



# COUNCIL agenda report

Meeting Date	June 11, 2009
Item Number	PH 3

CITY OF SAN LUIS OBISPO

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**SUBJECT:** TRANSIT ENTERPRISE FUND REVIEW 2009

## RECOMMENDATIONS

1. Review and discuss the 2009 annual Transit Enterprise Fund review.
2. Conceptually approve the Transit Fund budget for 2009-11, with final action on June 16, 2009 with the adoption of the 2009-11 Financial Plan.
3. Review and approve the 2008-09 Program of Projects as amended by the San Luis Obispo Council of Governments on April 8, 2009.
4. Authorize the City Manager to negotiate and approve a one year contract extension with First Transit, Inc. to perform operations and maintenance for FY 2009-10.

## REPORT-IN-BRIEF

The City operates a fixed route public transportation system, SLO Transit, within the City limits and to Cal Poly State University. The Transit Enterprise Fund review presents the financial condition of the Transit Fund, based on the 2009-11 Financial Plan operating program budgets, current funding limitations, and recommended program and capital requests to address the identified needs in the Transit Program. Staff was able to negotiate a service contract extension for operation and maintenance that is close to a "zero year" increase in 2009-10. This is a key factor in helping to balance the transit budget.

Overall, it is anticipated that revenues will meet expenditures for the next year and that ridership rates will remain consistent with current trends. The current fare rates and revenues are adequate to support current operations. Year two of the Financial Plan is more difficult to forecast due to major issues beyond the control of the City. Currently the second year is forecast to be solvent however; additional State budget takeaways, higher regional transit funding needs, or federal funding reductions could have significant negative effects on balancing the transit budget for FY 2010-11.

There were several events in the 2008-09 fiscal year that have impacted the Transit Enterprise Fund budget. These included: a general fare increase to cover operating cost increases, various grant funding opportunities both higher and lower than expected, vehicle replacements, volatile fuel prices and the adopted update to the Short Range Transit Plan (SRTP). In addition, State budget takeaways proposed for 2009-10 will have an impact on the San Luis Obispo Regional Transit Authority (SLORTA) and SLO Transit by complicating the ability to establish and maintain a balanced budget.

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## DISCUSSION

### **Background**

The City of San Luis Obispo operates a fixed route public transportation system within the City limits, surrounding County areas and to the California Polytechnic State University (Cal Poly). Vehicle operations and vehicle maintenance are provided under contract by a private transportation company. Non-vehicle-related support and administrative services are provided by City staff. The Transit fund is an enterprise fund of the City, created to account for the revenues received pursuant to the Transportation Development Act (TDA), Federal Transit Administration (FTA) and other funding received for providing transit services described above.

This report presents the financial condition of the Transit Fund, based on the 2007-11 Financial Plan operating program budgets, existing funding limitations, and recommended program and capital requests to address the identified needs in the Transit Program for the next two years.

Attachment 1 includes the 2009-11 Transit Fund Analysis. Overall, it is anticipated that revenues will meet expenditures for the next year and that ridership rates will remain consistent with current trends. The current fare rates and revenues are adequate to support current operations. In order to maintain the current level of services in the 2009-10 fiscal year, it is assumed that the amount of TDA monies available to the City will remain at current levels and funding for additional services of SLORTA will not increase dramatically. The SLORTA Board has adopted their proposed 2009-10 operating budget, and City staff believes that the TDA required from the City to pay for SLORTA services will remain consistent with prior year requirements.

It is important to note that we have been successful in negotiating a one year contract extension with First Transit, Inc., our operations and maintenance contractor that in essence creates a "zero" year for FY 2009-10 and depending on service levels, may allow for some cost savings throughout the year. Stability in funding amounts and maintaining farebox ratios will likely be the significant issues we face for the foreseeable future.

### **Transit Fund Review: FY 2008-09**

#### ***Ridership***

In 2008-09, ridership per hour on SLO Transit (average = 30.88 riders/hour) continues to be higher than average for similar systems nationwide. The system carried 874,309 passengers thru April while performing 28,315 system revenue hours. We are on track again to exceed one million passengers for the year by fiscal year end. For the second straight year, ridership in October 2008 was the highest ever recorded for a single monthly period at 127,071 passengers; up 1,806 from the 2007 record of 125,265 riders. Total ridership for 2008-09 is projected to be above the 1,003,630 passengers carried last year, based on the first 10 months of data.

#### ***Fares***

Transit fare increases were approved by the Council on April 21, 2009 and went into effect on June 1, 2009. There were three significant reasons for considering fare increases at that time: volatile fuel

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costs, funding reductions and mandated farebox recovery ratios. These factors continue to severely limit the City's ability to implement a higher level of service to its ridership.

First, while fuel costs have decreased in recent months, the future cost of fuel is expected to rise, which will continue to put pressure on the transit budget. Second, State transit operating funding reductions have caused a significant budget shortfall for the current year. This reduction, if permanent, will severely limit the City's ability to implement a higher level of service to its ridership, as recommended in the SRTP update. Finally, as operating costs have increased, the City's ability to meet the State mandated 20% farebox recovery ratio has become a challenge, leaving the City vulnerable to fines or loss of funding. Therefore, the challenge of the fare increases was to determine how much to raise them while balancing the impact to ridership (for those who cannot afford a fare increase) with the service levels that meet the needs of the community over the next several years.

### ***Farebox Ratio***

The farebox ratio is the proportion of the amount of revenue generated through passenger fares, pass sales and the Cal Poly revenue agreement as a fraction of the cost of the total transit operating expenses. As noted in the recent Council Agenda Reports for the SRTP and fare modification, due to the increases in operational costs along with reductions in our ability to capitalize operating expenses, SLO Transit's farebox ratio continues to decline and is now at the borderline level of 20% minimum. This farebox ratio is a requirement as mandated by the State and if not maintained can endanger funding.

The FY 2007-08 audit shows that SLO Transit finished last year right at the 20% farebox recovery level. In past years if SLO Transit dipped below this ratio, a portion of State Transit Assistance (STA) funding could have been withheld or eliminated until the required 20% farebox ratio was met. Since the State eliminated STA payments to transit agencies starting on July 1, 2009 there are questions as to whether continuing to meet farebox ratios is still a requirement to receive the Local Transportation Fund (LTF) component.

Even a marginal increase in farebox revenue will assist in staying above the required level and will help to avoid service impacts. The recently approved fare modifications approved by the City Council on May 5, 2009 should assist by providing additional revenue. Finally, the ratio projections noted in the Changes In Working Capital (CIWC) section will be adjusted with the capitalization of projects and depreciations costs, as well as insurance and fuel costs that exceed the consumer price index (CPI). These adjustments will ultimately decrease the operating program costs and, as a direct result, increase the farebox ratio above the mandated ratio.

### ***Grants***

#### ***State Transit Assistance***

In 2006-07 the City was successful in receiving \$205,000 in discretionary STA funding from San Luis Obispo Council of Governments (SLOCOG) to implement a pilot Evening Service Extension Program. The first phase was implemented on January 2, 2007 when Route 4 was extended 2.5 hours in the evening, Monday through Friday. This program was expanded to include Routes 2, 3, 4, and 6A/B until 10:44 pm but limited to a Monday-Thursday operation in September 2007. In

September 2008, this service was expanded to again include Friday and is expected to operate approximately 36,000 revenue miles in 2008-09.

#### *New Freedom*

In January 2009, City staff was awarded a \$20,000 Section 5317 - New Freedom (NF) Grant by Caltrans and the FTA. On April 21, 2009, the City Council awarded a twenty-four month contract to Ridership Development Consultants (Fred Munroe) in the amount of \$25,000 to administer the grant; \$20,000 from the FTA 5317 grant and \$5,000 as a local match from the transit operating budget. This funding provides the ability to develop a plan for marketing, education, service goals and programs to improve access to county public transportation services and is intended to educate senior and mobility challenged individuals about the availability of various transit use training materials and educational opportunities.

#### *Federal Stimulus Program*

The American Recovery and Reinvestment Act (ARRA) of 2009 provides one-time funding for many categories, including public transportation capital projects. These funds are directly allocated to the San Luis Obispo Urbanized Zone Area, and candidate projects were submitted to the City Council and SLOCOG for approval in the same form as a Program of Projects (POP). The City's allocation of those funds is \$1,023,660 and no local match funding is required for receipt of the ARRA grants. On April 21, 2009, the City Council approved three ARRA funded projects as follows:

1. Automatic Vehicle Locator (AVL)-Passenger Access System: This project will replace SLO Transit's Efficient Deployment of Advanced Public Transportation Systems (EDAPTS) as our bus information and locator system.
2. GFI Electronic Farebox upgrade: This project will fund an upgrade for SLO Transit vehicles with GFI Odyssey model validating fareboxes and will allow expanded fare media including smart cards.
3. Transit Facility Improvements: This project will include Transit facility improvements to equipment such as the existing bus wash, signs, parking lot, office furniture, computers and monitors. Also being evaluated is new equipment installation such as modifying maintenance bay height, installing new overhead doors, security cameras, alarms, and automatic gate

#### *Proposition 1B*

Earlier this year the City received \$500,700 in Proposition 1B funding. This funding assistance was used to augment an existing FTA grant for vehicle replacement by \$475,000 and the remaining \$25,700 for bus stop improvements.

#### ***Program of Projects (POP)***

##### *Amended POP*

On November 18, 2008, The City Council approved the FTA grant application for the SLO Transit's POP for fiscal year 2008-09. The POP included Operating Assistance for \$600,000, one bus replacement for \$342,000, a capital augmentation for another bus replacement in the amount of \$37,500 and the capital cost of contracting for \$336,000. In 2009, SLOCOG informed SLO Transit of a reduction in LTF, thereby reducing the City's ability to provide local match funding for the bus

replacement and capital cost of contracting. Staff returned to SLOCOG with a revised POP, adding the cost of the bus replacement (\$342,000) and capital cost of contracting (\$336,000) to the operating assistance for July 1, 2008 through June 30, 2009. SLOCOG approved the amended POP on April 8, 2009 which now provides for a total of \$1,278,000 in operating assistance and \$37,500 for capital augment bus replacement. Staff recommends the City Council review and approve the revised POP (Attachment 2) for the fiscal year 2008-09, as amended by SLOGOC in April 2009.

#### *ARRA – POP*

In April 2009, the City Council approved the proposed ARRA POP including \$37,500 in FTA Section 5307 Grant funding to augment an existing 2007-08 FTA grant for one bus replacement. The \$37,500 will increase the Federal share from to \$337,500 and decrease the local match to \$37,500, for a total project of \$375,000. The Transit Manager will file an amendment with the FTA to revise the existing budget in order to take advantage of the 90%/10% Federal/Local ratio available with the FTA approved Implicit Cooperative Procurement Pilot Program (CPPP). On April 21, 2009, the City Council approved the purchase of a Double Deck 84-seat model bus from Alexander Dennis LLC using \$475,000 in Proposition 1B funding to be combined with this FTA grant of \$375,000, for a combined total project of \$850,000. Delivery of this new vehicle is anticipated by June 2010.

#### *Transit Vehicle Replacements*

After years of vehicle replacement deferment, SLO Transit is finally caught up to our replacement projects in order to meet California Air Resources Board (CARB) requirements. In October 2008 a new thirty-foot replacement Trolley was delivered to the City. The City received an Executive Director's Beautification Award from the Downtown Association in April 2009 for the vehicle. The City Council's decision to approve an aggressive bus replacement program in April 2008 resulted in leveraging State Transportation Improvement Program (STIP) funding for two thirty-five foot buses totaling \$710,000 and two forty-foot buses using Proposition 1B funds totaling \$741,161. These buses, all using clean diesel Cummins engines, were delivered in December 2008 and put into service in January 2009. Additional vehicle replacement are slated for carryover projects into FY 2009-10 with the purchase of a new double deck bus (the first in the area) to assist with peak time passenger loads.

#### *Short Range Transit Plan*

On May 5, 2009 the City Council adopted the SRTP update that was prepared by Urbitran Associates, Inc. The SRTP is a five-year planning document used to analyze service levels, funding, and to provide recommendations for improvement to overall service, stability and growth. A primary goal of the SRTP is to make focused recommendations for service changes to meet the transit needs of the community, improve the productivity of operations and transit routes and set the stage for the next five years of transit service. This planning and operational document is used as the foundation for seeking community input, establishing priorities and funding programs to allow the City to apply for local, state, and federal grants. It is also a requirement to maintain eligibility for certain funding sources. The City's Circulation Element requires that the City adopt a SRTP and update it every five years.

#### **Transit Issues 2009-2010 and beyond**

***First Transit Contract***

On June 6, 2006 the City Council approved a three-year contract with First Transit, Inc. to provide operations and maintenance services for SLO Transit for the period July 1, 2006 through June 30, 2009, with the possibility of seven one-year extensions and authorized the City Manager to execute the Agreement. Staff is recommending that the first extension year starting on July 1, 2009 thru June 30, 2010 be approved and the City Manager to execute the agreement. The one year extension keeps contract costs for these services just below current FY 2008-09 levels and the City will not need to modify its service levels at this time as long as there are no significant increases in the City's contribution to SLORTA, decreases in assumed grant funding, or other unexpected change in the financial assumptions included in the Transit Enterprise Fund Review.

***Continued Volatility in Fuel Costs***

Fuel costs were again very volatile in 2008-09 when the City saw the untaxed price of diesel fuel peak at \$4.40 per gallon. Prices over the last part of 2008-09 have dropped significantly but are starting to climb again and are expected to continue to rise over the next few years. The proposed transit budget anticipates this increase to a certain extent; however, if fuel costs soar, the transit budget may not be able to absorb all of the cost increase. The transit budget is predicted to be stable as it is partially offset by increased transit revenue due to the fare increase approved by Council in April 2009. Increased revenue from fares is expected to bring in approximately \$60,000 if ridership increases by a modest 3% over the next fiscal year.

***Unknown State Budget Impacts***

Further complicating the SLO Transit budget for 2009-10 are the potential negative ramifications of the State budget. The challenges posed to the Public Transportation Account (PTA), which was funded by the sales tax on diesel fuel and a portion of sales tax on gasoline, are primarily due to diversion of virtually all of the 'spillover' revenue from the PTA in the current year and 50 percent of the spillover revenues in the next budget year to the State General Fund. The diversions that were enacted reduced transit programs by at least \$455 million during the year. The State withheld the third and fourth quarter STA payments for 2008-09 and eliminated the STA funding starting in 2009-10. The loss of STA funding for SLO Transit in 2009-10 is estimated at approximately \$105,000.

The net effect is while there will be money made available for transit capital, there may not be enough funding for operating public transit at a time when the demand for public transit is high, and many residents want to try transit due to the increase in fuel costs for their personal vehicles.

***SLORTA***

SLO Transit is a member of the San Luis Obispo Urbanized Zone Area, and as a member, shares State TDA funding for transit with SLORTA. The 2009-10 SLORTA budget proposes that the San Luis Obispo contribution be a 4% increase over the 2008-09 amount. In April 2009, the SLORTA Board approved an "In House" operations model where they will transition from a contractor operated service to one directly operated by SLORTA staff. If SLORTA experiences higher than anticipated operating costs, this could result in additional TDA funding being required of the City in future fiscal years if no other funding sources can be found. SLORTA has been working very closely with the Joint Powers Authorities (JPA) jurisdictions on these issues and they have been tasked by the SLORTA Board to closely monitor the transition and identify potential funding issues as early as

possible. Representatives from SLORTA, SLOCOG and the City will be working on options for funding that maximize transit service provision for each agency, with the goal of finding a solution that preserves the greatest amount of transit service within the region.

### ***Future Transit Coach Replacements***

Replacement of the four-1997 buses for SLO Transit in the next two fiscal years will continue to be one of the biggest issues affecting funding. The proposed budget anticipates that most of the future capital bus replacement funding will come from non-conventional sources such as Proposition 1B and other grants such as Clean Cities, Department of Energy, California Air Resources Board or FTA Section 5309, which is a nationwide discretionary program. Because these are discretionary in nature with no guarantees, the two year budget does not assume grant revenues at this time for vehicle replacements. However, staff will pursue these as funding sources and will amend budget accordingly if we are successful in being awarded funding. In order to balance operating costs, SLO Transit will need to utilize significant amounts of the urbanized area Federal FTA Section 5307 funding (the Federal Urbanized Area funding) for operating assistance and capital cost of recovery to help pay for bus maintenance through the City's transit operations contract.

## **FISCAL IMPACT**

### **Transit Budget 2009-10**

The SLO Transit budget CIWC for 2009-10 is included as part of the Fund Analysis attachment. Overall, revenues are projected to meet expenditures for next year and we are projecting an end-of-year working capital/reserve for both years of approximately \$1.4 million. However, depending on the amount of capital needed to fund local matches for bus replacements for grants yet to be secured, there may be a need to shift some of this reserve funding to capital during the next two years. While this amount of working capital might indicate that there is funding available for slight service increases, these estimates include assumptions of revenues in key funding sources that have had significant reductions by State budget takeaways in the last two years.

Rather than program all funding at this time based upon these estimates, staff is proposing to be very conservative at this time and leave this working capital as a reserve for 2009-10. This request for a prudent reserve is two-fold. First, as identified above, fuel prices are anticipated to continue in an upward trend and may exceed budget assumptions. Second, the proposed outside funding sources for bus replacement capital may not be fully realized or funding sources could again be reduced dramatically because of State issues. One-time only funding is assisting us in meeting budget needs in FY 2009-10 and these same funding sources will likely not be available in FY 2010-11. Keeping the modest working capital amount will allow for some adjustments in critical components of the SLO Transit system if funding levels are below expectation.

### **Significant Operating Program Changes**

As part of the effort to fill the \$11.3 million General Fund deficit, the Transit Enterprise Fund will be providing the General Fund with some assistance in maintaining a part time City Worker VIII position that has acted as the City Bicycle Programs Coordinator for the past two years. This position which was only funded for a two year period in the FY 2007-09 Financial Plan has been very successful for the City helping to realize over \$2.5 million in grant assistance for bicycle facilities and alternative transportation programs. As part of the implementation of the Major City Goal and

Measure Y priority for Traffic Congestion Relief, the Transit Enterprise fund will fund a portion of the part-time costs and utilize the position to perform transit tasks and improve bicycle and pedestrian access into the transit system. This position will assist the Transit Operating Program with on board surveys and evaluation of existing transit facilities, coordinate multi-modal transportation services, increase transit driver awareness of bicyclists and evaluate bicycle facilities along transit routes. Due to the cost reduction strategy of not filling the current City Traffic Engineer position, each of the transportation section managers will need to take on part of that position's responsibilities so it will be important to have the Bicycle Programs Coordinator position backfill some of the daily tasks being performed by others. Solicitation of grant funding will continue to be a major role of the position to help with funding projects and reducing General Fund demand.

Requested Funding by Source	Fund	2009-10	2010-11
<b>Bicycle Programs Assistant (City Worker VIII)</b>			
General Fund (38% in 2009-10 & 44% in 2010-11)	100	12,300	15,600
Transit Enterprise Fund (63% in 2009-10 & 57% in 2010-11)	530	20,400	20,400
<b>Total</b>		<b>32,700</b>	<b>36,000</b>

**Cost Reduction Strategies**

Given various economic uncertainties, staff has taken a closer look at transit operations to identify opportunities for cost savings and has taken some refinement of the staffing and non-staffing operating expenses. Staffing costs are lower than prior years for two year reasons: employee salary concessions; and a more detailed approach to projecting regular staffing costs than in prior years. Additionally, the transit operating budget for advertisement and printing/reproduction has been reduced by approximately \$21,000 in 2009-10 and 2010-11. It is staff's assumption that a portion of the work lost through these cuts could be picked up by the Bicycle Programs Coordinator, which will be shared between the Transit Division and the Transportation Planning and Engineering Division.

**Transit Enterprise Fund**

Cost Reductions	2009-10 Budget	2010-11 Budget
Advertising	(14,000)	(14,300)
Printing & Reproductions	(6,300)	(6,500)
<b>Total</b>	<b>(20,300)</b>	<b>(20,800)</b>

Finally, and very important, staff was able to negotiate a service contract extension proposal from our contractor that was close to a "zero year" increase for FY 2009-10. This has helped to balance the budget for next year and is consistent with other City operational cost reductions that have helped to balance FY 2009-10.

**ATTACHMENTS**

1. 2009-11 Transit Fund Analysis
2. Amended 2008-09 POP

## 2009-11 Transit Fund Analysis



**san luis OBISPO transit**

June 11, 2009

*Prepared by the  
Public Works Department*

# city of san luis OBISPO

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**City of San Luis Obispo  
2009-11 Transit Fund**

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# city of san luis obispo

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## 2009- 11 Transit Fund Report

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### I. OVERVIEW

This report presents the financial condition of the Transit Fund, based on the 2009-11 Financial Plan operating program budgets, existing situation, and recommended program and capital requests to address the identified needs in the Transit Program.

The current fare rates and revenues are adequate to support current operation. However, the balance is achieved using a variety of one-time only grant sources that may not be available in the near future. To maintain the current level of services in the 2009-10 fiscal year, costs for operating the Operations and Maintenance contract will need to be slightly below FY 2008-09 levels, the amount of Transportation Development Act (TDA) must be consistent with current forecasts and funding required to meet obligations to the San Luis Obispo Regional Transit Authority (SLORTA) funding must remain near current levels. For FY 2009-10, the county has a one-time only \$800,000 carryover in the TDA pool available to jurisdictions. This equates to approximately \$144,000 in one-time only revenue available to SLO Transit for use in FY 2009-10.

Due to the need to program almost all available resources for operations, there will not be significant capital money available from our conventional funding sources such as TDA and FTA. Instead, it is likely that the City will need to continue to rely heavily on one-time only grant sources (such as Proposition 1B) to deliver needed vehicle replacements and other major capital items. These funds are discretionary under the purview of the San Luis Obispo Council of Governments (SLOCOG) and as such, have not been anticipated in the budget forecasts. However, staff will seek these grants when available to assist in meeting capital replacement needs.

A significant area of concern is the City's ability to meet the State mandated 20% farebox recovery ratio that is necessary to meet TDA funding eligibility. FY 2007-08 was right at the 20% requirement and as operating costs increase, the City will experience difficulties in maintaining this ratio.

While FY 2010-11 is currently forecast to be balanced, there are significant issues such as State and Federal transit funding levels, additional transit contract extension (or rebidding) cost increases and needs of SLORTA that could effectively unbalance the future forecast. The Cal Poly subsidy contract is due to terminate in 2011 and so future funding levels of this significant revenue source for transit service are unknown at this time.

**II. 2009-11 FINANCIAL PLAN**

**A. Summary of Operating Programs**

**TRANSIT FUND SUMMARY**

	<b>2008-09 Revised</b>	<b>2009-10 Budget</b>	<b>2010-11 Budget</b>
<b>A. Summary of Revenues</b>			
Investment and Property Revenues	55,700	5,000	5,000
Subventions and Grants	6,111,300	2,693,200	2,331,700
Service Charges	567,500	546,300	558,500
Other Revenues	13,300	10,000	0
<b>Total Revenues</b>	<b>6,747,800</b>	<b>3,254,500</b>	<b>2,895,200</b>
<b>B. Summary of Operating Program Expenditures</b>			
Operating Programs			
Transportation	2,665,500	2,606,400	2,681,200
General Government	292,100	300,700	306,700
<b>Total Operating Programs</b>	<b>2,957,600</b>	<b>2,907,100</b>	<b>2,987,900</b>
<b>C. Other Sources (Uses)</b>			
Potential MOA Adjustments	-6,700	-1,200	-7,500
Savings	0	0	0
Other Sources (Uses)	0	0	0
Expenditure Savings	0	0	0
<b>Total Other Sources (Uses)</b>	<b>(6,700)</b>	<b>(1,200)</b>	<b>(7,500)</b>

Note: Services Charges in FY 2009 include one-time only payment of \$30,000 from Cal Poly to assist with fuel costs.

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**B. Operating Cost Reductions**

**Transit Enterprise Fund**

<b>Cost Reductions</b>	<b>2009-10 Budget</b>	<b>2010-11 Budget</b>
Advertising	(14,000)	(14,300)
Printing & Reproductions	(6,300)	(6,500)
<b>Total</b>	<b>(20,300)</b>	<b>(20,800)</b>

**C. Capital Improvement Projects**

	<b>2008-09 Revised</b>	<b>2009-10 Budget</b>	<b>2010-11 Budget</b>
<b>D Capital Improvement Projects</b>			
Vehicle Replacements	2,472,600	0	0
Vehicle Retrofits	820,700	0	0
Facility Improvements	317,600	0	0
Transit Planning	24,700	0	0
Information Technology Projects Share	700	0	1,300
<b>Total Capital Improvement</b>	<b>3,636,300</b>	<b>-</b>	<b>1,300</b>

Note\*: Supporting documentation for these capital improvement projects is provided in Appendix B of the 2007-09 Financial Plan.

**III. ASSUMPTIONS**

The following assumptions have been programmed into the long term forecast of the Transit Fund. The following provides more detail for the key assumptions in Exhibits A1 this report, the financial schedules showing the Transit Fund's changes in financial position and the listing of assumptions.

**General Assumptions**

1. Minimum working capital (reserve) should equal at least 20% of the total Operating Program expenditures according to the City's fiscal policy and Standard and Poor's rating criteria. The Transit Fund commits all available transit funding to transit and carryovers any unused funding for use in subsequent years.

**Transportation & General Government Expenses**

*Fare Increase*

1. Fare increases adopted by the City Council in April 2009 are expected to raise revenue. However, based upon past experience and the effect of the Cal Poly Subsidy agreement, only a modest 1% increase in general fares has been programmed for each year of the Financial Plan. The Cal Poly subsidy is due to terminate n 2011.

*Transit operating and Maintenance Contract*

1. An extension of the current Operations and Maintenance contract with First Transit will be negotiated for a one-year extension for FY 2009-10. An additional contract extension agreement or circulation of a Request for Proposals (RFP) will be required for future years. The one-year extension keeps contract costs for these services just below current FY 2008-09 levels.

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### *Temporary Staffing*

1. SLO Transit will provide funding to support a shared temporary worker position with the Transportation Planning and Engineering division. The Bicycle Programs Coordinator will cost the Transit Fund \$20,400 in 2009-10 and 2010-11.

### *Operating Cost Reductions*

1. SLO Transit has reduced the operating budget for advertising and printing/reproduction by \$20,300 in 2009-10 and \$20,800 in 2010-11.

## **Grants**

### *Local Transportation Funds (LTF)*

1. This funding is from the  $\frac{1}{4}$  on retail sales tax and SLOCOG has estimated a 5% increase over the \$1,085,000 that SLO Transit received in FY 2008-09.
2. This slight increase in TDA revenue includes a one-time only carry over of approximately \$800,000 county-wide. This amounts to approximately \$144,000 available to SLO Transit in FY 2009-10 but not in subsequent years.

### *State Transit Assistance Program (STA)*

1. In FY 2008-09 the State reduced STA funding by 50% to just over \$53,000 and eliminated the funding program entirely in FY 2009-10 and future years.

### *Federal Transit Administration (FTA) Section 5307*

1. These are formula based funds and are anticipated at a minimum of \$1,343,246 each year over the next two fiscal years. Actual amounts may vary and will be determined by Council as part of the annual Program of Project (POP) process.

### *FTA Section 5317 New Freedom Grant*

1. San Luis Obispo was awarded \$20,000 by Caltrans to expand transportation services in San Luis Obispo for the next two years.
2. On April 21, 2009 the Council approved a twenty-four month, \$25,000 contract with Ridership Development Consultants to educate senior and mobility challenged individuals about the availability of various transit use training materials and educational opportunities.

### *American Recovery and Reinvestment Act (ARRA) FTA Section 5307*

1. The American Recovery and Reinvestment Act (ARRA) of 2009 provides one-time funding for many categories, including public transportation capital projects. The San Luis Obispo Urbanized Zone Area (SLOUZA) amount was \$1,323,660 and the City's allocation of those funds is \$1,023,660.

### *Proposition 1B*

1. On April 8, 2009 SLOCOG approved \$475,000 is discretionary Proposition 1B funds for SLO Transit to augment an existing FTA grant.
2. On April 21, 2009 Council approved using those funds for the purchase of a Double Deck style bus.
3. SLO Transit will also receive \$25,700 in Proposition 1B funds to be used for bus stop improvements.

## **Ridership and Evening Service**

1. Ridership is estimated to grow at a conservative 3% increase system-wide, if existing funding levels are maintained.
2. Annual Pilot Evening Service is estimated at approximately 36,300 miles (\$126,904) and has fully expended the initial Discretionary STA Grant (\$205,000). While it appears the cost of this service can be met, the service does not deliver significant additional revenue to assist with farebox recovery ratios.

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### **Transit Vehicle Replacements**

1. SLOCOG recently approved \$475,000 in Proposition 1B funds, which will be used to augment an existing FTA grant (\$375,000) for the purchase of a double deck style bus. The bus will allow greater passenger loads without increased operating costs.
2. The City will need to rely heavily on non-conventional grant sources, such as Proposition 1B, to secure funding for vehicle replacements and other major capital items.

### **Short Range Transit Plan**

1. On May 5, 2009 the City Council adopted the Short Range Transit Plan (SRTP) update that was prepared by Urbitran Associates, Inc.
2. Recommendations provided in the SRTP are not expected to be realized within the 2009-11 Financial plan as staff determines appropriate funding to support said recommendations.

## **VI. LOOKING TO THE FUTURE**

### **Fuel Costs**

Fuel costs were again very volatile in 2008-09 when the City saw the untaxed price of diesel fuel peak at \$4.40 per gallon. Prices over the last part of 2008-09 have dropped but are starting to climb and are expected to continue to rise again over the next few years. The proposed transit budget anticipates this increase to a certain extent; however, if fuel costs soar, the transit budget may not be able to absorb all of the cost increase. The transit budget is predicted to be stable as it is partially offset by increased transit revenue due to the fare increase approved by City Council in April 2009. Increased revenue from fares is expected to bring in approximately \$60,000 if ridership increases by a modest 3% over the next fiscal year.

### **Unknown State Budget Impacts and SLORTA Situation**

Further complicating the SLO Transit budget for 2009-10 are the potential negative ramifications of the State budget. The challenges posed to the Public Transportation Account (PTA), which was funded by the sales tax on diesel fuel and a portion of sales tax on gasoline, are primarily due to diversion of virtually all of the 'spillover' revenue from the PTA in the current year and 50 percent of the spillover revenues in the next budget year to the State General Fund. The diversions that were enacted reduced transit programs by at least \$455 million during the year. The State withheld the third and fourth quarter STA payments for 2008-09 and eliminated the STA funding altogether starting in 2009-10. The loss of STA funding for SLO Transit in 2009-10 is estimated at approximately \$105,000 annually.

SLO Transit is a member of and as a member, shares State TDA funding for transit with SLORTA. The 2009-10 SLORTA budget proposes that the San Luis Obispo contribution be a small 4% increase over the 2008-09 amount. In April 2009, the SLORTA Board approved an "In House" business model where they will transition from a contractor operated service to one directly operated by SLORTA staff. If SLORTA experiences higher than anticipated operating costs, this may result in additional TDA funding being required of the City in future fiscal years. SLORTA has been working very closely with the Joint Powers Authorities (JPA) jurisdictions in the County on these issues and they

have been tasked by the SLORTA Board to closely monitor the transition and identify potential funding problems as early as possible. Representatives from SLORTA, SLOCOG and the City will be working on options for funding that maximize transit service provision for each agency, with the goal of finding a solution that preserves the greatest amount of transit service within the region.

#### **Transit Operations and Maintenance Contract**

The City has negotiated a one-year extension with First Transit Inc. to perform transit operations and maintenance for FY 2009-10. The current contract agreement with First Transit terminates on June 30, 2009 and allows for a series of extension options up to seven years. Staff will continue to work with First Transit to determine if additional extensions of the current agreement are possible. If a contract extension is not viable for FY 2010-11, the City will need to prepare and circulate a RFP for maintenance and operational service sometime during the next fiscal year.

#### **Vehicle Replacements**

Replacement of the four-1997 buses for SLO Transit in the next two fiscal years will continue to be one of the biggest issues affecting funding. The proposed budget anticipates that most of the future capital bus replacement funding will come from Proposition 1B and other non-conventional funding grants such as Clean Cities, Department of Energy, California Air Resources Board or FTA Section 5309, which is a nationwide discretionary program. In order to balance operating costs, SLO Transit will need to utilize significant amounts of FTA Section 5307 funding (the Federal Urbanized Area funding) for operating assistance and capital cost of recovery to help pay for bus maintenance through the City's transit operations contract.

EXHIBIT A

**2009-11 TRANSIT FUND**  
FINANCIAL SCHEDULES



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**CHANGES IN WORKING CAPITAL - TRANSIT FUND**

	<b>2007-08 Actual</b>	<b>2008-09 Revised</b>	<b>2009-10 Budget</b>	<b>2010-11 Budget</b>	<b>2011-12 Projection</b>	<b>2012-13* Projection</b>
<b>Revenues</b>						
Investment and Property Revenues	6,381	55,700	5,000	5,000	5,000	-
Subventions and Grants						
TDA Grants	1,598,100	1,139,600	1,200,000	1,031,700	1,037,000	-
Other Grants	683,600	1,100,700	0	0	0	-
FTA Grants	1,520,700	3,871,000	1,493,200	1,300,000	1,326,000	-
Service Charges	516,400	567,500	546,300	558,500	560,500	-
Other Revenues	4,000	13,300	10,000	0	0	-
<b>Total Revenues</b>	<b>4,329,181</b>	<b>6,747,800</b>	<b>3,254,500</b>	<b>2,895,200</b>	<b>2,928,500</b>	
<b>Expenditures</b>						
Operating Programs						
Transportation	2,466,900	2,665,500	2,606,400	2,681,200	2,745,400	-
General Government	280,900	292,100	300,700	306,700	312,800	-
<b>Total Operating Programs</b>	<b>2,747,800</b>	<b>2,957,600</b>	<b>2,907,100</b>	<b>2,987,900</b>	<b>3,058,200</b>	-
Capital Improvement Plan Projects	919,600	3,636,400	0	1,300	7,300	-
<b>Total Expenditures</b>	<b>3,667,400</b>	<b>6,594,000</b>	<b>2,907,100</b>	<b>2,989,200</b>	<b>3,065,500</b>	-
<b>Other Sources (Uses)</b>						
Potential MOA Adjustments	0	(6,700)	(1,200)	(7,500)	0	-
Savings	0	0	0	0	0	-
Other Sources (Uses)	2,200	0	0	0	0	-
Expenditure Savings	0	0	0	0	0	-
<b>Total Other Sources (Uses)</b>	<b>2,200</b>	<b>(6,700)</b>	<b>(1,200)</b>	<b>(7,500)</b>	<b>-</b>	<b>-</b>
<b>Revenues and Other Sources over (Under) Expenditures and Other Uses</b>	<b>664,200</b>	<b>147,100</b>	<b>346,200</b>	<b>(101,500)</b>	<b>(137,000)</b>	<b>-</b>
<b>Working Capital, Beginning of Year</b>	<b>782,200</b>	<b>1,446,400</b>	<b>1,593,500</b>	<b>1,939,700</b>	<b>1,838,200</b>	<b>-</b>
<b>Working Capital, End of Year</b>	<b>1,446,400</b>	<b>1,593,500</b>	<b>1,939,700</b>	<b>1,838,200</b>	<b>1,701,200</b>	<b>-</b>
Unadjusted Fare/Cost Ratio	18.8%	19.2%	18.8%	18.7%	18.3%	-

\* Projections includes the budgeted 2009-11 Financial Plan, plus one year projection. Due to various funding reductions and alternative funding scenarios, staff has been conservative in projections and does not feel comfortable at this point projecting

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**FEDERAL TRANSIT ADMINISTRATION  
GRANT APPLICATION  
FOR  
SLO TRANSIT**

**PROGRAM OF PROJECTS  
FOR FISCAL YEAR 2008-2009**

The City of San Luis Obispo will be conducting a public hearing to receive comments on the Revised Program of Projects on TBD, 2009 at 7:00 p.m. in Council Chambers, 990 Palm Street, San Luis Obispo. The below Draft Program of Projects will become the final program unless modified:

Federal Apportionments:	
For 2008-2009	\$1,441,684
Carryover from previous year	\$117,300
Available to Program	\$1,558,984

<u>Project</u>	<u>Transit Operator</u>	<u>Federal Amount</u>	<u>Total Amount</u>
Operating Assistance 7/1/08 to 6/30/09	SLO City	1,278,000	2,872,157
Capital Augment Bus Replacement	SLO City	37,500	37,500
SLORTA Operating assistance	SLORTA	200,000	400,000
<b>Total Project Cost</b>			<b>\$3,309,657</b>
<b>Federal Share</b>			<b>\$1,515,500</b>
City of San Luis Obispo			1,315,500
San Luis Obispo Regional Transit Authority			200,000
<b>Local Share</b>			<b>\$1,794,157</b>
City of San Luis Obispo			1,594,157
San Luis Obispo Regional Transit Authority			200,000

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