Robert E. Guenzel
1703 Morton
Ann Arbor, MI 48104

February 5, 2014

Michael Ford
Chief Executive Officer
Ann Arbor Area Transportation Authority
2700 South Industrial
Ann Arbor, MI 48104

Dear Mr. Ford:

As Co-Chair of the Transit Master Plan Financial Task Force, I am writing to recognize the important accomplishments and recommendations of the group.

First, let me say that I am proud to facilitate the work of some of the most astute financial and public policy experts in the region. The Task Force – consisting of local business and not-for-profit leaders – has done a great job of delving into the very important and complex issue of public transit finance. With the support of these community leaders, we concur that the AAATA has generated a funding strategy for transit that will meet with the high level services our citizens have asked for through the development of the Five Year Transit Improvement Program.

The Service Review Sub-group of the Financial Task Force has worked diligently with AAATA staff to examine the assumptions, and the program of proposed services incorporated in the Proposed Five (5) Year Transit Improvement Program. The goal of Urban Core transit is increasingly realistic, which would provide an enhanced mobility for our citizens, a stronger regional economy, and a healthier environment. Based on the assumptions and projections, the Proposed Five Year Transit Program could reasonable be funded out of an affordable .7 mil tax levy.

In addition, I recommend to the AAATA and the many Urban Core transit stakeholders that you continue to forge ahead with your plans for bringing transit services to the citizens of the greater Ann Arbor and Ypsilanti Areas.

I appreciate the opportunity to serve on this important effort!

Sincerely,

Robert E. Guenzel

Findings and Recommendations of the Financial Task Force
Review of the
Five Year Transit Implementation Plan

Introduction

In the fall of 2011, a Financial Task Force (FTF) was formed to assist the evolving countywide transit master plan effort in identifying and recommending sources of funding. After initial deliberations, the FTF formed a smaller group, "Sub-Group," to evaluate and prioritize services in the plan and report back to the FTF as to which services merit funding consideration and under what conditions. The Service Review Sub-Group undertook this review and issued its report in late January of 2012.

In November 2012, the Ann Arbor City Council voted to opt out of the countywide authority and urge the Ann Arbor Transportation Authority (Authority) to focus its planning efforts on the "Urban Core" of Washtenaw County. The Urban Core was defined in the resolution as including the cities of Ann Arbor and Ypsilanti, and the townships of Ann Arbor, Pittsfield, Ypsilanti and Scio. However, other communities have been involved including Superior Township as an existing purchase-of-service-agreement (POSA) partner and the City of Saline and Dexter Village as future POSA partners. Throughout 2013, the Authority developed an Urban Core transit improvement program that included three main topics, the service plan, governance, and funding.

The Authority finalized the program with input from community partners including government officials, community leaders, and the general public. The program that was developed is an improvement program for the next five years within the communities of the City of Ann Arbor, City of Ypsilanti, City of Saline, the Township of Pittsfield, and the Township of Ypsilanti. The program is referred to as the "Five Year Transit Improvement Program for the Urban Core Communities of Washtenaw County", (Five Year Transit Improvement Program).

In December 2013 the expanded Authority asked the FTF Co-Chairs if they would reconvene the task force with the request of examining the funding analysis and the methodology and soundness of the funding calculations in terms of the ability to pay for the proposed program services. The Co-chairs reconvened the Service Review Sub-Group for this purpose.

The Service Review Sub-Group met once in December, January and February resulting in a consensus finding that the Authority's methods and assumption, related to the Five Year Transit Improvement Program, are reasonable. This report represents their findings and recommendations.

Findings and Recommendations

The FTF recognizes the accomplishments of the Service Review Sub-Group, as follows:

- The Service Review Sub-Group was charged with examining a Five Year Transit Improvement Program budget containing a list of proposed services for the Urban Core communities of Washtenaw County. As the result of the deliberations, analysis, and effort, the Service Review Sub-Group determined that the funding analysis (Appendix 1) is reasonable.
- The Service Review Sub-Group reviewed the development of the service program that includes later night service on weekdays, more hours of service on weekends, new service for both the east

and west sides of the service areas, and more service for seniors and people with disabilities. The Service Review Sub-Group found no material issues with the method used in calculating the service hours and the proposed schedules. (Appendix 2)

- The Service Review Sub-Group discussed the assumptions made for the ridership level estimates identified in the program. Staff shared the estimates of Steer Davies Gleave (SDG) estimates and increases seen on Route 4 serving Washtenaw Avenue combined with the general system growth over the past ten years, as data supporting assumptions regarding ridership growth. SDG estimates were interpolated by Authority to arrive at annual growth rate assumptions. (Appendix 3)
- The Service Review Sub-Group further discussed revenue vulnerabilities related to ridership forecasts and 2012 legislation repealing the personal property tax beginning in 2014. The Service Review Sub-Group requested a 'what-if' analysis of two questions:
  - What is the financial risk of a 25% shortfall in projected ridership growth, and therefore passenger revenues?, and
  - What is the financial risk of an uncompensated shortfall in the personal property tax revenues? (The 2012 legislation will exempt personal property from taxation by local jurisdictions by 2023, but a referendum scheduled for August 2014, if successful could make up at least some fraction of the revenue shortfall.)

The findings of the Service Review Sub-Group were that the annual dollar amount of the ridership vulnerability was about $210,000. However, the risk of ridership revenue being less than forecast was reduced due to the very conservative nature of the program's ridership forecasts. Annual average ridership growth over the past 30 year period has been over 4%, whereas the proposed program assumes a modest 1.8% annual growth rate. Also, the average productivity of existing services is equal to 31.5 passengers per service hour, whereas the forecast productivity of proposed new service is assumed to be about 14.5 passengers per service hour. The ridership estimates are conservative when compared to the actual recent growth from the introduction of Route 4 and Route 5, in which TheRide realized a 20% ridership increase over a one-year period.

As for the potential personal property tax exemption vulnerability, the amount would approximate $300,000 annually. The personal property tax was repealed by the Michigan Legislature in December 2012. This repeal is contingent upon voter approval of a statewide referendum in August 2014 authorizing a statutory appropriation of 2¢ of the current 6¢ State Use Tax to a newly created local government reimbursement fund. Key provisions of the previously enacted 2012 Act phases out the industrial portion of the personal property tax over a nine year period beginning in 2016. Also, beginning with the 2014 tax year, personal property taxpayers with a taxable value of less than $40,000 would no longer pay the tax. Lastly, if the statewide referendum in August 2014 fails, then the 2012 personal property tax exemption will be immediately repealed and the personal property tax will be fully reinstated beginning with the 2015 tax year.

As for the impact to local communities, in short, those local units of government whose total tax base is made up of personal property taxable value greater than 2.3% of the total tax base, they will be eligible an 80% reimbursement of the personal property tax revenue loss. For the Authority the potential fully realized loss would be 5.4% by the end of the ninth year. It is difficult to predict the exact amount of relief that will be available as a result. The main reason for the uncertainty is that 2012 Act is not yet fully implemented both in statute and rule, and legal challenges are expected that will impact revenue. Therefore, it is the FTF's recommendation that the proposed program retain some flexibility to accommodate possible shortfalls in later years of the program.

The FTF also recognizes noteworthy findings of the Service Review Sub-Group, as follows:

- That the following categories of improved services included in the Five Year Transit Improvement Program:
  - Additional 85,000+/- service hour improvements to the Urban Bus Fixed Route Network
  - Expanded A-Ride
  - Expanded Night-Ride
  - Additional 5,300+/- service hours for Express Bus Services within the urban area
- That several capital-intensive projects - (i.e., the AA Connector, Washtenaw Avenue high capacity service, and two commuter rail projects) are <u>not</u> part of the service program and that the funding analysis does not include funding for these projects.

In light of the foregoing, the Financial Task Force considers:

1) the findings and recommendations of the Service Review Sub-Group as a guide for further development of the Five Year Transit Improvement Program.
2) the funding methodology is complete in terms of the funding levels needed to pay for the proposed services and is reasonable; and,
3) Recommends that the FTF continue to reconvene periodically to consider on-going refinements to the Program as requested by the Authority.
4) Recommends TheRide consider adding to the millage ballot language a statement prohibiting the capture of newly created Urban Core tax revenue from Tax Increment Finance (TIF) districts and Local Development Finance Authorities.

The Transit Master Plan Financial Task Force

<u>Co-Chair</u>
Bob Guenzel, *former Washtenaw County Administrator (retired)*

<u>Sub Group Members</u>
Mary Jo Callan, *Director, Office of Community Development, Washtenaw County*
Mark Perry, *President, Perry& Co*.
Norman Herbert, *Retired Treasurer, University of Michigan*
Paul Krutko, *President, SPARK*

<u>Appendices</u>:

Appendix 1: Cost of Services and Revenues
Appendix 2:

a. Change in Start Times, End Times and Frequency, Proposed Program versus Current, by Route and Time Period
b. Change in Service Hours, Proposed Program versus Current, by Route and Time Period

Appendix 3: Summary of Ridership Estimates (Annual Additional Trips)