OCTA

October 11, 2018

To: Transit Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Proposition 6: Potential Impacts to Transit Services

Overview

Proposition 6 is a ballot initiative that will repeal the revenues associated with the Road Repair and Accountability Act of 2017, if passed in November 2018. The act provides funding for current Orange County Transportation Authority transit services and projects. A report on strategies to address the transit service implications, in the event Proposition 6 passes is presented.

Recommendation

Receive and file as an information item.

Background

In April 2017, the California State Legislature passed the Road Repair and Accountability Act, also known as SB 1 (Chapter 5, Statutes of 2017). SB 1 increased the tax on gas and diesel fuels and raised other fees to augment or stabilize existing funding programs and create new funding programs. Portions of the increases in diesel sales tax and vehicle registration fee provide transit agencies with additional operating and capital revenues to sustain or expand transit services.

Prior to the new funding being approved, the Orange County Transportation Authority (OCTA) was projecting a $20 million revenue shortfall for fiscal year 2017-18. The shortfall was due to lower ridership leading to lower fare revenues and weaker growth in sales tax revenues. The funding provided by SB 1 was sufficient to offset the revenue gap and avert changes to transit service levels.

If passed in November 2018, Proposition 6 would effectively repeal SB 1 and the additional transit revenues that OCTA is receiving under this program, estimated to be approximately $19 million, will no longer be available. Given this possibility, staff is assessing strategies that allow OCTA to rebalance transit service levels with available revenues to yield a financially sustainable transit program and minimize impacts on riders. If it passes, Proposition 6 will also have implications on OCTA's Measure M capital and related projects that will be assessed in a separate report once there is more information on how the state will demobilize SB 1-funded projects and programs. Currently, OCTA has $379 million of funding commitments from SB 1 sources.

Discussion

Since 2015, OCTA has undertaken a variety of initiatives to reposition bus service to better serve existing customers and attract new customers within budgetary limits. In addition, OCTA has undertaken a number of steps to reduce ongoing costs to make transit services more sustainable in the long-term given the limited number of transit funding sources that can be used to cover operating costs. A summary of recent cost management efforts by OCTA is provided in Attachment A.

Current transit service levels are balanced with the available revenues that utilize existing state and federal sources, which includes SB 1. Approximately $19 million of operating and capital revenues would no longer be available if Proposition 6 passes. This potential loss of revenues is equivalent to 11 percent of the bus operating budget. It would have a noticeable impact on both fixed-route OC Bus bus service and associated OC ACCESS paratransit programs.

<u>Reductions to OC Bus Fixed-Route Services</u>

OCTA currently operates 1.6 million annual revenue hours of bus service. Staff is looking at reducing the annual service hours by approximately 180,000 annual hours, representing an 11 percent service reduction. It is estimated that these reductions would reduce ridership by approximately 2.3 million annual boardings, which is a 5.9 percent decrease from the current 39 million annual boardings. Below are the types of service reductions currently being explored.

- <u>Route Eliminations</u>: Eliminate lower productivity local, community, and express routes. This would mainly impact lower ridership areas outside of the core service area in central county.

- <u>Reduced Frequency on Core Routes</u>: Identify routes in the core area which could sustain modest frequency reductions without creating overload issues.

- External Funding for OC Flex: Seek non-traditional transit revenues to fund the continuation of OC Flex service if the one-year pilot project is successful. Funding OC Flex with existing transit revenues would require additional reductions to bus service levels, which only compound the Proposition 6 impacts.

- Revisit 2016 Route Improvements with Lower Boardings Increases: While many of the route improvements recently implemented as part of OC Bus 360° have increased ridership, others have had less effect. Routes with limited ridership improvement could see their frequencies rolled back to previous levels.

- Operate Holiday Service on Additional Days: Staff is identifying additional days where ridership is lower compared to average weekdays and Sunday service levels where holiday service schedules would be sufficient to address demand. Potential days include New Year's Eve, Martin Luther King, Jr. Day, Presidents Day, Veterans Day, day after Thanksgiving, and Christmas Eve.

- Cut Back or Consolidate Duplicative Routes or Low Ridership Segments: Look for opportunities to combine service by serving the highest ridership sections of those routes more efficiently. Also, identify lower ridership segments at the end of a route which can be eliminated.

- Reduced Span of Service: Look for time periods where bus trips have less than 15 boardings per trip and are outside of OCTA's current span of service standards. Trips connecting to colleges, universities, and the future OC Streetcar could be preserved.

Reductions to OC ACCESS Paratransit Service

Where fixed-route service is eliminated and there are no nearby routes, OC ACCESS paratransit service would no longer be provided. There would be associated cost savings to the paratransit program because of the reduced number of trips. OC ACCESS riders in these areas could still use the same-day Taxi Program, which is provided countywide. This program has a fixed subsidy which is much lower than the average OC ACCESS trip cost.

Realign Paratransit Agreements to Reflect Current Costs

Staff has negotiated a new rate structure with the Regional Center of Orange County. The regional centers are non-profit entities funded by the state to provide a range of services, including transportation to people with developmental disabilities. Staff is also working to negotiate new rates for several special agencies. In April 2017, the Board of Directors (Board) directed staff to review these agreements and work with the special agencies to ensure that the rate structure was financially sustainable. After analyzing the different rates in the current agreements and comparing these to other paratransit trip costs, staff is now working with the agencies to standardize the per-trip cost and align the forecasted trip growth with the paratransit growth assumptions in OCTA's Comprehensive Business Plan. These agreements may need to be further negotiated for additional cost savings in the future.

Reductions to Transit Capital Costs

In addition to the operating cost savings stated above, there would be associated reduced vehicle requirements for both the fixed-route and paratransit services. These reductions would either reduce or eliminate upcoming planned vehicle procurements. Staff has also extended the useful life of 40-foot and 60-foot buses. Both of these adjustments can reduce long-term vehicle replacements costs necessary for the capital sinking fund.

Next Steps

Staff will continue to refine the concepts outlined above through November 2018. The follow-up work will include required Title VI and environmental justice analysis of route level service impacts. Should Proposition 6 be approved by voters in November 2018, staff will return to the Board in December 2018 with additional information and seek direction on service adjustment strategies and timeframes. Service reductions of this magnitude require a public participation process per OCTA policy to allow for public input prior to adoption. As such, any service adjustments will likely take effect as part of the October 2019 service change.

Summary

If Proposition 6 is approved by voters in November 2018, OCTA would need to decrease transit service levels because of reduced revenues. Staff has identified areas for service reductions and would bring a detailed plan to the Board and public in early 2019 for consideration.

Attachment

A. Summary of Recent Bus System Cost Management Strategies

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ATTACHMENT A

Summary of Recent Bus System Cost Management Strategies

Demand for fixed-route bus service historically provided by the Orange County Transportation Authority (OCTA) has decreased around the county because of changing demographics, increasing auto ownership, and advent of new technologies. OCTA's ridership declines are not unique as transit agencies around the nation are experiencing the same issue. The drop in bus ridership, when coupled with lower than expected revenues, has presented OCTA with significant challenges over the past several years.

In response, OCTA implemented OC Bus 360°, a comprehensive service improvement initiative to curb declining ridership and provide customers a more efficient and user-friendly transit system. A primary goal of OC Bus 360° is to better match transit service delivery models with market demands. Concurrently, OCTA has taken multiple steps to address the financial realities without impacting the overall level of fixed-route bus service.

- OCTA doubled, to 40 percent, the amount of fixed-route service that is contracted. This resulted in a savings of $14.2 million on an annual basis.

- Competitive bidding allowed OCTA to lower the cost of the contract to provide ACCESS paratransit service by $8.5 million less in succeeding budget years when compared to the prior contract.

- OCTA required all employees to pay the full amount of the employee share of pension costs. This action was approved in a phased approach that is now fully implemented. The annual savings is estimated to be $5.8 million annually.

- Staff negotiated a new lease for the administrative headquarters building. In addition to providing tenant improvement funds for the buildout of the new Board of Directors (Board) room and conference center and other building improvements at no cost to OCTA, the lease approved by the Board saves $1.3 million annually. Most of those savings accrue to the bus program.

- The Board approved a new contract for the purchase of renewable natural gas at a lower cost. In addition, OCTA has been able to monetize both state and federal credits, which generates a new revenue stream for OCTA. Through these actions, OCTA expects to save the bus program $3.4 million annually.

- A major portion of the costs associated with running a countywide bus system is the purchase of rolling stock. The most recent OCTA bus order was reduced by 40 buses, which provided immediate cash savings of $23.2 million. Since the long-term fleet plan was reduced by 40 buses, annual sinking fund contributions have been reduced by approximately $2 million. These funds are being used to help offset lower ongoing revenues.

- In 2016, OCTA implemented several additional changes to align the budget with lower revenues. Changes included the cancellation of an order of 12 40-foot buses, lower fuel and lubricant costs, lower contracted-services costs, and savings related to insurances, professional services, and parts costs. Ongoing savings realized by these adjustments total $6.7 million, and annual sinking fund contributions have been reduced by approximately $600,000.

All the aforementioned actions have saved a total of $42.5 million for the bus system on an annualized basis as compared to what costs would have been incurred had no action been taken. The current fiscal year transit operations budget is $290 million. These proactive changes have allowed OCTA to maintain service levels despite lower-than-expected sales tax receipts. Additionally, a planned fare increase in 2017 was cancelled. In fact, there have been no fare increases to the base fare since February 2013.