King County

Metropolitan King County Council
Operating Budget, Fiscal Management and Select Issues Committee

STAFF REPORT

AGENDA ITEM:	**6**	**PREPARED BY:**	**John Resha**
PROPOSED No.:	**2008-0378**	**DATE:**	**July 23, 2008**

SUBJECT: Removal of a prohibition on wrapped bus advertising.

SUMMARY: As one of the responses to the dramatic rise in fuel costs, the Executive has proposed to remove a restriction on wrapped bus advertising with the goal of generating additional revenue, estimated at $278,000 in 2009 and $409,000 in 2010.

BACKGROUND:
Proposed Ordinance 2008-0378 would amend the current budget, Ordinance 15975, to delete the proviso restriction on wrapped bus advertising.

The 2007 annual budget included a proviso restricting the sale of wrapped bus advertising on Metro Transit buses. Last year, the Council's Operating Budget Committee reviewed legislation (Proposed Ordinance 2007-0367) to modify this proviso and allow wrapped bus advertising to be sold provided that a portion of the bus windows would not be covered. The Operating Budget Committee did not act on the proposed ordinance, which subsequently lapsed, and the 2008-2009 transit biennial budget included the following proviso restriction:

> *The transit division shall not enter into, or authorize its contractor to enter into, any new agreements, or extend any such existing agreements, for exterior bus advertising that involve covering any portion of a bus side window.*

Proposed Ordinance 2008-0378 would repeal this proviso. According to the fiscal note, it takes approximately a year to implement wrapped bus ad sales. Sale of wraps on about 25 buses would generate an estimated $278,000 in 2009 and $409,000 in 2010. According to Transit Division staff, the intent would be to sell advertisements that do not block a 15-inch wide portion of the bus windows.

Table 1 shows actual and proposed revenues of the various conditions in the bus wrap history.

Table 1: Comparison of Bus Wrap Advertising Factors

	Actual Revenues				Proposed Revenues		
	2005	**2006**	**2007**	**2008**	**2008**	**2009**	**2010**
# of Buses	0	25	25	0	25	25	25
Type of wrap	Full	Full	Full	Windows clear	15" clear	15" clear	15" clear
Actual Revenue	$0	$754,000	$558,000	$0			
Proposed Revenue					*$450,000*	*$278,000*	*$409,000*
Related Ordinance					2007-0367[1]	2008-0378[2]	2008-0378[2]

[1] 2007-0367 was not adopted and Metro sold no bus wrap advertising with all windows clear.
[2] 2008-0378 fully strikes P1 of 2008/2009 Biennium Budget Ordinance 15975, Section 109, though the financial plan is based on 15" clear band on the windows.

Furthermore, the executive alludes to the need for a more comprehensive and aggressive approach to revenue in his transmittal. Additional advertising revenue could be generated through:

Tunnel Advertising – The transit General Manager has existing authority
Ad Shelter Campaign – Would require sign code changes in all jurisdictions
Inside Bus Advertising – A new technology frontier could be explored to deliver content and advertising within the bus environment
Other Opportunities – Best practices suggest there are other advertising revenue sources ranging from ticket/pass sponsorships to sponsorship of hand straps for the standing loads which may be feasible.

While transit reports that it is exploring some of these concepts, no revenues have been planned or a comprehensive advertising strategy identified.

INVITED:

- Kevin Desmond, General Manager, Metro Transit Division
- Jill Krecklow, Finance and Administrative Services Manager, Metro Transit Division

ATTACHMENTS:

1. Proposed Ordinance 2008-0378
2. Fiscal Note for Proposed Ordinance 2008-0378
3. Executive's transmittal letter

KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

July 22, 2008

Ordinance

Proposed No. 2008-0378.1 **Sponsors** Constantine

AN ORDINANCE revising proviso language related to contracting for wrap bus advertising; and amending the 2008/2009 Biennium Budget Ordinance, Ordinance 15975, Section 109, as amended.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. Ordinance 15975, Section 109, as amended, is hereby amended by adding thereto and inserting therein the following:

Transit $0

ER1 EXPENDITURE RESTRICTION:

Of this appropriation, $300,000 shall be used only for a transfer to the general fund to support a transit performance audit conducted by the county auditor.

((~~P1 PROVIDED THAT:~~

~~The transit division shall not enter into, or authorize its contractor to enter into, any new agreements, or extend any such existing agreements, for exterior bus advertising that involve covering any portion of a bus side window.~~))

P2 PROVIDED FURTHER THAT:

Of this appropriation, no funds shall be expended on any of the 28,000 annual hours of bus service included in the SR520 Urban Partnership Initiative until the executive transmits and the council adopts by motion a public transportation fund financial plan demonstrating how that service would be funded without using King County's transit local option sales tax revenues or fare revenues from any other King County Metro service.

Eleven copies of the plan should be filed with the clerk of the council who will keep the original and forward a copy to each councilmember and the lead staff to the transportation committee, or its successor.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

____

ATTEST:

____

APPROVED this _____ day of _______________, ______.

____

Attachments None

Attachment 2

FISCAL NOTE

Ordinance/Motion No.: 2008-XXXX
Title: Transit Advertising Ordinance
Affected Agencies: Transit
Note Prepared By: Duncan Mitchell
Note Reviewed By: Jill Krecklow

Impact of the above legislation on the fiscal affairs of King County is estimated to be:

Revenue to:

Fund Title	Fund Code	Revenue Source	2008	2009	2010
Public Transportation	4640	Bus Advertising	$0	$278,200	$408,954
TOTAL			**$0**	**$278,200**	**$408,954**

Expenditures from:

Fund Title	Fund Code	Department	2008	2009	2010
Public Transportation	4640	Transit	$0	$0	-
TOTAL			**$0**	**$0**	**$0**

Expenditures by Categories:

	2008	2009	2010
Salaries & Benefits			
Supplies and Services			
Capital Outlay			
Other	$0	$0	$0
TOTAL	**$0**	**$0**	**$0**

Assumptions:
1) Up to 25 partial buses will be available
2) The sale of partial bus wraps begins prior to September, 2008. It takes about one year to contract with advertisers.

Attachment 3

July 3, 2008

The Honorable Julia Patterson
Chair, King County Council
Room 1200
COURTHOUSE

Dear Councilmember Patterson:

As worldwide petroleum prices reach record levels, King County Metro Transit is facing an unprecedented increase in diesel fuel costs. These spiraling fuel costs have created a serious financial shortfall in Metro Transit's current 2008-2009 biennial budget of a magnitude that requires us to make tough choices. Unfortunately, it is also a situation that requires immediate action if we are to preserve transit services for thousands of residents turning to Metro Transit in record numbers. Despite the rising costs I will not reduce bus service. I am determined to ensure that we maintain our aggressive transit growth plans so we can provide meaningful service options to our citizens at a time of extraordinary transit demand in our county.

This fuel crisis comes at a time of historic ridership growth for Metro Transit. The same rising fuel costs that make it more expensive for Metro Transit to deliver service is the very cause of its skyrocketing popularity – and the reason why more and more residents are turning to transit as their own budgets are squeezed.

It is also the fundamental reason why Metro Transit must maintain current transit service levels and continue its commitment to implement planned *Transit Now* service level expansion. It is clear these service increases are more necessary than ever as King County residents demand more and better transit service in response to these rapidly escalating fuel prices.

In response to the budget shortfall created by these fuel increases, I am submitting to you today two ordinances which will begin to address this issue. A projected fifty cent fare increase would be necessary to close the budget shortfall caused by higher fuel costs. However, I am submitting a proposed ordinance increasing most fare categories by only 25 cents, effective October 1, 2008. This increase will allow us to maintain our current service commitments, provide residents with the expanded transit choices they have been promised and allow us to provide an affordable alternative to the many thousands of King County residents struggling to make ends meet in this changing economy. It also provides us with enough time to explore additional financial options prior to seeking future fare increases. We must continue moving forward to provide real transit alternatives, not slip backward at a time when they are needed the most.

Second, I am submitting an ordinance which would amend Section 109 of Ordinance 15975 (2008 Adopted Budget) by deleting Proviso P1. This proviso prohibits Metro Transit from entering into new or extending any existing agreements for exterior bus advertising that involve covering any portion of a bus side window. While I recognize that bus advertising which covers portions of bus side windows is unpopular with some, at a time when Metro Transit is experiencing unprecedented increases in fuel costs, it is not appropriate that we restrict revenue options that help Metro Transit reduce the fare increase to our passengers.

Impact of Fuel Price Increases

Metro Transit is in the midst of an historic surge in ridership. In 2007, Metro Transit had, at 7 percent, the best ridership growth of the nation's largest transit agencies and this year that trend continues with 6 percent year-to-date growth.

This recent increase in demand is due in large part to the unprecedented increase in gasoline prices – increases which are not forecast to return to levels which were seen less than 18 months ago when national prices averaged only $2.20 per gallon.

Metro Transit purchases about 12 million gallons of diesel fuel each year to run its buses. That represents 8 percent of Metro Transit's annual budget for bus operations. Additional diesel fuel is used to operate the agency's ACCESS program. For 2008, Metro Transit is currently projecting an average per gallon price of $3.86 based on year-to-date actual price plus an average of $4.25 for the rest of the year. Compared with the budget of $2.60 per gallon, this change adds more than $14 million in additional costs.

Looking to 2009 and beyond, price projections estimate fuel may stabilize at about $4.32 and then grow at the rate of inflation. Compared with Metro Transit's 2009 budget assumption of $2.70 per gallon, the new price would add more than $22 million to ongoing system costs. For the 2008/2009 biennium, Metro Transit is looking at increased costs of $36 million over what was anticipated just a few months ago. By 2014, these inflated diesel prices will have added a cumulative $140 million to Metro Transit's costs.

We have also recently suspended the use of biodiesel in large part due to its relatively higher cost compared to diesel fuel.

The volatility of fuel prices has made it more and more challenging to project costs. To help minimize this volatility, I directed Metro Transit to lead our successful efforts earlier this year in Olympia to win approval of new state legislation allowing local governments to pursue fuel hedging as a means of achieving more price predictability and budget stability. We have begun to take steps to develop a fuel hedging program that would be aimed at providing Metro Transit with some price certainty around fuel prices and help eliminate some of the price volatility. It is important to note that while this fuel hedging could result in some savings in diesel fuel costs, its primary purpose is to provide a greater level of certainty around fuel prices.

Ridership and Metro Transit's Service Commitment

Tired of sitting in traffic and frustrated with the slow pace of service expansion, King County voters in late 2006 approved funding for Metro's *Transit Now* program. *Transit Now* will expand the entire Metro Transit system by 15 to 20 percent by 2016. Following passage of *Transit Now*, Metro Transit wasted no time to get new service on the street. The first of those improvements was launched in February 2007, just three months after the initiative was approved. Since that time, thousands of new service hours have been added. And more is on the way. This September, residents will see new service resulting from innovative partnerships and key service improvements in developing east and south areas of the county including the Snoqualmie Valley, Lake Meridian, Kent East Hill, Black Diamond and Maple Valley. With these improvements, Metro Transit will have implemented nearly 100,000 of the 590,000 planned service hours as part of *Transit Now*. We are well on our way to delivering on our promise of providing more transit to more places – and I'm determined to stay the course to implement all of the service improvements we promised to our citizens when they approved *Transit Now*.

In recent years, Metro Transit has seen a remarkable and sustained surge in ridership. There are many reasons for that surging growth, including the *Transit Now* program begun in 2007, the relatively inexpensive cost of transit compared to driving alone, rising fuel costs, and strong regional employment. Over the past 3 years, ridership has grown by more than 18 percent. More and more, King County residents tell us they need new and better alternatives to driving alone. Fortunately, Metro Transit has taken bold and innovative steps in recent years to maximize efficiencies and improve business practices in an effort to address rising costs and maintain service.

The rising price of fuel, however, has now outstripped Metro Transit's ability to compensate for these rising costs. Fuel prices and increasing ridership have proven to be a double-edged sword as Metro Transit faces a substantial budget deficit.

Metro Transit Financial Forecast and Efforts to Reduce Costs

This latest period of petroleum market volatility comes on the heels of previous budget challenges faced by Metro Transit. The agency began the decade responding to the loss of a key funding source, the Motor Vehicle Excise Tax, which was followed by a local economic downturn. Since 2000, Metro Transit has taken steps to reduce operating costs by $38 million. These reductions have largely been necessary to preserve existing service levels. Reductions that have occurred include: lower administrative support levels: service and vehicle maintenance efficiencies; reduced customer services; and the cancellation of planned and anticipated capital projects.

Over the past several years, Metro Transit has implemented a number of measures to improve fuel efficiency. These steps have included:

- Using on-board computer technology on hybrid buses to optimize fuel economy and overall performance;
- Investing in hybrid vehicles which perform better in miles per gallon usage than a comparable diesel bus;
- Recycling 59 decommissioned Breda dual-powered (diesel-electric) coaches and converting them into all-electric trolleys to avoid purchasing new trolleys;
- Expanding the articulated trolley fleet and saving on fuel costs.

Fuel prices along with changes in other key assumptions have prompted a fresh assessment of Metro Transit's multi-year financial picture. Metro Transit has recently completed a revised financial forecast that includes revisions to its 2008-2009 biennial budget assumptions. This new forecast is included with this transmittal. In addition to new diesel price assumptions, the forecast includes increases in Cost of Living Adjustment (COLA), adjustments to central rates such as medical and retirement costs, changes to reflect recently-approved labor contracts, increased ridership, the addition of 100% revenue backed services associated with the Alaskan Way Viaduct mitigation program, increases in the price of buses and timing adjustments to capital program expenditures. The assumptions in the new forecast are subject to change.

Bus Fares

Transit fares play an important role in managing the overall financial stability of Metro Transit's system. In 2008, for the first time in seven years, Metro Transit bus fares are increasing by 25 cents. This across-the-board fare increase was approved as part of the 2008/2009 biennial budget and is intended to offset many years of cost inflation since 2001.

In the fall of 2007, when these fare increases were approved, expenses for diesel fuel had almost tripled from historic levels. Over the course of a full year, this increase was projected to cover 22 percent of Metro Transit's operating expenses compared with the adopted target of 25 percent. This year, the new fares are being phased in; fares for adult passengers increased in March and youth and senior fares took effect July 1, 2008. Yet diesel fuel prices have continued to increase to unprecedented levels – levels that were simply beyond what anyone could forecast less than one year ago.

So far, the fare increase appears to have had little, if any, impact on ridership, as residents continue to find transit a relative bargain compared to driving alone. And while the increase in bus ridership is bringing in more fare revenue, it is not sufficient to cover the rising cost of diesel fuel. This is because a large part of the increased ridership is coming from existing pass holders who are simply taking more trips. While these customers are using their passes more, their added trips do not generate additional fare revenue for Metro Transit. Overall, cash and pass sales account for less than 12 percent of all transit revenue.

Proposal

To respond to increasing fuel costs and other costs, I am proposing the following fare increases:

- 25 cent increase in adult fares, effective October 1, 2008
- 25 cent increase in the ACCESS cash fare and an increase in the ACCESS pass price from $18.00 to $27.00, effective January 1, 2009.

Youth and Senior/Disabled fares would not change as part of this proposal as those fares just increased on July 1st.

This increase is estimated to generate $2.5 million in 2008 and $10.3 million annually starting in 2009. Compared with the annual increase of $22 million in additional fuel costs, about half of the shortfall is covered with this fare increase. This increase will allow Metro Transit to preserve current and future service levels critical to our ability to deliver our *Transit Now* promises and to help respond to increasing demand.

In addition, we are proposing to increase vanpool fares by 8 percent, effective October 1, 2008.

I have also directed Metro Transit and Office of Management and Budget (OMB) staff to evaluate the feasibility of linking future fare increases to changes in fuel prices to ensure that customer interests are safeguarded if fares are raised and fuel prices come down. If I determine that such an approach is feasible, I will be sending it forward in the coming months for council consideration.

Other transit agencies, such as Tri-Met in Portland, Snohomish County's Community Transit and Kitsap Transit, have recently announced more aggressive fare increases in the 25 cent to 75 cent range in response to the dramatic increases in fuel costs. By keeping our increase to 25 cents, we are continuing to encourage riders to use the system. We have limited the increase to 25 cents – an amount consistent with the minimum increment required by the Regional Puget Pass Agreement. Puget Pass allows customers to transfer between various transit systems in the region.

Alternatives

Metro Transit has been steadily reducing costs since 2000 to preserve service levels due to the last economic downturn and in response to growing costs. These reductions have impacted the entire organization and have resulted in significant changes to the organization and how we do business.

As I have stated, I am committed to solutions that will preserve current or planned service levels. However, if a fare increase is not approved I will have little choice but to direct Metro Transit staff to develop a plan for reducing the size of the transit system. The proposed fare increase will allow Metro Transit to preserve more than 100,000 hours of existing and/or planned bus service. Given the magnitude of the increased fuel costs, choices will be made about the ongoing transit system including steps to:

- Reduce the existing system or reduce planned service increases associated with *Transit Now*;
- Cut service support activities that impact the quality of the service being provided; and
- Cut Metro Transit's capital program below current levels.

The fare increase generates funding that closes about half of the budget gap. The rest of the shortfall will be addressed in the upcoming months. If the entire shortfall were to be offset by service reductions, more than 200,000 hours of planned service increases -- or 34 percent of the planned increases -- would need to be reduced.

I have also asked Metro Transit and OMB staff to identify new revenues sources for the program. These sources could increase our advertising revenue through re-instituting bus wraps, including advertising in the tunnel and starting an ad shelter program.

Bus Wraps

The second ordinance I am sending you today would repeal the prohibition that Metro Transit not enter into new or extend any existing agreements for exterior bus advertising that involve covering any portion of a bus side window. This prohibition removes from Metro Transit the ability to generate additional revenues through an aggressive program of bus advertising. Metro Transit estimates that this prohibition results in lost annual revenues of $409,000 -- money which would help Metro Transit to retain key customer services that might otherwise have to be eliminated in light of rising costs. Revenue sources, no matter how small, are important to allow us to continue to provide quality services for our customers. Bus wrap advertising would not be seen by customers until 2009 as the lead time for getting contract with advertisers is about a year.

Biennial Budget Process and Timing

The combined fare increase and additional bus wrap revenue being proposed do not raise enough funds to completely close the budget gap created by the increase in diesel prices. As I have mentioned, it will raise approximately $2.5 million in 2008 and $10.8 million in 2009. However, a projected annual shortfall of $11 million remains. To close this remaining gap, I have asked of Metro Transit that any programmatic and capital changes be identified next spring and included in the 2010-2011 biennial budget. Some recommendations may also be included in my 2009 proposed budget this October. This will give us time to explore all of our options and better assess the impacts of volatile fuel markets and the economic environment in which we are currently operating.

As we approach the 2010-2011 budget period, we will know more than we do today. The performance audit approved by the council should be completed and its recommendations will be considered during the budget process. This timing will also provide a budgetary framework within which to evaluate changes, something that does not exist with the mid-biennial review of the 2009 budget. Changes in key assumptions and the resulting program impacts was a concern that we raised with the biennial budget pilot. Timing of future fare increases will also be evaluated during this process.

My budget submittal in October will include an adjustment to Metro Transit's biennial budget to reflect changing conditions. This adjustment may differ from the forecast that is included here, as we are still finalizing a number of assumptions in this volatile environment.

Thank you for your consideration of these ordinances. As I have stated, I am committed to delivering improved bus service to a region that is demanding that we move ahead – not fall behind in providing public transportation to a growing population. We know the rising cost of fuel has brought us to a true turning point. Therefore, we must take urgent necessary steps now to preserve and grow our transit system in response to the increasing demand placed on us by the residents of King County.

If you have any questions about these proposals, please feel free to contact Harold Taniguchi, Director, Department of Transportation, at 206-684-1441, Kevin Desmond, Metro Transit General Manager, at 206-684-1619, or Bob Cowan, Director, Office of Management and Budget, at 206-296-3434.

Sincerely,

Ron Sims
King County Executive

Enclosures

cc: King County Councilmembers
ATTN: Ross C. Baker, Chief of Staff
Saroja Reddy, Policy Staff Director
Anne Noris, Clerk of the Council
Frank Abe, Communications Director
Bob Cowan, Director, Office of Management and Budget
Harold S. Taniguchi, Director, Department of Transportation (DOT)
Kevin Desmond, General Manager, Metro Transit Division, DOT
Jill Krecklow, Finance and Administrative Services Manager, Metro Transit Division, DOT