied to the partner's contingency reserve.

A partner that uses the contingency fund for a 5th quarter payment will be billed up to 4% of their local share each year until the contingency fund is back at the 15% goal.