

STAFF REPORT

SUBJECT: Clean Air Express FY06-07 Funding Needs

MEETING DATE: February 16, 2006

AGENDA ITEM: 11

RECOMMENDATION:

Receive status report on Clean Air Express and recommended actions to address operating and capital budget shortfall in FY 2006-07

STAFF CONTACT: Kent Epperson, Scott Spaulding

SUMMARY:

From 1990 – 2002, the Clean Air Express (CAE) operating costs were historically funded with a combination of APCD funds and farebox revenue. Since then, the service has been expanded, operating costs have increased due to higher fuel and insurance costs and APCD CAE operating funds have decreased. This has left the Clean Air Express with funding shortfalls in 2003, 2004 and 2005. Although Federal Congestion Mitigation and Air Quality (CMAQ) funding has been used to fund three years of expansion service through FY05-06, SBCAG does not have access to traditional sources of transit funding to pay for net operating costs for the CAE. In 2003, the Board authorized the use of STA funds channeled through the City of Santa Maria to cover the FY02-03 budget shortfall. In March 2005, the SBCAG Board approved a Measure D Expenditure Plan Amendment to cover the FY04-05 and FY05-06 budget shortfall. There has been some discussion of other cost cutting measures such as transferring the operation to another transit agency, which will be explored in the North County Transit Plan. In the short-term, SBCAG has increased farebox revenue through increased marketing and a fare increase. Additional revenue will also be generated through the selling of exterior bus advertising space. However, with the significant spike in fuel prices and the completion of CMAQ funded expansion service, SBCAG is projecting a need for \$290,000 in CAE operating funds in FY06-07. Approximately \$210,000 in capital funds will also be needed in FY06-07 in order to comply with the California Air Resources Board (CARB) air quality Urban Bus Regulations. One gross polluting spare bus will need to be replaced and several other buses will need to be retrofitted with particulate matter traps. If the Clean Air Express is to continue operating through next fiscal year, \$500,000 in funding will need to be allocated to fill the projected budget shortfall.

It is recommended that the Board approve a Measure D expenditure plan amendment allocating \$500,000 in unallocated regional Measure D funds to cover the CAE FY06-07 funding shortfall. If the board concurs with this recommendation, an expenditure plan amendment would be presented to the board for approval at the March meeting

Member Agencies

Buellton ■ Carpinteria ■ Goleta ■ Guadalupe ■ Lompoc ■ Santa Barbara ■ Santa Maria ■ Solvang ■ Santa Barbara County

DISCUSSION:

The Clean Air Express is a commuter bus service offering a total of 11 routes from Lompoc and Santa Maria to Goleta and Santa Barbara. Since 1990, the Clean Air Express has met a growing demand of commuters traveling from North County to the South Coast. In 2003, to meet this demand, SBCAG acquired Federal CMAQ funds to purchase 7 new buses and expand service from North County. Last fiscal year, the Clean Air Express carried 127,000 passengers and removed 7 million vehicle miles traveled (VMT), and over 250,000 from Highway 101. In 2005 ridership growth reached a historical high. 2005 ridership was 20% higher than in 2004.

The Clean Air Express was managed and paid for by the APCD from 1990 to 2001. The program was largely operated as a pollution reduction and alternative fuel demonstration project for APCD. Over time, the program evolved from a clean air demonstration project to a formal public transportation program. Air Quality Districts are restricted from operating public transportation services. For this reason, management of the Clean Air Express was transferred to SBCAG in 2001. While the APCD has continued to subsidize the program, fewer APCD funds have been allocated for the CAE than years past. While funding sources have decreased, operating costs have increased. Most notably, this year's fuel costs are likely to be 50% higher than last year's. Contractor costs are also higher as a result of expanded service hours. This has resulted in a budget shortfall in 2003, 2004 and 2005. Since SBCAG does not have access to traditional sources of transit funding to pay for net operating costs for the CAE, the SBCAG Board has had to allocate other funding to address budget shortfalls. In 2003, the Board authorized the use of State Transit Assistance (STA) funds channeled through the City of Santa Maria to cover the FY02-03 budget shortfall. In March 2005, the SBCAG Board approved a Measure D Expenditure Plan Amendment to allocate Regional Measure D funds to cover the FY04-05 and FY05-06 budget shortfall.

In the short-term, SBCAG has increased farebox revenue through increased marketing and a fare increase. In the second quarter of this year, farebox revenue increased by more than 32% compared to the previous year. Additional revenue will be generated from exterior bus advertising ad sales through an agreement with MTD whereby MTD will sell CAE ad space for a small commission. (See Item 7G on the February board agenda). Although these measures will reduce funding needs for the CAE, SBCAG is projecting a need for \$290,000 in CAE operating funds in FY06-07.

In 2002, the CAE program became subject to new California Air Resources Board (CARB) Urban Bus Fleet Rules. The new rules require SBCAG to reduce its bus emissions by January 1, 2007. To meet these emissions reductions, one of the 25 year old gross polluting spare buses will need to be replaced with a newer used bus. This is estimated to cost \$150,000. In addition to a bus replacement, SBCAG will need to retrofit several buses with particulate matter (PM) traps at a total cost of approximately \$60,000. Installing PM traps on any of the new 2003 vehicles will void the extended warranty valid through 2008, resulting in additional cost to the program. This additional expense could be avoided by installing PM traps on the four 1997 Lompoc-owned vehicles that are used in CAE service, but this would require a transfer of title to the service provider and/or modifying the MOU that governs the use of these vehicles.

Clean Air Express Financial Status:

The following figures show the projected expenditures and revenue this year and next.

Figure 1: FY05-06 Projected Clean Air Express Expenditures

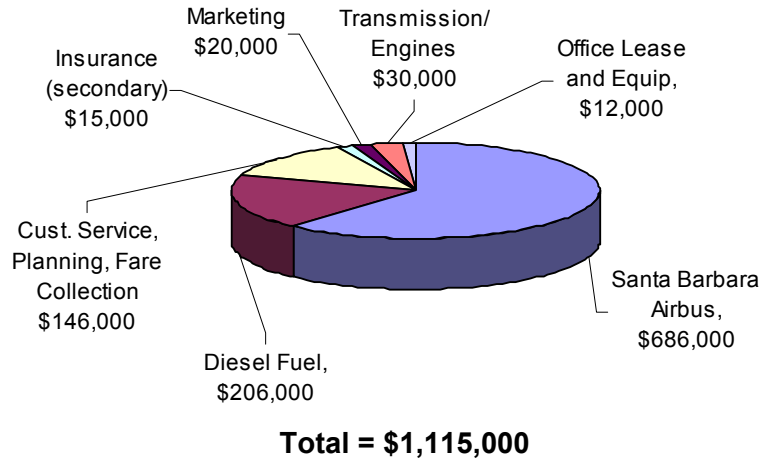


Figure 2: Projected Expenditures and Revenue FY05-06 and FY06-07

Projected Revenue	FY 05-06	FY 06-07
Farebox*	\$649,000	\$692,000
CMAQ	\$192,000	\$0
APCD**	\$133,000	\$100,000
Measure D	\$209,000	\$0
Advertising Revenue	\$4,000	\$8,000
Carry Forward	\$0	\$72,000
Total	\$1,187,000	\$872,000
O&M Expenditures	\$1,115,000	\$1,162,000
O&M Shortfall/Surplus	\$72,000	(\$290,000)
CARB Compliance***	\$0	\$210,000
Total Funding Needs	\$0	(\$500,000)

*FY06-07 farebox assumes a \$5 month pass fare increase in January 2007 and a 5% increase in ridership.

**APCD FY06-07 funding is projected and subject to approval by the APCD.

***CARB Compliance includes replacement of 1 gross polluting spare bus and installation of PM traps on several buses to meet state air quality regulations. CARB compliance may differ if CAE is transferred to other operator.

Potential Cost Cutting and Revenue Generating Measures:

SBCAG has identified the following potential revenue generating and cost cutting measures to help offset the projected budget shortfall.

- **Fare Increase:** Fares were increased by \$5.00 in November, 2005 (from \$130 to \$135 for a month pass and from \$40 to \$45 for a ten-ride ticket book). The fare increase will have generated approximately \$20,000 in additional fare revenue through FY05-06. An additional \$5 monthly fare increase has been assumed in January 2007 bringing the total monthly fare to \$140. This fare increase is expected to generate approximately \$10,000 in additional fare revenue in FY06-07 and is subject to public hearings and SBCAG Board approval.
- **Exterior Bus Advertising:** SBCAG will likely be entering into an agreement with MTD for the sale of the CAE bus exterior ad space. Under the agreement, MTD sells and administers the ad space and is paid a commission of the total ad revenue generated from the CAE buses. The ad space could generate approximately \$12,000 a year. The agreement is subject to approval by the SBCAG Board and MTD Board in February 2006.
- **Transfer CAE Program to other Transit Agency:** In preparation of the North County Transit Plan, SBCAG has gathered information regarding alternative operating options for the CAE that could potentially reduce the cost of operating the CAE. The options being reviewed were to transfer the CAE to SMAT, MTD or COLT, or to execute an MOU between two or more agencies to cooperatively operate the service. In December 2005, SBCAG formed a CAE ad hoc committee consisting of Rick Sweet and Joe Rye (Santa Maria), Sherrie Fisher and Jerry Estrada (MTD), Larry Bean, Richard Fernbaugh and Kevin McCune (Lompoc), Matt Dobberteen (Santa Barbara County), and Kent Epperson and Scott Spaulding (SBCAG). The CAE ad hoc committee reviewed the CAE operating options with the intention of submitting the information to the North County Transit Plan consultant team for further consideration within the context of the plan. The consensus amongst the CAE ad hoc committee was that transferring the service to another transit agency could make some logistical and financial sense but that no decisions could be finalized until the North County Transit Plan is completed. Any such transfer would likely take place in FY07-08. It should be noted that while a transfer of the CAE management could reduce operating costs, an operating subsidy and funding for capital expenses would still be required. In the short term, it was recommended by the ad hoc committee that SBCAG continue operating the CAE in FY06-07 and that \$500,000 of funding be allocated by the SBCAG Board to fund the service through FY06-07.

It should be noted that CARB compliance is determined by a transit operator's total bus fleet and the operating characteristics of the service. If the Clean Air Express is transferred to another transit operator in FY07-08 and service changes are made to the Clean Air Express, the CARB compliance measures for the Clean Air Express buses will likely differ from those described in this staff report. Depending on the outcome of the North County Transit Plan and the long term operating approach for the Clean Air Express, the CARB compliance measures may need to be deferred to FY07-08. If this occurs, the \$210,000 in capital funds will be carried forward and applied to whatever CARB compliance measures are needed under the new operating scenario.

Other Options:

There are various funding sources that have been considered to fill the Clean Air Express funding gap, including Transportation Development Act (TDA) funds, Federal Transit Administration Section 5307 funds, Regional Surface Transportation Project (RSTP) funds, State Transit Assistance (STA) funds and Regional Measure D funds. In January, SBCAG presented these funding options to the CAE ad hoc committee. The revenue source preferred by the committee is Regional Measure D funds.

Although other possible funding sources were evaluated, they each have drawbacks that make them less desirable than Regional Measure D funds. TDA, STA and FTA 5307 funds are currently used by local agencies for existing roadway and/or transit projects. RSTP funds cannot be directly used to operate transit and would require a fund exchange agreement. Using Regional Measure D funds would not reduce funding committed to other local agency projects and would not require a fund exchange agreement. An unallocated balance of Regional Measure D funds is available through the end of the current Measure D program that could cover the FY06-07 funding shortfall. Allocating these funds for the CAE would not impact completion of any existing Measure D regional projects. As was done by the SBCAG Board March 2005, adding the CAE fund allocation to the Regional Measure D program would require an amendment to the Measure D expenditure plan which requires a two-thirds majority approval of the SBCAG Board.

If a subsidy is not identified, the CAE would have to cease operations when the current fund balance is depleted in August 2006. Since the service has proven to be successful, it is likely that an unmet transit need would be created, triggering a finding that would require the service to be implemented using TDA funds that are currently used for roads.

Recommendation:

SBCAG staff recommends that the projected CAE FY06-07 funding shortfall be funded with \$500,000 in Regional Measure D funds. This funding is bridge funding to carry the Clean Air Express program through FY06-07. After the North County Transit Plan is completed and recommendations are made regarding future Clean Air Express operations, the SBCAG Board will need to consider the longer term funding needs for the Clean Air Express. If the board concurs with the funding recommendation, staff will prepare an expenditure plan amendment for board approval at its March meeting.

COMMITTEE REVIEW:

As discussed above the Clean Air Express Ad Hoc Committee was formed, reviewed information about this service and provided staff with options to address the funding shortfall. The ad hoc committee concurs with the staff recommendation. This item was also presented to TTAC on February 2, 2006. TTAC unanimously approved a recommendation to use Measure D funds to meet the CAE funding requirements for FY06-07. The recommendation will be presented to the North County Subregional Planning Committee on February 13 and staff will report on the committee's action.

Attachments: None