King County Metro
Sound Cities Association Questions
July 9, 2014

Revenue

1. What is Metro's funding gap? Does that take into account the most recent sales tax revenue projections?

The original funding gap of $75 million annually was reduced after taking into account the March 2014 revenue forecast. After our revenue from sales tax fell during the financial downturn, we cut costs, raised fares, deferred service expansion and took many other steps to preserve service while longer term funding solutions were explored. Our efforts generated about $148 million annually, but an annual gap of $75 million remained.

The March 2014 forecast projects that over the next 10 years, potential revenues from sales tax will be about $30 million to about $14 million annually more than assumed in our adopted 2013-2014 budget and financial plans. There is still a substantial gap; we will not have enough revenue to sustain the current levels of bus service. The increased projection enabled us to reduce the proposed service cut from 17% to 15% of the system, or 550,000 service hours instead of 600,000 (gap reduced by this amount $million). We did not apply 100% of the projected increased sales tax revenue to the funding gap.

We are being cautious about revenue projections for several reasons:

- The March forecast is just that—a forecast. We cannot be sure the projection will prove to be accurate. It assumes uninterrupted economic growth through 2022 and does not account for possible economic fluctuations. In the past decade or so we have experienced three unforeseen events—Initiative 695, the dot-com bust, and a deep recession—that caused our revenues to drop deeply and unexpectedly, and meant we were unable to fulfill promises to the public. We do not want to promise more than we may be able to deliver again.

- Metro takes a long-term approach to our financing with the goal of maintaining a stable level of service. The forecast predicts lower growth in the long-term.

- Our fare revenue will be less than previously anticipated because of the new reduced fare for low-income riders. We will collect about $3.6 million less each year than assumed in the financial plan as a result of this fare, and will also have additional administrative costs.

2. Prop 1 would have brought in an estimated $80 million per year for transit. The ballot measure was advertised as meaning cuts to transit would not need to be taken. Current sales tax projects, from what we have heard, are up $32 million. Why is Metro still proposing to cut 550,000 hours when we already have more than half the additional revenue that is needed? (at a cost of $100 per service hour, $32M would pay for 320,000 service hours).

The amount of additional sales tax revenue in the forecast is higher in the early years, but declines to about $14 million by 2022. The revenue generated by the ballot measure would have been relatively stable and sustainable. As explained in the previous answer, we are taking a cautious approach because the sales tax revenue is projected, not certain; the costs of providing service have been increasing; we take a long-term approach to keep service stable; and future fare revenue will be lower than expected (and administrative costs higher) because of the reduced fare for low-income customers approved this year.

Also, we have proposed to hold a portion of the funds from the improved sales tax in reserve for the next economic downturn so we would not have to react immediately to cut services or have to cut as deeply as we would without the savings account. This is consistent with adopted fund management policies and the establishment of the Transit Revenue Stabilization Reserve – "…shall be used to moderate future fare increases and to mitigate the impacts of cost increases and revenue declines".

Metro is looking for sustainable solutions and not putting the region in the position of increasing/decreasing service in response to economic conditions. Even with the sales tax increase, if we do not cut service, our Public Transportation Enterprise Fund will be out of money in 2017.

- We have also heard there is a sales tax increase of $10 million, why is there a discrepancy in the two sales tax revenue numbers**?**

    $10 million was an early estimate, now out of date since the March 2014 forecast came out.

- What is the time frame for an updated sales tax revenue forecast and any other relevant data?

    The next OEFA forecasts will be adopted on July 18 and August 21. We are in the process of developing the 2015/2016 biennial budget. The Executive submits his budget to the council on September 22, 2014. Between now and then we will be working to complete the work items identified by the Executive and Council. Those efforts along with new economic forecast information will be included in the budget

The $100 per service hour figure cited in the question is the approximate direct cost for Metro to operate one hour of bus service. It includes driver wages, fuel costs, and maintenance costs only, and does not represent the full cost to Metro of operating an entire transit system. For example, it does not include security, supervision, administration, purchase of buses, and many other costs that Metro incurs to operate service.

3. If a fare hike of $.25 generates $6.5 million per year, couldn't this help close the gap with a modest fare increase?

Metro raised fares four times from 2008-2011 and another 25 cent fare increase has been approved by the Council for March 2015. These increases mean a regular rider, or an employer buying a pass for an employee, is paying an additional $504 per year. Some Councilmembers have indicated an interest in adding to that increase. Another 25 cent increase for adult fares, keeping all discount fares constant, would increase revenue by about $6.5 million. The additional revenue could support approximately 65,000 annual hours of bus service. However, this assumes we would not see significant declines in ridership or business accounts participating in our pass programs.

County Council and the Executive have directed Metro to evaluate our current farebox recovery policy. The current policy target calls for a 25% recovery rate. Metro's farebox recovery rate in 2012 and 2013 was 29% -the highest it has ever been an above the average of the other top 29 bus transit systems in the US. This rate is expected to drop again with the low-income fare. Metro will be submitting a fare policy report to the King County Council by August 1. That report will include an analysis of impacts of different fare levels and information about the importance of balancing the competing fare policies.

Service Guidelines

4. Do the service guidelines establish the same priorities for reducing service and adding service? How would new revenue be used – would it increase service to address the priorities for adding service, which are overcrowding, schedule reliability and corridors below target service levels, or would it "buy back" service in communities that lost service due to the cuts?

The service guidelines establish priorities for adding or reducing service. The following is a summary of the priorities:

Add service in this order:
1. To reduce overcrowding
2. To improve on-time performance
3. To approach target service levels
4. To improve service on routes with high performance (based on rides per service hour and on passenger-miles per bus mile)

Reduce service in this order, while always considering social equity and geographic value:
1. Reduce service on routes with performance in the bottom 25 percent of comparable routes
2. Restructure service to improve efficiency
3. Reduce service on routes with performance between 25 and 50 percent among comparable routes
4. Reduce service on routes with low performance that are on corridors below their target service levels

When reducing services based on performance, Metro seeks to reduce all-day routes that duplicate or overlap with other routes, to reduce peak routes failing one or both performance criteria, or to reduce routes that operate on corridors above their target service level. Where this is not possible, Metro will reduce services on routes that operate on corridors at their target service levels.

The guidelines suggest that any new hours available through new revenue after service is reduced would be allocated according to the four investment priorities in the order outlined above. The guidelines do not currently call for service hours to be “bought back.” Metro’s annual service guidelines report for 2013 found that an investment of more than 500,000 annual hours of service is needed to reduce overcrowding, improve on-time performance, and approach target service levels. The investment need will grow larger if reductions are made, so even more needs would be competing for scarce resources if service is cut. Investing in the productive service is not only a high priority in the service guidelines, it also makes the best use of our constrained resources.

5. There are two proposals for transit cuts. Once calls for waiting to make cuts until there is more information about revenue and efficiencies, so that no more service is cut than needs to be cut. The other calls for making all the cuts now, and “buying back” service as tax revenues come in higher than anticipated, or if reforms lead to efficiencies and savings. If a route is “cut” now, is there any guarantee that that route will indeed be “bought back”?

This is a policy question for the King County Council. The service guidelines do not suggest or guarantee that a previously reduced or deleted service will be reinstated if additional funding is available at a later date, unless that service has been identified as a priority based on the guidelines for overcrowding, schedule reliability, or corridor service levels. However, a route that may be authorized for cuts or reductions does not have to be “bought back” if the service change is not implemented.

County Council approval is required for Metro to implement major service changes. If the Council were to approve service cuts for September 2014 and February, June and September 2015, this would provide clear direction to Metro to prepare to cut in four separate phases. Until those dates, services are not yet “cut.” Cuts for June and September 2015 could be rescinded by January or May 2015, respectively, if Metro revenues are projected to be sufficient to avoid some or all of these cuts altogether.

6. Do we need to change the service guidelines to allow for restoration of service? Should we be having that conversation?

The service guidelines address adding, reducing, and managing service. They do not specifically mention “restoration of service” but instead would suggest that service be added according to the same priorities no matter what recent reductions or changes have occurred.

The guidelines are intended to help Metro design and modify transit service in an ever-changing environment, ensuring that our decision-making is objective, transparent, and aligned with the regional goals for the public transportation system. The guidelines also help Metro respond to changing financial conditions, such as our current budget shortfall and a time in the future when additional funding could become available.

Before considering service restoration, Metro will need clear guidance concerning the current service reduction proposal. The King County Council could choose to adopt specific policy guidance around service restoration outside of the current guidelines. We will be in a better position to discuss restoration of service after we have received guidance from the Council. Metro is currently being asked to consider several near and long-term reviews that could significantly impact our work program and ability to address a formal policy review. A formal review on this topic is welcome but may be better implemented following our 2015/2016 budget process.

7. If the cuts are adopted and cities purchase service from Metro, how long will those cities have to pay the full price of service? If revenues increase, will those cities continue to pay the full price of service? If revenues increase, will those cities continue to pay for this purchased service or will service be restored per service guidelines?

The Community Mobility Contract program is currently being developed, and details about timing of investments and how new resources would impact the program are not known at this time. These are good questions and these and many others are being carefully considered. Once additional details of the program are better defined, Metro would welcome an opportunity to meet with any interested jurisdiction to walk through the components of the program.

The Executive has clearly stated that this program should not be viewed as a permanent solution to the region's transit funding challenge. King County remains committed to finding a sustainable funding source to meet the large and growing demand for transit service.

Reserves

8. The council adopted an operating reserve policy in 2011 that calls for a return to a 30 day operating reserve after 2014; Metro has been operating with a 15 day reserve from 2009-2014. Can Metro continue to operate with a 15 day reserve, and if so for how long? What is the industry standard for operating reserves?

The Fund Management Policies adopted by the King County Council in November 2011 dictate the fund structure and fund balance targets for the sub-funds of the Public Transportation Fund. Together the fund balances represent the total of the cash available to meet all requirements of the fund. Use of fund balances represents a one-time use of funds and is not a source that can sustain operations.

The Operating Fund Balance target represents the funds that would be held relative to annual operating expenses. Adopted policies also established a Revenue Stabilization Reserve within the Operating fund which holds undesignated funds over and above that held by the Operating reserve. Since 2008, the one-time actions that have been taken have results in an ending balance in the Revenue Stabilization Reserve that has been used to sustain operations while a long term revenue source is identified. While there were funds in this reserve, there were fewer requirements to hold cash in the Operating Fund Balance and the balance was temporarily reduced to provide one-time funding. In the next biennium, the Revenue Stabilization Reserve funds have been mostly used, and the Operating Fund Balance represents the total of cash available to meet obligations of the fund.

The prudent amount for the Operating Reserve can be debated. While temporarily set at 15 days during the recession, King County policies for a fund of our size would indicate a reserve that provided for 30-60 days. A 30 day reserve represents just over 8% of the annual operating expenses. According to guidelines published by the FTA in 2007, the Federal government defines a program as having Medium to Low financial capability if “Projected cash balances, reserve accounts, or access to a line of credit are less than 8 percent (1 month) of annual system wide operating expenses”. Programs that fall below this threshold would be considered to have a Low financial capacity rating which could jeopardize federal funding.

9. How much revenue is Metro proposing to add into reserves next year? What level of reserves will that take Metro to? How much of that is capital, how much is operational?

As the 2015-2016 biennial budget is completed, Metro will construct a financial plan that meets the Fund Management Policies adopted by the King County Council. To the extent that cash balances exceed the minimum fund balance requirements, these funds will be held in the Revenue Stabilization Reserve. This reserve was established by Council in recognition of the extreme volatility of sales tax as our major revenue source. Per Executive direction and recent Council motion, all of Metro’s fund management policies will be subject to auditor review.

General

10. What is the date of the revenue forecast that will be used to develop Metro’s biennial budget?

Updated revenue forecasts from the Office of Economic and Financial Analysis will be made available July 18 and August 21 and will help inform the biennial budget process.

11. If the executive order for Sound Transit and Metro to integrate service is meant to produce service efficiencies and a report by September 2014, would it be more prudent to wait on the results off the report before implementing the 2015 service reductions?

The executive order aims to increase joint planning, create operating efficiencies, and enable future service expansion. The proposed service reductions currently take into account integration with Sound Transit’s existing services; however, Sound Transit and Metro will examine any opportunities to mitigate the impact of potential Metro bus service cuts. The joint planning efforts with Sound Transit are likely to focus extensively on service integration for the various Link Light Rail extensions funded and scheduled to come on line over the next several years that will offer significant collective operating efficiencies and reinvestment opportunities. The agencies will also examine further opportunities to improve customer information and other aspects or our programs.

12. What is the last day possible for Council to adopt the February 2015 transit service reductions?

- Council action needed by September 15, 2014 for February 14, 2015 service change
- Council action needed by January 5, 2015 for June 6, 2015 service change
- Council action needed by April 27, 2015 for September 26, 2015 service change

These deadlines assume 150 days (rounded to the previous Monday) from Council action to service change implementation. 150 days is assumed for the February, June, and September 2015 dates because of the added complexities and magnitude of implementing the restructures. These deadlines also assume that there are no major *last minute* changes to the proposed restructures.

13. The $14 million cost figure associated with not making all of the service cuts and reductions now – Is that figure the actual cost of operating buses on routes that are part of the February 2015 reductions?

The $14 million estimate assumes that all of the proposed service cuts would be implemented but that the February 2015 cuts would be delayed. This delay incurs a $14 million cost. This figure is not the cost of operating the specific buses on the routes slated for February cuts. The figure is the cumulative impact of pushing out the last three service changes.