

Zahilay moved Amendment 2.
The motion carried.

2

November 19, 2024
Change to farebox recovery
policy

[mbourguignon] Sponsor: Dembowski
Proposed No.: 2024-0319

1 **AMENDMENT TO PROPOSED ORDINANCE 2024-0319, VERSION 1**

2 Strike Attachment A, Fund Management Policies for the Public Transportation Fund, and
3 insert Attachment A, Fund Management Policies for the Public Transportation Fund,
4 Updated November 19, 2024

6 **EFFECT prepared by *Mary Bourguignon*:**

7 **The amendment would replace the transmitted version of Metro’s Fund**
8 **Management Policies with a new version that retain the farebox recovery targets**
9 **that Metro should recover at least 10% and maintain a target of recovering “at**
10 **least” 15%.**

11 **It would add the requirement that Metro publish in an online dashboard by**
12 **May 31 of each year with information about the previous calendar year, including:**
13 **(1) farebox recovery ratio, (2) total farebox revenues collected, (3) average weekday**
14 **and weekend boardings, and (4) percentage of both farebox revenues and average**
15 **weekday boardings attributable to business Passport fare card holders.**

16 **The language in text is shown below:**

17 **III. Revenue Policies**

18
19 **A. Farebox Recovery Ratio – The Metro Transit Department should recover**
20 **at least 10 percent and will maintain a target of recovering at least 15**

21 percent of passenger related operating costs from farebox revenues for
22 bus service and shall report annually on its farebox recovery ratio through
23 a publicly available online dashboard. This dashboard, which should be
24 updated by May 31 each year, should include, but not be limited, to:
25

- 26 1. The farebox recovery ratio for the previous calendar year, defined
27 as the percentage of passenger related operating costs recovered
28 from farebox revenues for bus service,
- 29 2. Total farebox revenues from bus service received during the
30 previous calendar year,
- 31 3. Average weekday and weekend boardings for bus service for the
32 previous calendar year, and
- 33 4. The percentage of farebox revenues and boardings attributable to
34 fare cards purchased through ORCA business programs.
35

36 **B. Recommending Changes to Farebox Recovery Ratio Requirement –**
37 In the event of significant policy or financial changes, such as new funding
38 sources becoming available that impact fare revenue, Metro will re-
39 evaluate the farebox recovery ratio requirement and may recommend a
40 change. Metro may also re-evaluate the requirement if the farebox
41 recovery ratio is above the 15 percent target for at least two consecutive
42 years.
43

44 **C. Fare Parity –** It is the intent of the Metro Transit Department to achieve
45 parity between its Access fare and off-peak adult fare over time. Parity will
46 be measured by dividing the access fare by the off-peak adult fare for any
47 given year. The Access fare will achieve full parity when the ratio of the
48 Access fare to the off-peak adult fare is one to one.
49

FUND MANAGEMENT POLICIES FOR THE PUBLIC TRANSPORTATION FUND

I. General Financial Practices

- A. General Financial Practices** – The fund management policies for the Public Transportation Fund serve to ensure that the Metro Transit Department uses prudent financial planning to meet the policies and priorities of the adopted Strategic Plan for Public Transportation and the King County Metro Service Guidelines. The Metro Transit Department will manage its finances to fund expenditures in the following order: (1) debt service; (2) operation of the current transit system levels,¹ including asset maintenance and replacement; (3) maintenance and replenishment of reserves; (4) new transit service and capital investments necessary to achieve All Day and Peak Network priorities identified by the King County Metro Service Guidelines, and new transit service and capital investments necessary to achieve elements of the long range vision identified in Metro Connects.
- B. Fund Structure** – The Metro Transit Department manages the Public Transportation Fund as an enterprise through five distinct subfunds: Operating, Capital, Bond, Revenue Stabilization, and Revenue Fleet Replacement.
1. The Operating Subfund supports the ongoing operation of Transit services, including but not limited to bus, paratransit, vanpool/vanshare, and various contracted services. It includes direct operating labor and non-labor costs, administrative costs, and indirect and overhead costs.
 2. The Infrastructure Capital Subfund supports capital infrastructure projects, including the planning, design, acquisition, preservation and replacement of infrastructure and other capital items as needed to support Transit operations.
 3. The Bond Subfund supports annual debt service payments for debt-financed Transit assets.
 4. The Revenue Stabilization Subfund holds fund balance to offset impacts of economic downturns.
 5. The Revenue Fleet Capital Subfund supports new and replacement revenue fleet purchases.
- C. Financial Planning** – With each biennial budget, the Metro Transit Department will provide a financial plan and cash flow projection of six years or more, estimating operating expenses and capital requirements of the current system, operating and capital expenses of sustainable system expansion, reserves, and debt service for all of its subfunds. For any operating grants, the financial plan will identify the costs of continuing to operate the service after the grant ends.
- D. Capital Planning** – At a minimum, the Metro Transit Department will maintain a rolling 10-year plan to identify and prioritize needed new facility infrastructure and

¹ Including passenger loads and reliability investments as prioritized in the King County Metro Service Guidelines.

infrastructure maintenance, preservation, and improvement for transit facilities based on the current transit system level.² These prioritized needs will be reflected in the six-year transit capital improvement program.

II. Expenditure Policies

Subfund Transfers – In order to minimize administrative burden for the Public Transportation Fund and reduce the need for interfund borrowing, transfers between the Operating, Infrastructure Capital, Revenue Fleet Capital, and Bond subfunds do not need to be appropriated. However, transfers from the Revenue Stabilization Subfund to any of the other subfunds must be appropriated.

III. Revenue Policies

A. Farebox Recovery Ratio – The Metro Transit Department should recover at least 10 percent and will maintain a target of recovering at least 15 percent of passenger related operating costs from farebox revenues for bus service and shall report annually on its farebox recovery ratio through a publicly available online dashboard. This dashboard, which should be updated by May 31 each year, should include, but not be limited, to:

- 1. The farebox recovery ratio for the previous calendar year, defined as the percentage of passenger related operating costs recovered from farebox revenues for bus service,
- 2. Total farebox revenues from bus service received during the previous calendar year,
- 3. Average weekday and weekend boardings for bus service for the previous calendar year, and
- 4. The percentage of farebox revenues and boardings attributable to fare cards purchased through ORCA business programs.

B. Recommending Changes to Farebox Recovery Ratio Requirement – In the event of significant policy or financial changes, such as new funding sources becoming available that impact fare revenue, Metro will re-evaluate the farebox recovery ratio requirement and may recommend a change. Metro may also re-evaluate the requirement if the farebox recovery ratio is above the 15 percent target for at least two consecutive years.

C. Fare Parity – It is the intent of the Metro Transit Department to achieve parity between its Access fare and off-peak adult fare over time. Parity will be measured by dividing the access fare by the off-peak adult fare for any given year. The Access fare will achieve full parity when the ratio of the Access fare to the off-peak adult fare is one to one.

² The current Transit system level includes consistency with Federal Transit Authority Moving Ahead for Progress in the 21st Century requirements (MAP-21 Section 20019 / 49 U.S.C. Section 5326).

IV. Reserves/Subfunds Purposes and Targets

A. Recession, Risk, and Cash Flow Reserves

1. To mitigate the risks associated with a moderate-level economic recession,³ to fund unforeseen changes in operating expenditures, and to provide for cash flow needs, the Metro Transit Department shall maintain Recession, Risk, and Cash Flow Reserves, as described below, equivalent to 45 percent of the forecast total annual enterprise fund sales tax revenue. These reserves shall be distributed as follows:
 - a. **Operating Risk/Cash Flow Reserve** – To maintain sufficient funds for cash flow requirements, to fund unforeseen emergency operating expenses, and to mitigate unanticipated revenue losses, the Metro Transit Department will maintain minimum cash balances in the Operating Subfund equal to 15 percent of the Recession, Risk, and Cash Flow Reserves. For purposes of mitigating recessionary economic conditions, these reserve monies will be the last Recession Risk Reserve monies used and the first priority for reserve replenishment.
 - b. **Revenue Stabilization Subfund** – To maintain sufficient funds for operating and associated capital expenses associated with mitigating recessionary economic conditions, the Metro Transit Department will maintain a Revenue Stabilization Subfund with a balance equal to 85 percent of the Recession, Risk and Cash Flow Reserves. Monies in the Revenue Stabilization Subfund may only be accessed through enactment of an appropriation ordinance.
2. Use of a portion of the Revenue Stabilization Subfund balance may be requested by the County Executive through submittal of an appropriation ordinance when the forecasted year-over-year sales tax base growth falls below the June-to-June Seattle CPI-W growth rate for two consecutive forecasts (as adopted by the King County Forecast Council).
3. If the year-over-year real sales tax base (i.e., sales tax base adjusted for June-to-June Seattle CPI-W) decreases by more than five percent in any one year or more than 10 percent as a cumulative value over two or more years, then any Executive request to use a portion of the Revenue Stabilization Subfund shall be accompanied by a proposal to implement one or more of the following: operating service reductions, capital project delays or cancellations, cost saving efficiencies or indirect cost reductions, revenue generation options, or other mitigating actions.

³ These Fund Management Policies were developed using actual financial performance experience during the 2001 recession, which is referred to as a moderate-level economic recession for these Fund Management Policies.

4. The Executive and Council should use no more than 50 percent of the Recession Risk Reserves in any one year.
5. After use, the Recession Risk Reserves should begin to be replenished within two years of when the sales tax base growth from the prior year exceeds the June-to-June Seattle CPI-W value for 2 consecutive forecasts (as adopted by the King County Forecast Council). The Recession Risk Reserves fund balance shortfalls should be replenished on average 20 percent per year, such that the Recession Risk Reserves are replenished to the target level within five years.

B. Revenue Fleet Replacement Reserve – To smooth large expenditure fluctuations associated with fleet replacement purchases, the Metro Transit Department will maintain a Revenue Fleet Replacement Reserve in the Revenue Fleet Capital Subfund with the following characteristics:

1. This reserve will be funded by consistent biennial contributions (incorporating an inflation factor) of sales tax and projected grant revenue in order to fund a 20-year fleet replacement plan.
2. Short term (five-year or less) debt may be used to mitigate peaks in fleet purchases when fleet purchase costs exceed the sum of the current Transit resource contribution plus projected grant revenue⁴.
3. The Revenue Fleet Replacement Reserve balance shall never be less than zero nor exceed \$250 million in 2016 dollars adjusted for the value of the fleet.
4. The contribution levels will be reviewed biennially and adjusted to achieve these policy characteristics.

C. Bond Subfund Reserve – The Metro Transit Department shall maintain a Bond Subfund fund balance sufficient to meet the obligations of the Transit Department's bond requirements.

⁴ In general, short term debt shall be planned for years when the fleet purchase costs are more than twice the current Transit resource contribution.