
**Minutes
City of Tempe
Ad Hoc Transit Fund Committee
April 20, 2010**

Minutes of the City of Tempe Ad Hoc Transit Fund Committee held on Tuesday, April 20, 2010, 7:30 a.m., at the Transportation Center Don Cassano Community Room, Tempe, Arizona.

(MEMBERS) Present:

Ben Goren, Charles Huellmantel, Jayson Matthews, Steven Saiz, David Strang

(MEMBERS) Absent:

William Haas, Catherine Mayorga

City Staff Present:

Joe Clements, Dawn Coomer, Carlos de Leon, Tom Duensing, Jerry Hart, Karen Huffman, Dana Janofsky, Ken Jones, Greg Jordan, Gregg Kent, Jyme Sue McLaren, Bonnie Richardson, Holly Stennerson, Sue Taaffe, Robert Yabes

Guests Present:

Don Cassano, Gary Roberts

Jayson Matthews called the meeting to order at 7:30 a.m.

Agenda Item 1 – Public Appearances

There were no public appearances.

Agenda Item 2 – Local Transportation Assistance Fund (LTAF) Update

Carlos de Leon presented the following information:

This past March, the State legislature eliminated a large portion of money (\$22 million) used to support public transportation services in the Valley. These funds were supplied by state lottery revenues – referred to as the Local Transportation Assistance Fund (LTAF). The impact to Tempe's Transit Fund is less than \$250,000 per year and represents a very small portion of the transit program's overall budget. However, LTAF funding represents a large share of transit budgets in the neighboring cities of Chandler, Gilbert, Mesa, Scottsdale, and, to a lesser extent, Phoenix.

Due to the elimination of LTAF funding, numerous bus service changes are now being proposed by neighboring cities that impact Tempe. A regional process is underway to coordinate region-wide service reductions which will conclude the end of May.

Greg Jordan presented the following information:

Severe transit reductions could occur as early as July 2010. Several public hearings will be held in May 2010 for public feedback on the new budget cuts and the reduction of transit services. The hearings are in addition to the hearings held recently by Scottsdale, Tempe and METRO light rail.

Tempe's service reduction options included in round 2 of our public process have been included in the regional process, but due to the interconnected transit system Tempe cannot make local service reduction decisions without the service priorities of neighboring cities.

Two important differences concerning the regional process:

1. **Route 72 – Rural/Scottsdale:** The regional process includes an option to reduce daytime frequency from 15 to 20 minutes on Route 72 (Rural/Scottsdale) which was not included in Tempe's local process.

The cities of Scottsdale and Chandler are evaluating a frequency reduction on Route 72 from 15 to 20 minutes (5:30 a.m. to 5:30 p.m.). Tempe staff agreed to include this option for Tempe as well. Approval of 20 minute daytime service in Scottsdale and Chandler would make maintaining 15 minute service in Tempe operationally impractical. Tempe staff is developing workable options to maintain sufficient service capacity on Route 72 in Tempe in the event neighboring cities reduce service.

2. **Orbit Service Reductions** - Tempe's round 2 proposals included options to reduce Orbit frequency on weeknights and Saturdays. These options remain under local consideration, but were not included in the regional process since the Orbit system does not affect other cities nor is it impacted by service changes in other cities.

The next meeting of the Accountability and Governance Committee will be scheduled in late May or early June following conclusion of the regional process. The committee will be provided with the final results of both local and regional public processes, the full evaluation of service reduction options, and staff recommendations for City Council approval.

Due to the timing of the regional public input process, the implementation of local and regional transit service changes scheduled for July 2010 will most likely be postponed until August or as late as October.

Carlos de Leon stated that the financial balancing plan and proposed transit service reductions for FY 10-11 were originally scheduled to occur at the same time. Due to the third round of public process for transit service reductions in conjunction with the region, the approval processes will be separated and approved at separate timelines.

Agenda Item 3 – Proposed Transit Service Reductions

Greg Jordan presented the following information:

Round 2 of the public process concluded April 13, 2010. The FY 2010-11 budget reduction target for transit services is \$3.5 million. During round 2, staff presented 15 transit service reduction options for public consideration which total an estimated \$3.3 million in annual budget savings. At present, staff have identified \$600,000 in internal savings which offset the need to fully reduce service by \$3.5 million. The original 18 options presented during round 1 totaled approximately \$10.2 million.

Survey results for both rounds 1 and 2 are attached. Residents were asked to rate each option on a scale designed to measure the degree of impact to individual travel. Residents could respond by checking "no impact", "some impact", "significant impact", or "no opinion." The stacked graphs round 1 and round 2 illustrate the relative responses to each option.

Survey Highlights:

- 393 surveys received during round 1.

- 421 surveys received during round 2.
- The degree of individual impact declined from the round 1 options to round 2:
 - Round 1: No Impact (40%); Some Impact (28%); Significant Impact (32%);
 - Round 2: No Impact (59%); Some Impact (18%); Significant Impact (23%).
- Proposals with the most significant impact/opposition:
 - Reducing Sunday service from 30 to 60 minutes had the highest overall opposition.
 - Light rail cuts to peak period hours and frequency received high overall opposition, although most respondents indicated the impact was not significant.
 - Residents were opposed to cuts in Orbit weeknight and Saturday frequency.
 - The options receiving the highest relative shares of "significant impact" included the proposal to eliminate local bus service before 5:30 a.m. and the proposal to eliminate the express route 540. However, 60% of the 540 respondents who reported a "significant impact" were not Tempe residents.

Agenda Item 4 – Review of Additional Concepts

Carlos de Leon presented the following information:

The Committee asked staff to review additional concepts for balancing the long range financial forecast for the Transit Fund. The following three additional concepts were identified for consideration:

Secondary Property Tax

Secondary property tax be used to pay Transit Fund debt service beginning after the three year period. In order to utilize secondary property tax, it is estimated that the secondary property tax rate would need to be increased by \$0.15 per \$100 of assessed valuation to service the debt. The increase would cover the remaining debt outstanding of the 2006 Variable Rate Demand Excise Tax Revenue Obligations into General Obligation bonds (\$52.3 million at the end of FY 12-13). Voter approval would be required for this transaction. Staff is not supportive of this concept due to the possible impact to the current CIP program which also relies on the secondary property taxes.

Partial Debt Payment

Evaluate the use of any fund balance, in excess of a proposed 25% fund balance policy to partially pay down debt principal at the end of the three year period. This concept would free up future debt service costs which could then be allocated to transit operations.

Interest Savings

Evaluate reserving budgeted debt service interest savings which can then only be used to partially pay down debt service principal in the future (estimated to be between \$5 million to \$7 million in principal reduction over the next three years). This cost reduction could then be allocated to transit operations.

Commissioner Jayson Matthews asked if there was consensus from the Committee on the Partial Debt Payment Concept and the Interest Savings Concept. After further discussion, the Committee came to consensus to move forward on the Partial Debt Payment Concept and consensus to leave the Interest Savings Concept option on the table to continue to study.

Agenda Item 5 – Draft Transit Financial Balancing Plan

Carlos de Leon presented the following information:

Staff will be presenting a draft Transit Fund financial plan to the Transportation Commission for consideration on April 27, 2010. Commission direction is requested regarding the recommended financial balancing plan.

The Ad Hoc Committee developed a recommended financial balancing plan, which consists of an overall financial strategy and recommended actions to reduce costs and/or increase revenue. The Committee identified a recommended financial strategy that involves:

- Using approximately \$18.5 million in fund balance to help sustain operations and cover annual projected deficits over the next three fiscal years;
- Eliminating the structural deficit by phasing in annual recurring cost reductions and/or increased revenues by \$4.5 million in FY 10-11, \$4.7 million in FY 11-12, and \$4.9 million in FY 12-13; and,
- Utilizing fund balance to retire debt once the budget is balanced.

Based on this financial strategy, the Committee undertook a process to comprehensively identify and evaluate potential cost reduction measures and revenue generating sources for the upcoming fiscal year and to set the framework for other measures in future fiscal years. Specific recommendations totaling approximately \$4.5 million for the upcoming fiscal year are:

- Reducing transit services costs by \$3.5 million.
- Reducing personnel service and other service costs by \$1.0 million.

Financial Forecast

This forecast assumes an economic recovery beginning in fiscal year (FY) 2011-12 and a revised sales tax growth rate of -5% in FY 2010-11, 7% in FY 2011-12, 13% in FY 2012-13 and 5% in FY 2013-14 consistent with the Long Range Financial Forecast presented at the January 28, 2010 Council Issue Review Session. This forecast also takes into account delays in regional funding for transit service in Tempe due to the reduced regional sales tax. The increase in fund balance in FY 2010-11 is due to a one-time capital reimbursement for light rail construction. If no action is taken, the fund balance would be depleted by FY 2014-15.

Phasing Options

Assuming no additional major funding sources are provided to the Transit Fund and an economic recovery resulting in sales tax growth beginning in FY 2011-12 occurs, it is anticipated that \$14 million to \$15 million in permanent cost reductions would be required over the next three years. Three general options, which drive how quickly the structural deficit is reduced (phasing options) have been identified and evaluated:

- Up Front Reduction Option. This option would make a major structural deficit reduction in the first fiscal year and smaller amounts in future years (\$9.61 million in FY 2010-11, \$2.87 million in FY 2011-12 and \$1.64 million in FY 2012-13).
- Even Reduction Option. This option would make even structural deficit reductions at approximately \$4.5 - \$4.9 million per year over the next three years.
- Delayed Reduction Option. This option would make more significant structural deficit reductions toward the end of the three-year period (\$3.2 million in FY 2010-11, \$4.68 million in FY 2011-12 and \$6.24 million in FY 2012-13).

Additional Concepts

In addition to the above options, three additional concepts are identified for consideration:

- The first concept is to evaluate the use of any fund balance, in excess of a proposed 25% fund balance policy to partially pay down debt principal at the end of the three year period. This concept would free up future debt service costs which could then be allocated to transit operations.
- The second concept assumes that secondary property tax be used to pay Transit Fund debt service beginning after the three year period. In order to utilize secondary property tax, it is estimated that the secondary property tax rate would need to be increased by \$0.15 per \$100 of assessed valuation to service the debt. The increase would cover the remaining debt outstanding of the 2006 Variable Rate Demand Excise Tax Revenue Obligations into General Obligation bonds (\$52.3 million at the end of FY 12-13). Voter approval would be required for this transaction. Staff is not supportive of this concept

due to the possible impact to the current CIP program which also relies on the secondary property taxes.

- The third concept evaluates reserving budgeted debt service interest savings which can then only be used to partially pay down debt service principal in the future (estimated to be between \$5 million to \$7 million in principal reduction over the next three years). This cost reduction could then be allocated to transit operations.

Recommendations

The recommended financial strategy involves:

- Using approximately \$18.5 million in fund balance to help sustain operations and cover annual projected deficits over the next three fiscal years;
- Eliminating the structural deficit by phasing in annual recurring cost reductions and/or increased revenues by \$4.5 million in FY 2010-11, \$4.7 million in FY 2011-12, and \$4.9 million in FY 2012-13;
- Using fund balance, in excess of the proposed 25% fund balance policy, to partially pay down debt principal at the end of the three year period;

This recommended strategy attempts to preserve transit services to the community for as long as possible while at the same time taking steps to return the Transit Fund toward financial sustainability by reducing the structural deficit over the next three years. In addition, an even phased approach provides greater flexibility for making adjustments to the structural deficit through the annual budget process based on the latest economic data. Lastly, this strategy is projected to provide adequate contingency (fund balance) to address uncertainties in future revenues or expenditure estimates.

For the upcoming fiscal year, the following actions are recommended to achieve a structural deficit reduction of \$4.5 million and to set the framework for future fiscal years:

- *Transit Service Reductions.* Due to the recent elimination of Local Transportation Assistance Funds (LTAF) and to provide a single coordinated bus system change for our customers, it is recommended that transit service reductions for FY 2010-11 be implemented in late summer/early fall with other Valley Metro bus service changes.
- *Transit Service Contract.* Due to the anticipated additional service reductions in FY 2010-11 and the significant change from the original contract, staff is recommending that transit service contract be re-procured in the upcoming fiscal year.
- *Staffing and Other Reductions.*
 - *Staffing.* A staff working group from five departments (Public Works, Community Development, Community Relations, Police and Financial Services), which manage transit funded positions, was formed in February to evaluate Transit Fund staff resources and to develop a staffing plan to reduce personnel costs. The working group identified annual recurring personnel cost reductions of approximately \$1.7 million over the next two fiscal years. These reductions were forwarded to the City Manager for consideration. The reductions represent a 36% decrease from the projected \$4.6 million in personnel costs for FY 2010-11. In addition, the reductions are not contingent on transit service reductions unless complete elimination of major transit program components (e.g. Valley Metro, Orbit neighborhood circulator) are made.
 - *Transit Store Hours.* Reduce store hours with the least customer demand from Monday - Saturday, 7:30 a.m. – 5:30 p.m. to Monday – Friday, 8:00 a.m. – 5:00 p.m.
 - *Marketing Budget.* Reduce Marketing operations costs by more than 60% by eliminating contracted advertising services, bringing those responsibilities in-house, and replacing more costly advertising media with lower cost marketing and outreach methods (e.g., social media) and more grass-roots, hands-on methods of reaching residents and target markets. The proposal also includes eliminating events like Walk to School Day.

-
- *Bonds.* It is recommended that staff work with the City's financial advisor to closely monitor interest rates and convert the variable rate bonds to fixed rate bonds based on market conditions.
 - *Additional Revenue.*
 - Advertising. Research, test and pursue potential revenue generation through allowing paid advertising at transit facilities (light rail stations, bus shelter and buses).
 - Orbit Fares. Public input obtained during fall 2009 and spring 2010 public involvement processes indicates moderate support for an Orbit fare if it means preserving service. It is recommended that staff work with the Transportation Commission and Council Transportation Committee during FY 2010-11 to fully evaluate Orbit fare policy alternatives and impacts. Staff will present options and seek City Council direction during the FY 2011-12 budget process.

The Ad Hoc Transit Fund Committee is to present the Draft Transit Financial Balancing Plan for consideration and approval to the City of Tempe Transportation Commission on Tuesday, April 27, 2010.

Recommendations will be presented to the City of Tempe Council Transportation Committee on Tuesday, May 4, 2010.

Recommendations will be presented to the Tempe City Council at the Tempe City Council Budget Workshop on Friday, May 21, 2010.

Agenda Item 6 – Additional Committee Recommendations

Jayson Matthews presented the following information:

The Ad Hoc Transit Fund Committee has completed its tasks to create the Transit Financial Balancing Plan. The City of Tempe Transportation Committee will continue to monitor the plan for the next three years and adjust accordingly. Commissioner Jayson Matthews asked if there was consensus from the Committee for this to be the final Ad Hoc Transit Fund Committee meeting. The Committee came to consensus.

Agenda Item 7 – Future Agenda Items/Next Steps

There were no future agenda items/next steps.

Jayson Matthews adjourned the meeting at 8:40 a.m.

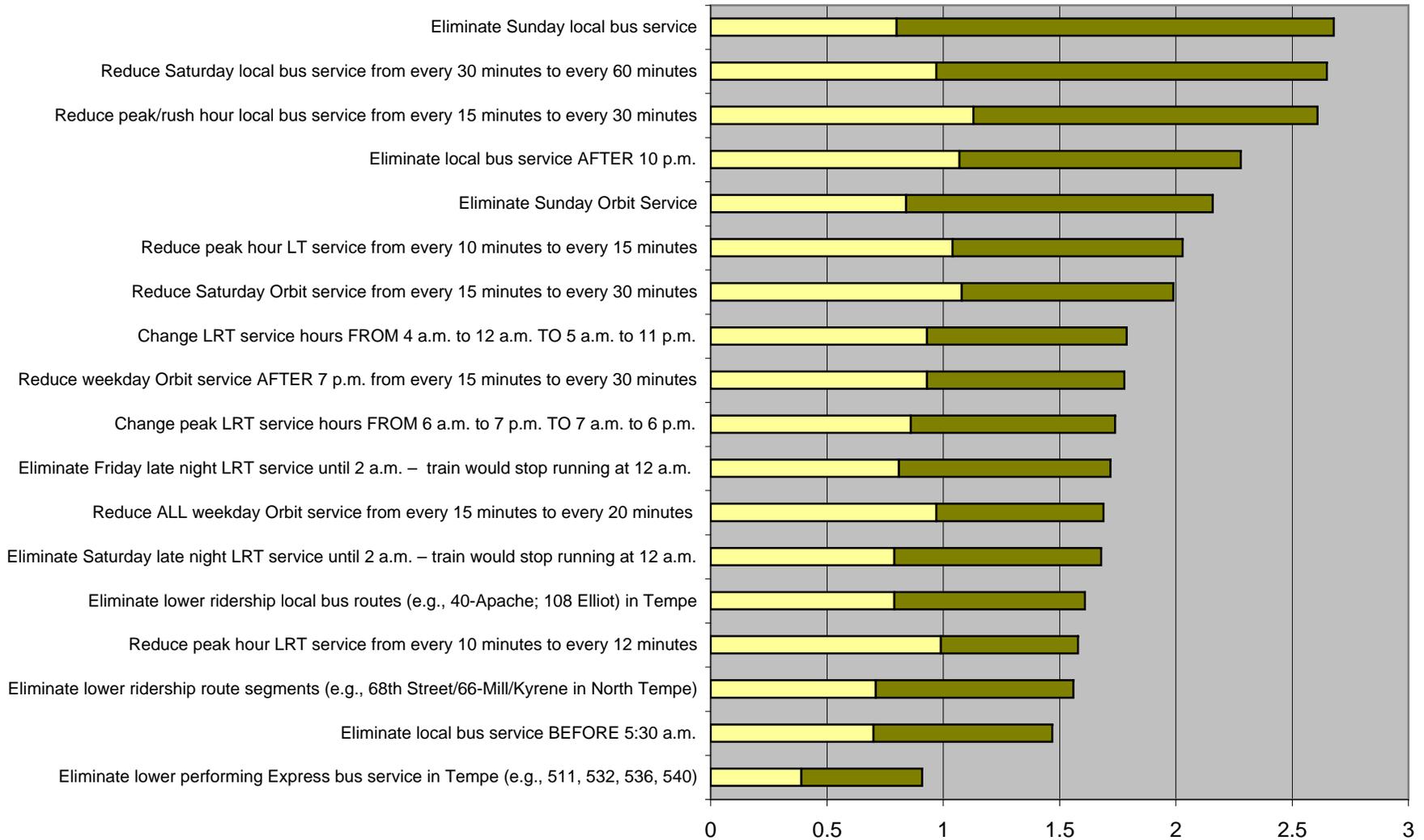
Prepared by:
Holly Stenner

Reviewed by:

Carlos de Leon

Public Response to Service Reduction Options (ROUND 1)

A higher rank is associated with greater opposition to the service reduction option



Public Response to Service Reduction Options (ROUND 2)

A higher rank is associated with greater opposition to the service reduction option

