

Arcata and Mad River Transit System Triennial Performance Audit FY 2019-20 - FY 2021-22

Final Report



Prepared for the
Humboldt County Association of Governments

July 10, 2023



Prepared by LSC Transportation Consultants

Triennial Performance Audit
of the
Arcata and Mad River Transit System

Fiscal Years 2019-20 through 2021-22

Prepared for

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EXECUTIVE SUMMARY

The California Public Utilities Code requires that all transit operators that receive funding under Article 4 of the Transportation Development Act (TDA) be subject to a performance audit every three years. This document presents the findings from the performance audit of transit operations managed by the City of Arcata's Public Works Department, Arcata, and Mad River Transit System (A&MRTS). As the Regional Transportation Planning Agency (RTPA) responsible for TDA funding in Humboldt County, these audits were performed under the authority of the Humboldt Association of Governments (HCAOG).

This audit report covers Fiscal Years (FY) 2019-20 through FY 2021-22, and was conducted by LSC Transportation Consultants, Inc. Data collection, initial review, and on-site interviews were conducted in early 2023. The audit process follows guidelines outlined in the Performance Audit Guidebook for Transit Operators and Regional Transportation Planning Entities developed by Caltrans (2008).

BACKGROUND

A&MRTS provides three fixed route services throughout the City of Arcata: the Red, Gold, and Orange routes. Weekday transit service operates from 7:00 AM until 10:00 PM and from 7:00 AM until 7:00 PM on all Saturdays. Cal Poly Humboldt students represent a significant percentage of ridership. The City of Arcata contracts with the Humboldt Transit Authority (HTA) to provide demand response service in the greater Arcata area. Those services are addressed in a separate HTA performance audit.

VERIFICATION AND USE OF PERFORMANCE INDICATORS

Table 1 and Figures 1 – 8 in Chapter 2 present operating data and performance indicators for A&MRTS fixed route services. During the audit period (FY 2019-20 to FY 2021-22), ridership decreased by 67.5 percent. Much of the decrease in ridership can be attributed to a reduction in student enrollment at Cal Poly Humboldt and fewer in-person classes during the COVID 19 pandemic. Operating costs only increased 3.3 percent over the audit period during a period of high inflation. Cost efficiency (as measured in operating cost per vehicle service hour) only decreased slightly, with FY 2019-20 being \$105.63 and FY 2021-22 being \$107.16. The significant decrease in ridership over the audit period contributed to a decrease in cost effectiveness as operating cost per passenger trip increased from \$4.77 in FY 2019-20 to \$15.18 in FY 2021-22. A&MRTS maintained a 10 percent farebox ratio (the ratio of passenger fares to operating costs) throughout the audit period.

A&MRTS compiled operating statistics in accordance with TDA definitions (as presented in Appendix B of the Performance Audit Guidebook) with the exception of full-time equivalent employee hours. As for the overall data collection and recording process, A&MRTS employs electronic fareboxes (through HTA) which allow for accurate collection of detailed operating statistics. A&MRTS produces easy to read and informative operating data reports.

REVIEW OF COMPLIANCE REQUIREMENTS

The Performance Audit Guidebook outlines certain TDA regulations that relate to a performance audit. Table 2 presents A&MRTS's compliance with these requirements. A&MRTS public transit services were found to be in compliance on all issues except for the timely submittal of the State Controller Report for FY 2019-20 and FY 2020-21, timely submittal of the Fiscal and Compliance Audit in FY 2019-20 and FY 2020-21, and incorrect reporting of full-time employee equivalents.

STATUS OF PRIOR AUDIT RECOMMENDATIONS

The previous audit was completed by LSC Transportation Consultants, Inc. in 2020. All recommendations were completed or in progress during this audit period, with the exception of one recommendation (calculation of full-time employee hours in accordance with TDA definitions).

DETAILED REVIEW OF TRANSIT OPERATOR FUNCTIONS

An important step in the performance audit process is to evaluate standard transit operator functions in terms of efficiency and effectiveness. This is done through interviews with transit staff. The review of transit operator functions is divided into the following categories:

- General Management and Organization
- Service Planning
- Administration
- Scheduling, Dispatch and Operations
- Marketing and Public Information
- Maintenance

In summary, organization and management of the transit operator appears to be appropriate for the size and scope of transit operations. However, A&MRTS is short staffed due to the ongoing challenge to recruit qualified candidates for drivers. A&MRTS conducts effective service planning and regularly reviews operating statistics and TDA performance measures. Transit services comply with pertinent federal Americans with Disabilities Act (ADA) requirements. A&MRTS does not typically make significant service changes but does conduct some level of outreach prior to any service changes. A&MRTS has in place safety, operations, and training procedures which comply with applicable regulations. Fare revenue collection and vehicle maintenance is performed by HTA. Sufficient marketing and public outreach efforts are conducted by A&MRTS and HCAOG. Vehicle replacement plans are in place to maintain a safe and operable fleet.

FINDINGS

- A&MRTS ridership has declined significantly since FY 2016-17. This is in part due to a drop off in student enrollment at Cal Poly (then named Humboldt State University) and exacerbated by the COVID-19 pandemic.
- A&MRTS maintained operation of a productive rural fixed route transit system in FY 2019-20 as it carried over 22 one-way passenger trips per service hour. FY 2020-21 and FY 2021-22

productivity fell to around 7 one-way passenger trips per service hour. The minimum recommended standard in the 2023 TDP update is 10 trips per hour.

- Annual operating costs for A&MRTS rose around 3 percent over the audit period, less than many public transit operators.
- All prior audit recommendations have been implemented or are in progress, with one exception (calculation of full-time equivalent employee hours).
- During the audit period, A&MRTS met the majority of the TDA requirements with the following exceptions:
 - For FY 2019-20 and FY 2020-21, the State Controller Report was submitted after the required timeframe. The submission date of the Report for FY 2021-22 is unknown.
 - For FY 2019-20 and FY 2020-21, the Fiscal and Compliance Audit was submitted well after the required deadline. For FY 2021-22 Fiscal and Compliance Audit, an extension was filed by HCAOG extending the date to March 31 however the audit has not yet been completed.
 - Full-time equivalent employees were not reported to the State Controller in accordance with TDA definitions.
- A&MRTS services met the required farebox ratio of 10 percent for each year of the audit period.
- The City of Arcata and HTA have a good working relationship with respect to the maintenance and DAR contracts.
- A&MRTS maintains a valuable partnership with Cal Poly Humboldt, renegotiating and signing a fare revenue contract with Cal Poly Humboldt through 2025.
- A&MRTS has begun the transition to a zero-emission fleet as mandated by the California Air Resources Board by purchasing two electric buses.

RECOMMENDATIONS

Overall, the Auditors find the A&MRTS fixed route services to be a good example of a well-run rural and small urbanized transit program, which is making efficient use of public resources. The auditor has the following recommendations. Recommendations are discussed in more detail in Section 2.

Recommendation 1: Calculate and report Employee Hours/Full-Time Equivalency to the State Controller in accordance with the definition in Appendix B of the *Performance Audit Guidebook*.

Recommendation 2: Work with the independent auditor to obtain a copy of the submitted State Controller Report for each fiscal year.

Recommendation 3: Work with Fiscal and Compliance Auditor to submit Fiscal and Compliance Audits to the State Controller and HCAOG within 180 days of the end of the fiscal year. If a 90-day extension is required and requested, A&MRTS should maintain the extension request in the files along with the reports.

Recommendation 4: If the farebox recovery ratio falls below the 10 percent TDA requirement, consider the local fund inclusions and operating cost exclusions for farebox ratio calculation purposes in the Fiscal and Compliance Audit as per AB 149.

Recommendation 5: Report transit performance data to the HCAOG SSTAC monthly.

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TRIENNIAL PERFORMANCE AUDIT RESULTS

BACKGROUND

The TDA, also known as the “Mills-Alquist Deddeh Act,” provides two major sources of funding for public transportation providers in California: the Local Transportation Fund (LTF) and the State Transit Assistance (STA). The LTF is derived from 0.25 percent of the 7.25 percent retail sales tax collected statewide and can be used for a variety of transportation purposes, according to a set of priorities detailed in the Act. The State Board of Equalization returns the LTF to each county in accordance with the amount of tax collected in that county. STA funds are derived from statewide sales tax on diesel fuel and the funds are allocated to each county based on the following formula: 50 percent according to population and 50 percent according to operator revenues from the prior fiscal year. STA funds can only be used to pay for transit planning, capital projects, and operations.

The California Public Utilities Commission (PUC) requires that a Triennial Performance Audit (TPA) be conducted for all transit operators and Regional Transportation Planning Agencies (RTPAs). A performance audit is a systematic process of evaluating an organization’s effectiveness, efficiency, and economy of operations under management control. The objectives of the audit are to provide a means for evaluating an organization’s performance and to enhance the performance by making recommendations for improvements. In addition, the audit evaluates the adequacy of an organization’s systems and the degree of compliance with established policies and procedures. This TPA covers FY 2019-20 through FY 2021-22.

PERFORMANCE AUDIT AND REPORT ORGANIZATION

The performance audit consists of the following elements:

- Initial review of transit operator functions
- Review of compliance requirements
- Follow-up review of prior performance audit recommendations
- Verification and use of performance indicators
- Detailed review of various transit operator functions
- Preparation of the Draft Audit report
- Preparation of the Final Audit report

TRANSIT PROGRAM DESCRIPTION

The Arcata City Council initiated A&MRTS in 1975 with the intention of providing alternative transportation for mobility limited individuals within the community, as well as for Cal Poly Humboldt (then Humboldt State University) students. Currently, A&MRTS provides public transit service in the City of Arcata Monday through Saturday, including evening weekday service when Cal Poly Humboldt is in session. A&MRTS is operated and managed by the City of Arcata Building and Engineering Department.

Demand response service is provided in the City of Arcata through an agreement with the Humboldt Transit Authority (HTA). Review of Dial-a-Ride services are addressed in a separate HTA performance audit.

The US Census estimates that Arcata's population is slightly over 19,000. The senior citizen population, comprised of residents aged 65 and over, is 11.2 percent, according to the 2021 American Community Survey. The city covers a 9.1-square-mile area. Due to Cal Poly Humboldt's location within the City of Arcata, about 40 percent of the total population is between the ages of 18 and 24 years old.

A&MRTS Service Characteristics

A&MRTS provides fixed route service within the City of Arcata with three routes that all start and end at the Arcata Intermodal Transit Center, located at 925 E Street in Arcata. The Transit Center also serves as the hub for other local and intercity bus services, such as Redwood Transit System (Humboldt County), Redwood Coast Transit (Del Norte County) and Greyhound.

Gold Route

The Gold Route operates on weekdays between 7:00 AM and 5:00 PM, serving Cal Poly Humboldt, downtown Arcata, and the Valley West Shopping Center.

Red Route

The Red Route operates solely on weekdays from approximately 7:00 AM until 5:00 PM, serving downtown Arcata, Cal Poly Humboldt, Sunny Brae, Lakewood Boulevard, and the Arcata Community Center, among others.

Orange Route

The Orange Route (a combination of Gold and Red) only operates during the evening hours on weekdays (between 5:00 PM and 10:00 PM), serving downtown Arcata, Cal Poly Humboldt, Greenview Market, Sunny Brae, and the Valley West Shopping Center, among other destinations. On Saturdays, the Orange Route operates from about 7:00 AM to 7:00 PM.

A&MRTS does not operate on Sunday and the following major holidays: New Year's Day, Fourth of July, Labor Day, Thanksgiving Day, and Christmas Day. A&MRTS operates on the Saturday schedule on Martin Luther King Jr. Day, Memorial Day, Labor Day, the day after Thanksgiving and the day after Christmas.

Dial-A-Ride

HTA, as the designated Consolidated Transportation Services Agency, manages all demand response services in the region, including Dial-A-Ride in Arcata. As such, DAR services are addressed in the HTA audit.

Intercity Transit

Redwood Coast Transit operates an intercity service between Smith River and Arcata with a connection to A&MRTS at the Arcata Transit Center. Amtrak and Greyhound also operate out of the transit center, as

well as HTA's Redwood Transit System (RTS) service between Fortuna and Scotia, Blue Lake Rancheria service to Blue Lake, and HTA service to Willow Creek (WC).

A&MRTS served as the Greyhound agent in Arcata until 2023, when A&MRTS did not renew the contract. Through the end of the current audit period, A&MRTS staff sold tickets and answered questions regarding Greyhound services. A&MRTS was paid 12 percent of the ticket price for Greyhound tickets purchases at the transit center and 5 percent for tickets printed at home. A&MRTS did not receive any fees for e-tickets which included Arcata as a trip end. Due to this agreement, the program has been operating at a deficit for the past several years, A&MRTS is currently working with HCAOG to address the accrued deficit.

Fares

A&MRTS's fares are structured according to fare type and media. Free transfers are provided between A&MRTS buses, but no interagency free transfers are available. Passengers can utilize A&MRTS services using specific agency passes, the Humboldt County regional pass, as well as the Jack Pass program. Pass products can be purchased onboard from the driver (cash only), at the HTA office in Eureka, at the HTA online store, and through the Token Transit App. Discounted multi-ride and monthly passes and monthly passes and discounted fares for youth, elderly and disabled are also available.

The Humboldt Regional Transit Pass is valid on all HTA fixed routes as well as on A&MRTS and comes in the form of a \$10 or \$20 stored value swipe card. The appropriate fare for the route/service is deducted from the card at the farebox. Regional Passes allow passengers to ride multiple routes and services with one fare media, as well as receive a discount on each one-way trip.

Cal Poly Humboldt's Jack Pass program allows students to ride the A&MRTS routes, as well as RTS, WC, ETS routes an unlimited number of times by swiping their current student identification cards through the farebox. Students pay for this service as part of their tuition fees. Staff, faculty, and Extended Education participants can buy the Jack Pass for \$60 per semester or \$45 during the summer session. Students not enrolled in classes during the summer can also buy the Jack Pass for \$45.

A&MRTS OPERATING AND FINANCIAL STATISTICS

The following section presents operating statistics and performance indicators for A&MRTS fixed route services. This information is based on data taken from internal operating spreadsheets provided by A&MRTS and annual Fiscal and Compliance Audits. Generally, operating data is obtained from internal reports while financial data is obtained from Fiscal and Compliance Audits. Operating data is also recorded in State Controller reports. Discrepancies were found between the two data sources for operating costs and passenger trips, which are discussed in more detail later. Table 1 presents data from current audit period and the previous audit period as well.

Due to the COVID-19 pandemic, year to year comparisons of performance statistics during this audit period should be viewed with caution. During FY 2019-20, 2020-21, and 2021-22 COVID-19 had tremendous impacts on performance indicators of A&MRTS, including ridership, revenue, farebox ratio and costs per passenger and may not accurately represent a route's long-term utility or success. For

A&MRTS, where a significant portion of ridership is students, the loss of students from campus during this audit period had noticeable impacts.

TABLE 1: A&MRTS Fixed Route Services Performance Measures

Performance Measures	Previous Audit			Current Audit		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
One-Way Passenger-Trips	236,919	215,244	167,417	123,548	29,649	40,103
<i>% Change from Previous Year</i>	-10.6%	-9.1%	-22.2%	-26.2%	-76.0%	35.3%
Vehicle Service Hours	7,716	7,752	6,646	5,580	4,252	5,681
<i>% Change from Previous Year</i>	-0.7%	0.5%	-14.3%	-16.0%	-23.8%	33.6%
Vehicle Service Miles	96,783	101,545	83,550	76,848	56,285	68,599
<i>% Change from Previous Year</i>	-0.9%	4.9%	-17.7%	-8.0%	-26.8%	21.9%
Operating Costs⁽¹⁾	\$717,790	\$656,965	\$611,939	\$589,426	\$642,847	\$608,781
<i>% Change from Previous Year</i>	-4.0%	-8.5%	-6.9%	-3.7%	9.1%	-5.3%
# Employees	8	7	7	7	5	5
<i>% Change from Previous Year</i>	0.0%	-12.5%	0.0%	0.0%	-28.6%	0.0%
Farebox Revenues	\$241,765	\$233,777	\$207,482	\$194,271	\$154,496	\$103,356
<i>% Change from Previous Year</i>	-2.0%	-3.3%	-11.2%	-6.4%	-20.5%	-33.1%
Operating Cost per One-Way Passenger-Trip	\$3.03	\$3.05	\$3.66	\$4.77	\$21.68	\$15.18
<i>% Change from Previous Year</i>	7.5%	0.7%	19.8%	30.5%	354.5%	-30.0%
Operating Cost per Vehicle Service Hour	\$93.03	\$84.75	\$92.08	\$105.63	\$151.19	\$107.16
<i>% Change from Previous Year</i>	-3.3%	-8.9%	8.6%	14.7%	43.1%	-29.1%
Passengers per Vehicle Service Hour	30.70	27.77	25.19	22.14	6.97	7.06
<i>% Change from Previous Year</i>	-10.0%	-9.6%	-9.3%	-12.1%	-68.5%	1.2%
Passengers per Vehicle Service Mile	2.45	2.12	2.00	1.61	0.53	0.58
<i>% Change from Previous Year</i>	-9.8%	-13.4%	-5.5%	-19.8%	-67.2%	11.0%
Vehicle Service Hours per Employee	965	1,107	949	797	850	1,136
<i>% Change from Previous Year</i>	--	14.8%	-14.3%	-16.04%	6.7%	33.6%
Farebox Recovery Ratio	33.68%	35.58%	33.91%	32.96%	24.03%	16.98%
<i>% Change from Previous Year</i>	2.1%	5.6%	-4.7%	-2.8%	-27.1%	-29.4%

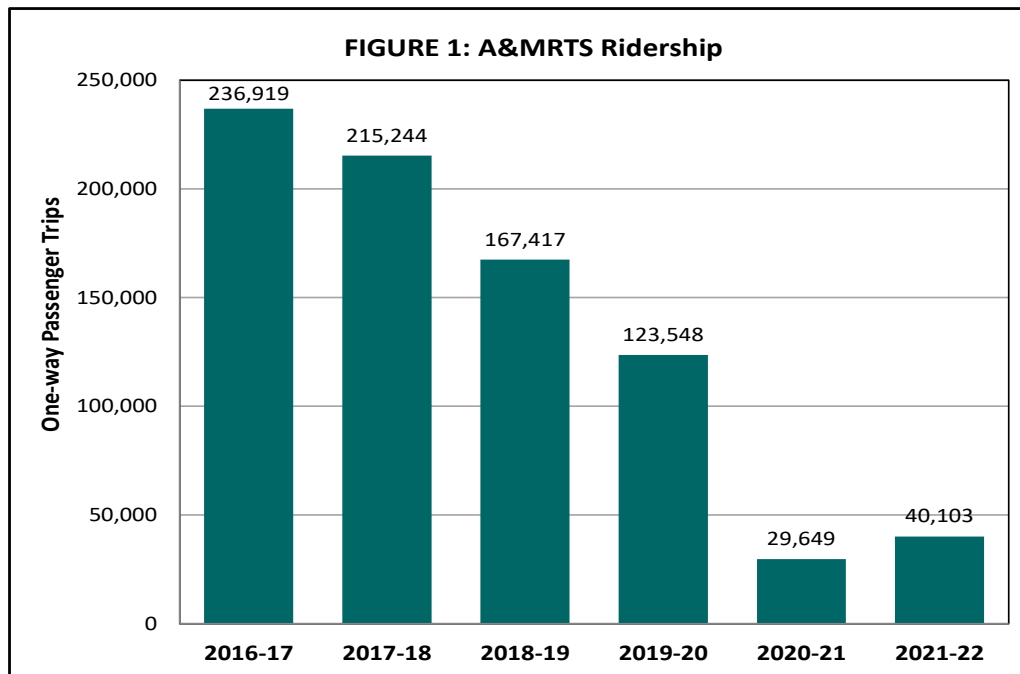
*Note 1: Operating Costs and Farebox Revenue taken from Fiscal Audits (except for FY 2021-22) and do not include DAR services
Source: AMRTS Fiscal and Compliance Audits and Internal Summary Reports FY's 2019-20, 2020-21, and 2021-22*

Data Collection Methods

As part of the TPA process, the auditor must collect and verify the following transit operator statistics:

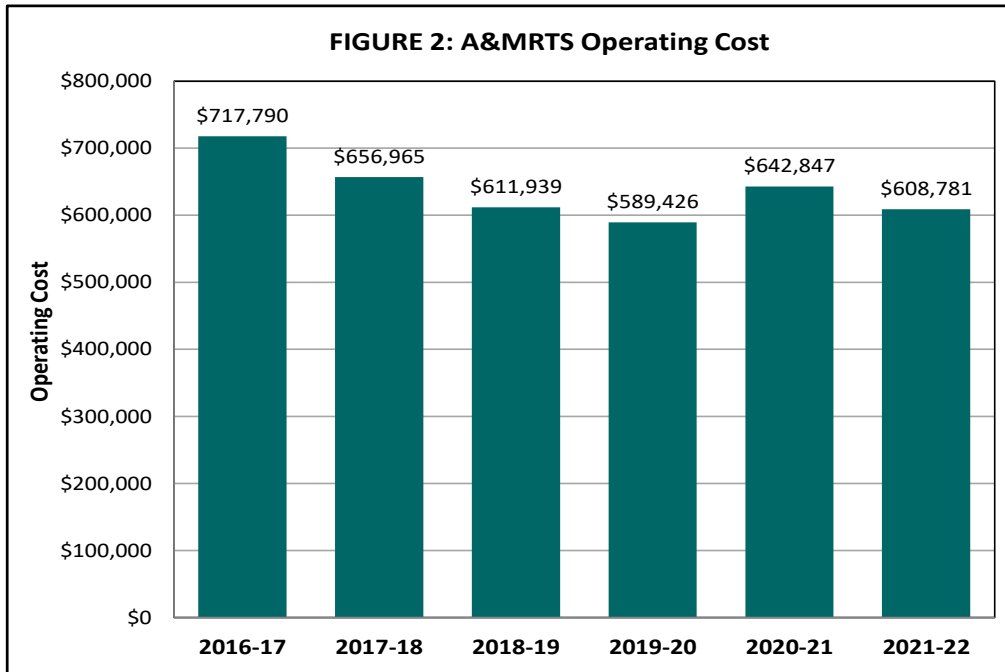
- Annual Passenger Count
- Annual Vehicle Service Hours
- Annual Vehicle Service Miles
- Annual Operating Cost
- Annual Employee Hours
- Annual Fare Revenue

Passenger Count represents one-way passenger trips. Total A&MRTS ridership on fixed route services in FY 2021-22 was 40,103, down 67.5 percent from FY 2019-20. This FY 2021-22 figure does represent a 35 percent increase from FY 2020-21. As shown in Table 1 and Figure 1, COVID exacerbated already declining ridership, dropping from a six-year high of 236,919 in FY 2016-17. This was mostly due to a significant drop in student enrollment at then named Humboldt State University. Passenger counts, as reported to the State Controller, was 184 percent higher in FY 2020-21 than in the internal reports.



Operating Cost data (Table 1 and Figure 2) for A&MRTS was obtained from the annual Fiscal and Compliance Audits when available and include total operating expenses minus depreciation costs. Operating cost for FY 2021-22 was calculated from the figure reported in the internal activity report as Fiscal and Compliance Audits have not been completed for this year. Operating costs increased 3.3 percent over this audit period and, despite fluctuating, have decreased slightly over the six-year period. Operating cost was found to vary widely between internal activity reports, fiscal and compliance audits, and State Controller Reports. Although it is common for pre-audit data to vary from the audited numbers, that the financial data reported to the state controller was up to 59 percent higher than the audited numbers can be a concern.

Vehicle Service Hour data (Table 1) was obtained from internal activity reports. Appendix B of the Performance Audit Guidebook defines vehicle service hours as the time during which a revenue vehicle is available to carry fare-paying passengers. In other words, the time between the scheduled time of the first passenger pickup and the last passenger drop off is considered service hours. A&MRTS reports vehicle service hours correctly to the State Controller’s Office. A&MRTS vehicle service hours increased by 1.8% between FY 2019-20 and FY 2021-22, from 5,580 to 5,681.



Vehicle Service Mile data (Table 1) was obtained from internal reports. As with vehicle service hours, the definition of a vehicle service mile as currently used by A&MRTS is consistent with the definition presented in Appendix B of the Performance Audit Guidebook. As with vehicle service hours, A&MRTS does not include deadhead hours when reporting service miles. Table 1 shows that service miles have decreased by 10.7 percent between FY 2019-20 and FY 2021-22, from 76,848 to 68,599.

The Full-Time Equivalent (FTE) Employee data (Table 1), representing annual employee hours, was obtained from State Controller Reports. The Full-Time Equivalent (FTE) definition currently used by A&MRTS is not consistent with the definition presented in Appendix B of the *Performance Audit Guidebook*. A&MRTS divides the total number of employee hours by 2,080 hours to calculate the number of FTE employees whereas Appendix B defines FTE as 2,000 hours. The auditor has included a recommendation to amend the number of hours per year used to calculate an FTE employee. According to State Controller Reports, FTEs dropped from 7 to 5 in FY 2020-21.

Fare Revenue data (Table 1) was obtained from annual Fiscal and Compliance Audit reports. It should be noted that PUC Section 99205.7 states that fare revenues are defined as revenue object classes 401, 402, and 403, as specified in Section 630.12 of Title 49 of the Code of Federal Regulations:

- Object class 401 revenues include full adult, senior, student, child, handicapped, Park-and-Ride lot revenues (must be operated by transit operator), special and reduced fares collected from passengers.
- Object class 402 revenues include guaranteed revenues collected from an organization rather than a rider for rides given along special routes.
- Object class 403 revenues include revenues collected from schools for providing service to children to and from school.

Fare revenue also includes the amount of revenue received by an entity under contract for transit services not yet transferred to the claimant. Additionally, the definition of fare revenues includes fares collected (1) for a specified group of employees, members, or clients, or (2) to guarantee a minimum revenue on a line operated especially for the benefit of the paying entity (e.g., an employer, shopping center, university, etc.), or (3) cash donations made by individual passengers in lieu of a prescribed fare.

Fare revenue differs from and does not include local support or local funds, which are any nonstate grants or other revenues generated by, or distributed to, the operator. Local funds can be used to supplement fare revenues for farebox ratio calculation purposes if fare revenues alone are not sufficient. Charter revenue cannot be included in the fare revenue category. It should be noted that Low Carbon Transit Operations Program (LCTOP) funds acquired for the purpose of having fare – free transit service can be categorized as fare revenue under object class 402 or local support.

Fare revenue for this audit period decreased from \$194,271 (FY 2019-20) to \$103,356 (FY 2021-22) as a result of the loss in ridership. Fare revenue for FY 2021-22 was obtained from the internal budget report.

A review of internal operating reports and discussions with staff indicate that A&MRTS calculates and reports fare revenue correctly to the State Controller. A&MRTS operates limited charter services and charter revenue is not included in fare revenue.

For the overall data collection and recording process, A&MRTS employs GFI electronic fareboxes. With these fareboxes, A&MRTS has the ability to accurately record each boarding by type (pass, senior, etc.). At the end of the day, the fareboxes are “probed” and boarding data is electronically transferred into a main database by HTA staff (as HTA maintains and stores the vehicles). HTA staff provide A&MRTS staff with operating data reports monthly. A&MRTS staff transfer operating data into Excel spreadsheets which track performance indicators.

CALCULATION AND EVALUATION OF PERFORMANCE INDICATORS

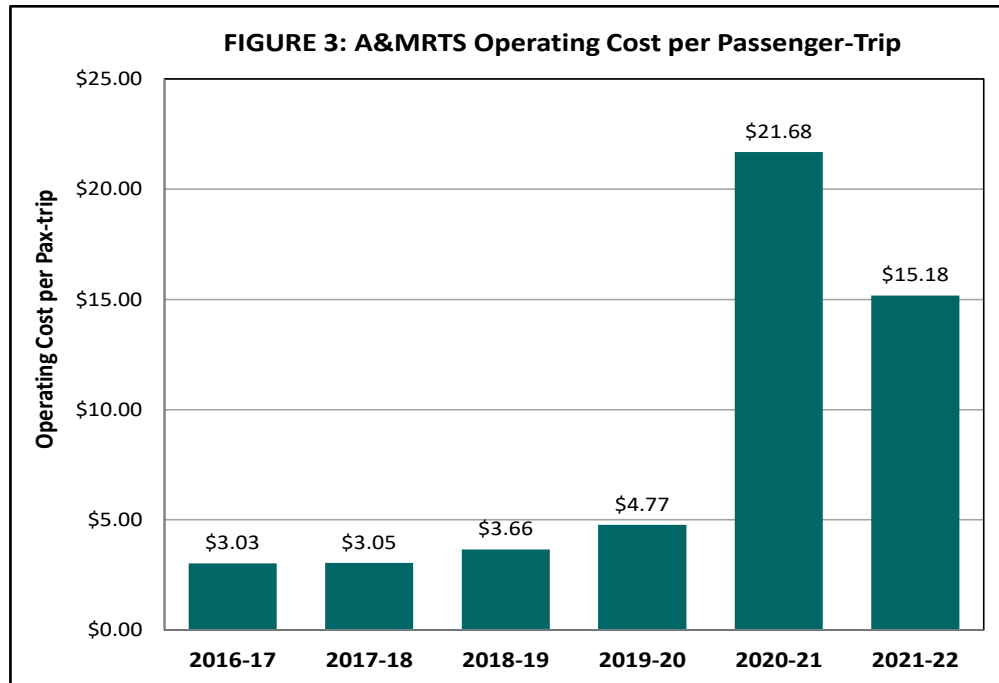
Performance indicators are frequently used to quantify and review the efficiency and effectiveness of a transit operator’s activities. Such indicators can provide insight on current operations as well as on the operator’s performance over a period of time. Using the data described above, the following performance indicators were calculated as required in Section 99246(d) of the Public Utilities Code:

- Operating Cost per Passenger
- Operating Cost per Vehicle Revenue Hour
- Passengers per Vehicle Service Hour
- Passengers per Vehicle Service Mile
- Vehicle Revenue Hours per Employee

In addition, the Farebox Recovery Ratio is calculated and evaluated herein, as required in Section 99268 et seq. of the Public Utilities Code.

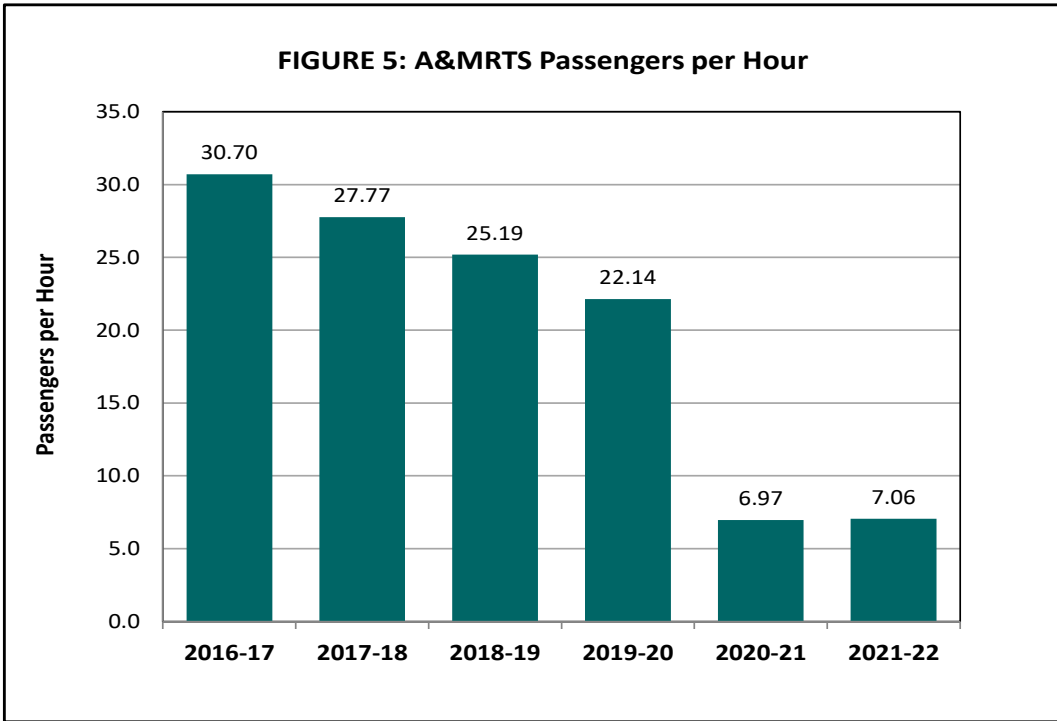
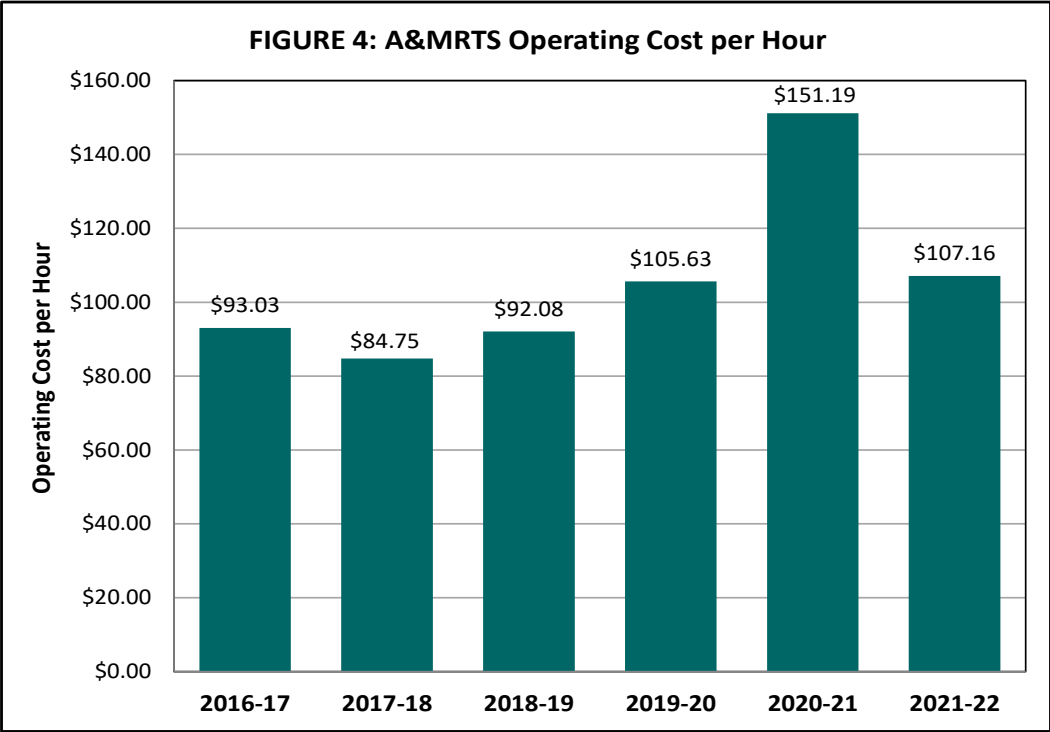
Operating Cost per (One-way) Passenger Trip data is presented in the Table 1 and Figure 3. This performance measure is a key indicator of a transit system’s cost effectiveness. Declining ridership in general, exacerbated by the COVID 19 pandemic, has had a significant negative impact on this

performance metric for all transit agencies. Operating cost per trip for A&MRTS services increased from \$4.77 in FY 2019-20 to \$15.18 in FY 2021-22. Figure 3 demonstrates how the most significant increase in operating cost per trip over the past six years occurred in FY 2020-21, with a single year increase of 354 percent. This is mostly due to the drop in ridership as operating costs only increased by 9 percent this year. It should be noted that although there was a significant decline in this performance indicator, an operating cost per trip of \$15 is similar to that of RTS and Eureka Transit System (ETS) operated by HTA.

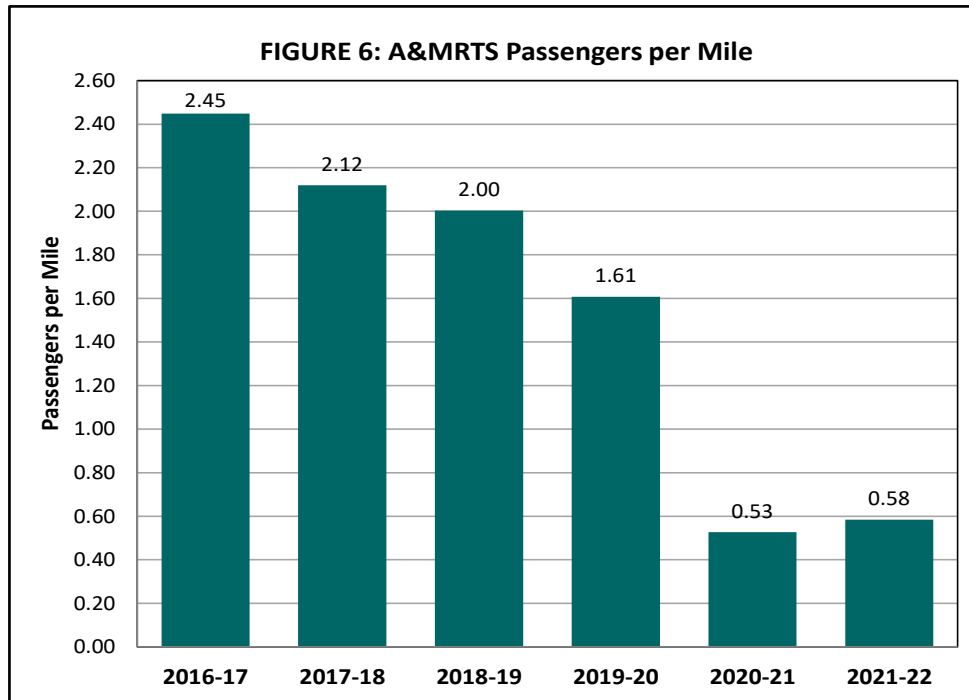


Operating Cost per Vehicle Service Hour data is presented in Table 1 and Figure 4. This performance measure is a key indicator of a transit system’s cost efficiency. Operating cost per hour increased significantly and then moderated, resulting in a 1.4 percent increase from FY 2019-20 to FY 2021-22, from \$105.63 to \$107.16.

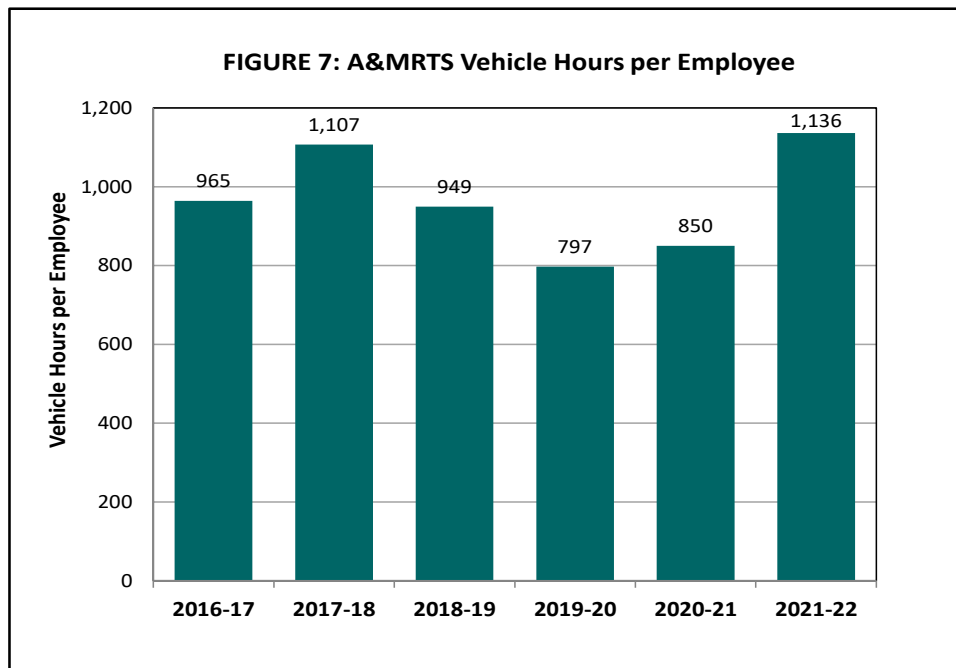
Passengers per Vehicle Service Hour (commonly referred to as “productivity”) is presented in Table 1 and Figure 5. Productivity decreased during the audit period from 22.14 passengers per hour to 7.06 passengers per hour, or by 68 percent. Overall, productivity has fallen 77 percent since the six-year high of 30.70 in FY 2016-17. Again, much of this can be attributed to a significant loss in ridership and reduced college student enrollment.



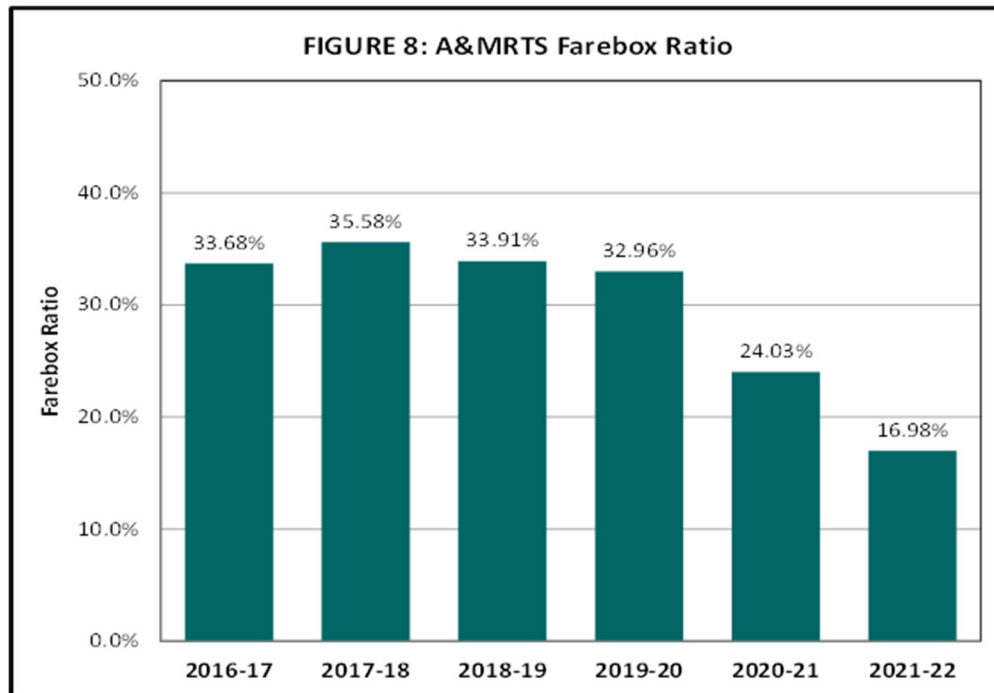
Passengers per Vehicle Service Mile data is presented in Table 1 and Figure 6. Passengers per vehicle service mile decreased by 63.6 percent during the audit period from 1.61 to 0.58, following a similar pattern to passengers per hour.



Vehicle Service Hours per Full-Time Equivalent (FTE) Employee data is presented in Table 1 and Figure 7. The number of vehicle service hours per FTE equivalent systemwide dropped in FY 2020-21, then rebounded in FY 2021-22 to represent an increase of 1.8 percent over the audit period.



The **Farebox Recovery Ratio** data is presented in Table 1 and Figure 8. The farebox ratio represents the proportion of operating costs paid for by fare revenues. The California Transportation Development Act (TDA) stipulates rural transit agencies (such as all of those in Humboldt County) maintain a farebox ratio of at least 10 percent (or to make up the difference using local funds). The ultimate significance of the ratios is that it represents a claimant’s maximum eligibility for TDA funds. For example, if a claimant had a required fare ratio of 10 percent local support, then it could receive a maximum of 90 percent of its operating cost from TDA (this is in addition to eligibility for capital purposes). If the claimants actual fare revenues and local support proved to be less than the required 10 percent, its TDA eligibility would not be increased to make up the difference.



During the COVID-19 pandemic in FY 2019-20, the state suspended minimum farebox recovery ratio requirements (per Assembly Bill 90). This temporary relief was extended through FY 2022-23, per Assembly Bill 149.

Per TDA, if fare revenue alone is insufficient to meet the 10 percent requirement, transit operators can use “local funds” to supplement fare revenue. Local funds are defined as, “any nonstate grant funds or other revenues generated by, earned by, or distributed to an operator.” Examples include advertising revenue, lease revenue or funds provided by a local agency. Assembly Bill 149, passed in July 2021, provides further allowances to include federal grant funds as local funds.

On the expense side, operating cost increases beyond the change in the Consumer Price Index for the following categories can be excluded from farebox ratio calculation:

- Complementary paratransit service
- Fuel
- Alternative fuel programs

- Power, including electricity
- Insurance premiums and payments
- State and federal mandates
- Startup costs for new services for a period of not more than two years

Beginning in FY 2021-22, operating cost increases for additional categories can also be excluded per AB 149.

As shown in Table 1, the farebox recovery ratio has remained well above the 10 percent requirement for a rural public transit system. Farebox recovery ratio ranged from 32.96 percent in FY 2019-20 to 16.98 percent in FY 2021-22. The funding arrangement between A&MRTS and Cal Poly Humboldt helps to maintain a high farebox ratio.

ASSESSMENT OF INTERNAL CONTROLS

To ensure that the information gathered as part of this audit is reliable and valid, a review of internal controls is necessary. A transit operator's internal controls are intended to do the following:

- Provide reasonable assurance that program goals and objectives are met
- Ensure that resources are adequately safeguarded and efficiently used
- Ensure that reliable data are obtained, maintained, and fairly disclosed in reports
- Ensure that the transit operator complies with laws and regulations

A&MRTS appears to have a reasonably well-developed system of internal controls appropriate to the size of the transit system. This statement is echoed in each of the annual Fiscal Auditor's Reports.

REVIEW OF COMPLIANCE REQUIREMENTS

As an entity receiving TDA funds for transit purposes, A&MRTS is required to comply with laws and statutes set forth in the Act. Below is a discussion of A&MRTS's compliance with sections of the Public Utilities Code which relate to transit performance, as recommended in the Performance Audit Guidebook. Table 2 displays the results of the compliance analysis:

1. In accordance with Public Utilities Code Section 99243, A&MRTS has submitted annual reports to the State Controller based on the Uniform System of Accounts and Records established by the State Controller. The auditor was unable to obtain a copy of the report for any of the three fiscal years. The County Auditor typically prepares these reports, however is critically behind schedule in completing tasks on time for multiple agencies.
2. Per the requirements set forth in PUC Section 99245, A&MRTS submitted annual Fiscal and Compliance audits to the HCAOG and to the State Controller. Fiscal and Compliance audits were submitted well after the deadline in FY 2019-20 and FY 2020-21. HCAOG filed 90-day extensions for all transit operators for FY 2021-22 before the required deadline. The extension expired March 31, 2023, but a report has not yet been completed.

TABLE 2: Transit Operator Compliance Requirements - A&MRTS

Requirement	PUC Reference	In Compliance?		Notes
		Yes	No	
(1) The transit operator submitted annual reports to the RTPA based upon the Uniform System of Accounts and Records established by the State Controller within the specified time period.	99243		x	FY 2019-20 - 3/18/21 FY 2020-21 - 3/17/22 FY 2021-22 - Submission date unknown
(2) The operator has submitted annual fiscal and compliance audits to its RTPA and to the State Controller within 180 days following the end of the fiscal year, or has received the 90-day extension allowed by law.	99245		x	FY 2019-20 - 5/25/2021 FY 2020-21 - 5/17/2022 FY 2021-22 - Not yet submitted
(3) The CHP has, within the 13 months prior to each TDA claim submitted by an operator certified the operator's compliance with Vehicle Code Section 1808.1 following CHP inspection of the operator's terminal.	99251 b	x		
(4) The operator's claim for TDA funds is submitted in compliance with rules and regulations adopted by the RTPE for such claims.	99261	x		
(5) If an operator serves urbanized and non-urbanized areas, it has maintained a ratio of fare revenues to operating costs at least equal to the ratio determined by the rules and regulations adopted by the RTPA.	99270.1	NA		
(6) The operator's operating budget has not increased by more than 15 percent over the preceding year, nor is there a substantial increase or decrease in the scope of operations or capital budget provisions for major new fixed facilities.	99266	x		
(7) The operator's definitions of performance measures are consistent with Public Utilities Code Section 99247.	99247		x	FTE Employee Calculation
(8) If the operator serves an urbanized area, it has maintained a ratio of fare revenue to operating cost at least equal to one-fifth (20 percent), unless it is in a county with a population of less than 500,000, in which case it must maintain a ratio of at least three-twentieths (15 percent).	99268.2, 99268.3, and 99268.1	NA		
(9) If the operator serves a rural area, it has maintained a ratio of fare revenues to operating costs at least equal to one-tenth (10 percent).	99268.2, 99268.4, and 99268.5	x		Per Assembly Bill 90, FY 2019-2020, any penalty on transit operators for non-compliance of farebox recovery ratio requirements is prohibited in FY 2019-20 and FY 2020-21. AB 149 (2021) extended this relief through FY 2022-23.
(10) The current cost of operator's retirement system is fully funded with respect to the officers and employees of its public transportation system, or the operator is implementing a plan approved by the RTPA, which will fully fund the retirement system for 40 years.	99271	x		
(11) If the operator receives state transit assistance funds, the operator makes full use of funds if available to it under the Urban Mass Transportation Act of 1964 before TDA claims are granted.	California Code of Regulations, Section 6754 (a) (3)	x		

3. In accordance with PUC Section 99251, A&MRTS has submitted evidence that the California Highway Patrol has certified compliance with Vehicle Code Section 1808.1 within the 13 months prior to each TDA claim submitted. The City of Arcata participates in the Driver Pull Notice Program.
4. In accordance with PUC Section 99261, A&MRTS's claims for TDA funds were submitted in compliance with rules and regulations adopted by the HCAOG for such claims.
5. Regarding PUC Section 99270.1, A&MRTS does not serve an urbanized area and therefore is not subject to rules regarding blended farebox ratio requirements.

6. PUC Section 99266 requires that A&MRTS's operating budgets not increase by more than 15 percent over the preceding year, and no substantial increase or decrease in the scope of operations or capital budget provisions for major new fixed facilities be realized unless the operator has reasonably supported and substantiated the change(s). See Table 3 for actual systemwide operating costs for the audit period. The best data available shows that annual operating costs for A&MRTS services increased by around 3 percent over the audit period as service levels stayed relatively the same.
7. A&MRTS's definitions of performance measures must be consistent with PUC Section 99247. A review of A&MRTS's definitions shows that they are consistent with the requirements of the above code section with the exception of full-time employee equivalents.
8. As the A&MRTS service area includes only rural areas, A&MRTS services are not subject to 20 percent fare revenue ratio requirement.
9. As the A&MRTS service area includes only rural areas, A&MRTS is subject to a 10 percent farebox ratio requirement. A&MRTS exceeded the rural transit operator farebox ratio requirement for all three years of the audit period. Farebox ratio was 32.96 percent, 24.03 percent, and 16.98 percent for FY 2019-20, FY 2020-21, and FY 2021-22 respectively.
10. In compliance with PUC Code 99271, the City of Arcata and A&MRTS participate in the State of California Public Employees Retirement System (PERS) for its employee retirement. As of June 2018, reports show that the CalPERS fund was only around 70 percent funded. CalPERS is taking steps to increase the funded status such as shortening the amortization period and adopting new strategic asset allocation. Additionally, GASB 68 and 75 now requires that employers show the pension and OPEB liabilities on their balance sheets instead of in the footnotes. This is a way of forcing employers (cities/counties) to recognize their share of the state's unfunded liability in hopes that the employers take more interest in having these liabilities paid off.
Despite the changes to the balance sheets, actuarial valuations performed by CalPERS assume that the amortization period for the unfunded liability for CalPERS is 30 years or less. Therefore, the retirement system will be funded within 40 years, per PUC 99271.
11. In accordance with California Code of Regulations Section 6754(a)(3), A&MRTS makes full use of funds available to it under the Urban Mass Transportation Act of 1964 (in particular, FTA Section 5311 Non-Urbanized Area Formula Program funds administered by Caltrans) before TDA claims are granted.

STATUS OF PREVIOUS AUDIT RECOMMENDATIONS

The previous audit was completed by LSC Transportation Consultants, Inc. in 2020. The recommendations from that effort are enumerated below.

Recommendation 1: Report transit performance data to the City Council quarterly and the HCAOG Service Coordination Committee monthly.

Implementation In Progress: During the current audit period, A&MRTS reported transit performance data to the Arcata City Council quarterly, however has not submitted transit performance data to the HCAOG SSTAC since it's consolidation with the Service Coordination Committee in FY 2019-20. Implementation of

Recommendation 1 will encourage improved communication between the transit operator and the City Council and will ensure that HCAOG is kept current on A&MRTS performance.

Recommendation 2: Calculate and report Employee Hours/Full-Time Equivalency to the State Controller in accordance with the definition in Appendix B of the Performance Audit Guidebook:

“Transportation system-related hours worked by persons employed in connection with the public transportation system (whether or not the person is employed by the operator, for example, a city accounts payable person whose time is partly charged to transit operations). Such persons include contractor staff. A Full-Time Equivalent employee count can be calculated by dividing the number of person-hours worked by 2,000.”

Implementation Not Begun: Arcata City Engineer and A&MRTS Transit Manager state that the City of Arcata calculates FTE employees differently from Appendix B of the Performance Audit Guidebook and, due to A&MRTS being a small operation, it is a challenge to calculate two different figures to meet the requirements of both the City of Arcata and the TDA. A&MRTS is open to calculating and reporting FTE employee hours consistent with the Performance Audit Guidebook in the future and the City Engineer suggested plans to discuss solutions with the Finance Manager.

Recommendation 3: Consider contracting with HTA to operate all aspects of the Arcata & Mad River Transit System.

Implementation In-Progress: A&MRTS initiated conversations with HTA during the audit period and HTA offered A&MRTS the option of contracting driver services in order to provide drivers when A&MRTS was short staffed. As of July 1, 2023, the City of Arcata will be contracting with HTA for the general operations and maintenance of A&MRTS for at least one year.

DETAILED REVIEW OF TRANSIT OPERATOR FUNCTIONS

This section presents a review of the various functions of A&MRTS. In general, transit operator functions can be divided into the following areas:

- General Management and Organization
- Service Planning
- Scheduling, Dispatch, and Operations
- Personnel Management and Training
- Administration
- Marketing and Public Information
- Maintenance
- General Management and Organization
- Organizational Structure

The Arcata City Manager oversees the operations of City departments and services, however, the City Engineer is responsible for managing public transit services, including A&MRTS. A&MRTS staff include the following: one full-time Operations Manager, 5 percent of City Engineer time, a three-quarter time driver,

as well as approximately 12 part-time drivers. Drivers do not work more than 1,040 hours per year and are not unionized.

A&MRTS administrative offices are located at the Transit Center in downtown Arcata.

General Management and Organization

Administrative Oversight

A&MRTS has an appropriately well-defined program of administrative oversight. It regularly receives, reviews, and acts on performance and financial information compiled internally. Monthly reports are prepared, which include standard operating data and performance statistics. Reports are reviewed by the City Engineer at least once a month and are provided to the City Council quarterly.

During the audit period, the City Engineer met with Operations and drivers weekly. The City Engineer or the Operations Manager coordinates with HTA as needed.

Recent Program Changes and Innovations

A&MRTS reduced service temporarily during the audit period, operating only one route during a portion of FY 2019-20 and all of FY 2020-21 and 2021-22. A&MRTS operations returned to a full normal schedule by July 2022.

During the audit period, A&MRTS renegotiated its contract with Cal Poly Humboldt through 2025. Previously, A&MRTS charged then-named Humboldt State University a flat yearly fee. Under the new contract, A&MRTS charges Cal Poly per JackPass pass swipe and invoices Cal Poly quarterly. Cal Poly also compensates A&MRTS for 100 percent of costs incurred to provide any additional transit services to Cal Poly outside of A&MRTS normal operating hours. This includes providing transit services between the hours of 5PM and 10PM.

A&MRTS acquired two electric buses, although they were not in service during the audit period.

Communications with Other Government Agencies

A&MRTS has an active and positive relationship with the applicable RTPA, HCAOG. The Transit Manager serves as an intergovernmental liaison with other regional entities.

Service Planning

Strategic Planning

The effectiveness of a transit system is highly dependent on the continued development of short- and long-range transit plans. These plans also help the agency meet established goals and objectives that have been implemented. In terms of strategic planning, A&MRTS has set clear, reasonable goals and objectives in the Short-Range Transit Plan and the Regional Transportation Plan. The FY 2016-17–2021-22 Transit Development Plan (TDP) for Humboldt County Transit Systems covers a five-year planning horizon and contains a series of operational recommendations for A&MRTS. A&MRTS service recommendations focused on existing route adjustments, on-demand stops and bus stop improvements. A&MRTS monthly

reports include a review of non-financial performance indicators. The TDP is currently being updated for 2023-2028.

Evaluation of Existing Fixed Routes

The operator regularly reviews ridership and fare data in order to evaluate existing fixed-route services. The most recent TDP effort analyzed regional demographics, commuter patterns, fixed route boarding and alighting, and on-time performance. Stakeholder interviews, an online community survey, and onboard passenger surveys were also conducted to gain perspective on local transportation strengths and weaknesses.

Planning For and Serving Special Transportation Needs

A&MRTS contracts with HTA to provide demand response complimentary paratransit service in the Arcata area. This service meets the federal and state requirements, such as ADA policies, to serve persons with disabilities. The vehicles owned by the City of Arcata are wheelchair accessible and able to meet the needs of persons with disabilities. Special fares are offered for the elderly, disabled and youth riders.

Public Participation

The City of Arcata does not have a policy with respect to what level of changes to service require public input. A&MRTS staff indicate that public hearings would be conducted if changes to service were proposed in the future. The Unmet Transit Needs Hearing is the primary venue for public outreach and the TDP update provided a variety of opportunities for public participation. Comment cards are also available on-board buses. City Council meetings, as well as HTA and HCAOG meetings, are open to the public and are conducted in an accessible facility per the requirements of the ADA.

Scheduling, Dispatch, and Operations

This functional area concerns the short-term scheduling of routes, drivers, and vehicles, the daily coordination and assurance that each customer is served, and the specific function of providing transportation service. Overall, staff appear to communicate efficiently.

Assignment of Drivers to Routes

A&MRTS drivers are appropriately certified for the types of vehicles operated for A&MRTS and every driver can operate all types of A&MRTS vehicles. Drivers are assigned to routes and shifts by the Operations Manager based on skillset and schedules. Due to the limited number of A&MRTS staff, a highly structured method to assign drivers is considered unnecessary. This policy has not changed since the last audit period.

Part-Time and Cover Drivers

A&MRTS does not have any extra board drivers to cover in case of illness or vacation due to being short-staffed. The Operations Manager is able to drive a vehicle if necessary and has been called upon regularly this audit period to do so.

Personnel Management and Training

Recruiting

During this audit period, A&MRTS (like many transit services statewide) had trouble finding a sufficient number of drivers. During this audit period, the Operations Manager was required to act as a driver due to staffing challenges. The City Engineer and Operations Manager indicated that A&MRTS would benefit greatly from the addition of a second three-quarter time position.

A&MRTS advertises open positions in local senior news and in the North Coast Journal, conducts job fairs at Cal Poly Humboldt and College of the Redwoods and purchases billboard ads. Cal Poly advertises jobs to students through internal publications. The greatest challenge is finding recruits who can pass the drug test. If needed, A&MRTS will train drivers with no experience through HTA trainers.

Motivation

A&MRTS maintained a very low turnover rate during the audit period, however is unable to recruit and retain new employees. The primary reason for turnover in A&MRTS staff during the audit period was retirement. As most drivers have already retired from a previous career and are looking for part-time work, they often do not stay at A&MRTS long. Currently no monetary incentives are in place; however, the Operations Manager frequently purchases breakfast or lunch for the drivers. Job performance evaluations are performed annually for all employees.

A&MRTS increased hourly rates for part-time drivers in FY 2021-22, however the City Engineer indicated that this has not helped with recruitment of new drivers.

Training and Safety

A&MRTS contracts with HTA to provide initial and on-going training for drivers. The A&MRTS Operations Manager trains the drivers on the specific A&MRTS routes. On-going training consists of a minimum of eight hours per year to maintain Verification of Training Certification from the California DMV. Safety meetings are held twice a year and are used to discuss a wide variety of general and specialized topics. Drivers also attend HTA safety meetings, which are offered through the California Transit Indemnity Pool (CalTIP). The City Engineer, along with the Assistant City Manager, is responsible for reviewing the safety of operating practices.

Administration

A&MRTS staff are covered under the City of Arcata's personnel policies. Part-time drivers are not eligible for vacation or benefits (including retirement).

Budgeting and Management Information Systems

A&MRTS has a budget and reporting system that is appropriate to the size and scope of the transit program. If substantial excesses over the approved budget were to occur, they would require approval by the City Council. The City Engineer prepares the budget with input from the Operations Manager. Financial data is compared to the adopted budget monthly.

Financial and Grants Management

The City Engineer has primary oversight of grants management duties, service planning, and public information. During the audit period, the operator had not lost any grants. The County has applied for and received grant funding in the past, including LCTOP and FTA 5311.

Risk Management and Insurance

The City of Arcata carries an appropriate amount of insurance: public liability and property damage up to \$2,000,000 vehicle insurance and \$2,000,000 in general liability. As part of the emergency response team for Humboldt County, A&MRTS buses are available for use in an emergency.

Contract Management

A&MRTS contracts with HTA for the management and operation of DAR service and maintenance. As HTA is the regional transit operator and has greater resources, this arrangement makes sense and works well for both parties.

Revenue Collection and Cash Management

Revenue collection and cash management is all performed by HTA and discussed in the HTA audit.

Procurement

The City of Arcata has an adopted procurement policy which outlines levels of spending A&MRTS staff can make without approval. HTA competitively procures vehicles. A&MRTS vehicles are also fueled at the HTA operations and maintenance facility. Therefore, there is no need to independently procure fuel.

Marketing and Public Information

Public Information

Schedules and service information are available to current and potential riders through HTA's website and on the Transit Token app. A link to the HTA site is also posted on the City of Arcata website. Schedules are available on buses and at community locations such as the library, senior center, Lazy J Mobile Home Park, Cal Poly Humboldt, and social service agencies. Complaints and compliments are responded to (generally by email) but no formal log of complaints/compliments is kept and reported.

Marketing

In an effort to spread the word about public transit services in the City, A&MRTS attends the transportation fair at Cal Poly Humboldt and makes occasional presentations at community centers such as the Arcata Senior Center.

Maintenance

A&MRTS vehicles are stored and maintained at HTA's operations and maintenance facility in Eureka. Maintenance services are covered in detail as part of the HTA audit.

Vehicle Condition

A&MRTS has a fleet of nine active vehicles that are currently in service. A&MRTS has a good vehicle replacement schedule in place. On average, A&MRTS fleet vehicles have an average mileage of 146,526 and an average age of 12 years. One cutaway vehicle was replaced during the audit period.

A&MRTS has initiated development of a Zero-Emission Vehicle (ZEV) Rollout Plan, as required by the Innovative Clean Transit (ICT) regulation (Cal. Code Regs. Tit. 13 § 2023.1(d)), to transition the A&MRTS vehicle fleet to ZEV. A&MRTS currently owns two electric buses.

CONCLUSIONS AND RECOMMENDATIONS

The Auditor's analysis of A&MRTS services indicates that, in terms of operations, the system was efficiently run and well managed during the audit period.

FINDINGS

- A&MRTS ridership has declined significantly since FY 2016-17. This is in part due to a drop off in student enrollment at Cal Poly (then named Humboldt State University) and exacerbated by the COVID-19 pandemic.
- A&MRTS maintained operation of a productive rural fixed route transit system in FY 2019-20 as it carried over 22 one-way passenger trips per service hour. FY 2020-21 and FY 2021-22 productivity fell to around 7 one-way passenger trips per service hour. The minimum recommended standard in the 2023 TDP update is 10 trips per hour.
- According to the best data available, annual operating costs for A&MRTS rose around 3 percent over the audit period, less than many public transit operators.
- All prior audit recommendations have been implemented or are in progress, with one exception (calculation of full-time equivalent employee hours).
- During the audit period, A&MRTS met the majority of the TDA requirements with the following exceptions:
 - For FY 2019-20 and FY 2020-21, the State Controller Report was submitted after the required timeframe. The submission date of the Report for FY 2021-22 is unknown.
 - For FY 2019-20 and FY 2020-21, the Fiscal and Compliance Audit was submitted well after the required deadline. For FY 2021-22 Fiscal and Compliance Audit, an extension was filed by HCAOG extending the date to March 31 however the audit has not yet been completed.
 - Full-time equivalent employees were not reported to the State Controller in accordance with TDA definitions.
- A&MRTS services met the required farebox ratio of 10 percent for each year of the audit period.
- The City of Arcata and HTA have a good working relationship with respect to the maintenance and DAR contracts.
- A&MRTS maintains a valuable partnership with Cal Poly Humboldt, renegotiating and signing a fare revenue contract with Cal Poly Humboldt through 2025.
- A&MRTS has begun the transition to a zero-emission fleet as mandated by the California Air Resources Board by purchasing two electric buses.

RECOMMENDATIONS

Recommendation 1: Calculate and report Employee Hours/Full-Time Equivalency to the State Controller in accordance with the definition in Appendix B of the Performance Audit Guidebook:

“Transportation system-related hours worked by persons employed in connection with the public transportation system (whether or not the person is employed by the operator, for example, a city accounts payable person whose time is partly charged to transit operations). Such persons include contractor staff. A Full-Time Equivalent employee count can be calculated by dividing the number of person-hours worked by 2,000.”

TDA outlines definitions for performance indicators so that all transit operators report similar data to the state controller, which is available to the public can be used for comparison purposes.

For some transit agencies, reporting employee hours can be challenging as several different departments or companies contribute to the transit program. As of July 1, 2023, the City of Arcata will be contracting with HTA for the general operations and maintenance of A&MRTS for at least one year. In an effort to meet the spirit of TDA, the City of Arcata should do the following in terms of calculation of FTEs going forward:

- Tally the hours worked by drivers (HTA) operating A&MRTS routes.
 - Work with HTA to develop an estimate of the proportion of HTA mechanic time spent on City of Arcata vehicles.
- Estimate the hours allocated to transit by the City Engineer and any other City Department such as Administration or Finance. For example: it is estimated that the City Engineer spends 5 percent of his time on transit or roughly 100 hours.
- Divide total hours by 2,000 and include this figure in the state controller reports.

Recommendation 2: Work with the independent auditor to obtain a copy of the submitted State Controller Report for each fiscal year.

State Controller Reports are a summary of annual operating data and financial information by type of service which must be submit to the State Controller’s office seven months after the end of the fiscal year. The data is then available on-line for the public to review and compare with other transit operators. For this reason, it is important that correct and timely data is reported to the State Controller. For A&MRTS, an independent CPA firm prepares these reports. City staff did not have a copy of the State Controller reports on file during the audit. Although copies of the reports are available on-line, transit operator staff should at least be given a chance to review the reports prior to submission and maintain copies of the reports.

Recommendation 3: Work with Fiscal and Compliance Auditor to submit Fiscal and Compliance Audits to the State Controller and HCAOG within 180 days of the end of the fiscal year. If a 90-day extension is required and requested, A&MRTS should maintain the extension request in the files along with the reports.

Fiscal and Compliance Audits are important annual financial reports that detail a transit operator’s expenditures, revenues and funding sources. It is important that a Fiscal and Compliance Audit is completed for A&MRTS and submitted on time to HCAOG and the State Controller, however a Fiscal and Compliance Audit for FY 2019-20 and FY 2020-21 was submitted well past the deadline and has not been

submitted for FY 2021-22 at time of writing. A&MRTS recently hired a Finance Director, which may help with this issue moving forward.

Also work with the Fiscal Auditor to develop accounting procedures which allow for more accurate financial reporting.

Recommendation 4: If the farebox recovery ratio falls below the 10 percent TDA requirement, consider the following categories and local funds and operating cost exclusions for farebox ratio calculation purposes in the Fiscal and Compliance Audit as per AB 149:

- Account for any federal grants received as local funds, per AB 149 (2021).
- Exclusion of costs from the definition of “operating costs” per AB 149 (2021) which amended PUC Section 99268.17.

(a) Notwithstanding subdivision (a) of Section 99247, all of the following costs shall be excluded from the definition of “operating cost” for the purposes of calculating any required ratios of fare revenues to operating cost specified in this article:

(1) The operating costs required to provide comparable complementary paratransit service as required by Section 37.121 of Title 49 of the Code of Federal Regulations, pursuant to the federal Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12101 et seq.), as identified in the operator’s paratransit plan pursuant to Section 37.139 of Title 49 of the Code of Federal Regulations.

(2) Cost increases beyond the change in the Consumer Price Index for all of the following:

(A) Fuel.

(B) Alternative fuel programs.

(C) Power, including electricity.

(D) Insurance premiums and payments in settlement of claims arising out of the operator’s liability.

(E) State and federal mandates.

(3) Startup costs for new services for a period of not more than two years.

(4) Costs required to operate demand-response and microtransit services that expand access to transit service beyond fixed route corridors. For purposes of this paragraph, “microtransit” has the same meaning as in Section 99314.6.

(5) Costs of funding or improving payment and ticketing systems and services.

(6) Costs of security services and public safety contracts.

(7) Any expense greater than the actuarially determined contribution associated with pensions and other post-employment benefits as required by Governmental Accounting Board Statement Numbers 68 and 75.

(8) Costs of planning for improvements in transit operations, integration with other operators and agencies, transitioning to zero-emission operations, and for compliance with state and federal mandates.

Recommendation 5: Report transit performance data to the HCAOG SSTAC monthly.

Timing reporting to the SSTAC by A&MRTS will encourage improved communication between the transit operator and HCAOG and will ensure that HCAOG is kept current on A&MRTS performance. As the RTPA, it is important that HCAOG is promptly made aware of any issues that arise with the transit operator.