

Fortuna Transit

Triennial Performance Audit *FY 2016-17 to FY 2018-2019*



Prepared for the

HUMBOLDT COUNTY ASSOCIATION OF GOVERNMENTS



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FORTUNA TRANSIT

TRIENNIAL PERFORMANCE AUDIT
FY 2016-17 to FY 2018-19
FINAL

Prepared for

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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 Fortuna's Parks and Recreation Department, Fortuna Transit. As the Regional Transportation Planning Agency (RTPA) responsible for TDA funding in Humboldt County, these audits were performed under the authority of the Humboldt County Association of Governments (HCAOG).

This audit report covers Fiscal Years (FY) 2016-17 through FY 2018-19, and was conducted by LSC Transportation Consultants, Inc. Data collection, initial review and on-site interviews were conducted in early 2020. The audit process follows guidelines outlined in the *Performance Audit Guidebook for Transit Operators and Regional Transportation Planning Entities* developed by Caltrans (2008).

BACKGROUND

Fortuna Transit offers demand response transit services within the Fortuna city limits for older adults and persons with disabilities as well as medical appointment trips to nearby Eureka. Fortuna Transit (formerly known as Fortuna Senior Transit Bus or Fortuna Senior Bus) is administered and run by the City's Parks and Recreation Department. Transit services have been operating in the city since June 1972 and were initially provided by the Senior Citizen Center.

VERIFICATION AND USE OF PERFORMANCE INDICATORS

Table 1 and Figures 1-8 in Chapter 2 present operating data and performance indicators for Fortuna Transit Dial-a-Ride. During the audit period, ridership increased by about 6 percent. Operating costs increased from \$120,093 to \$140,090 per year during the audit period. Factors which contributed to higher operating expenses in FY 2018-19 included payments related to ongoing CalPERS pension liabilities. This in turn had a negative impact on cost efficiency (as measured in operating cost per vehicle service hour) which increased from \$38.94 to \$46.98. Cost effectiveness (operating cost per passenger trip), however remained relative steady during the operating period ranging from \$12.36 to \$13.91 due to the increase in ridership. Fortuna Transit met the 10 percent farebox ratio requirement (the ratio of passenger fares to operating costs) for a rural area each year of the audit period.

Fortuna Transit compiled operating statistics in accordance with TDA definitions (as presented in Appendix B of the *Performance Audit Guidebook*) except for full-time equivalent employee hours. As for the overall data collection and recording process, Fortuna Transit employs a manual reservation process which could be improved through dispatch and reservation software.

REVIEW OF COMPLIANCE REQUIREMENTS

The *Performance Audit Guidebook* recommends reviewing transit operator compliance with certain TDA regulations that relate to a performance audit. Table 2 presents Fortuna Transit's compliance with these requirements. Fortuna Transit services were found to be in compliance on all issues except for the increase in operating expenses greater than 15 percent and definition of full-time equivalent employees.

STATUS OF PRIOR AUDIT RECOMMENDATIONS

The previous audit was completed by Michael Baker, Inc. in 2016. All recommendations were completed during this audit period.

DETAILED REVIEW OF TRANSIT OPERATOR FUNCTIONS

A crucial 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. Fortuna Transit conducts effective service planning and regularly reviews operating statistics. Transit services follow pertinent federal Americans with Disabilities Act (ADA) requirements. Fortuna Transit conducts sufficient public outreach prior to making significant service changes. Fortuna Transit has in place safety, operations, and training procedures which follow applicable regulations. Sufficient marketing and public outreach efforts are conducted by Fortuna Transit. There appears to have been no significant issues during the audit period with respect to vehicle maintenance. Vehicle replacement plans are in place to maintain a safe and operable fleet.

Fortuna Transit is a small demand-response system which efficiently meets mobility needs for older adults and residents with disabilities. The Auditor's analysis of Fortuna Transit services shows that, in terms of operations, the system was efficiently run and well managed during the audit period.

FINDINGS

- Despite a nationwide downward ridership trend, ridership on Fortuna Transit increased by 5.9 percent over this audit period (FY 2016-17 to FY 2018-19) and has increased by 13 percent over the past six years.
- Fortuna Transit implemented all the prior audit recommendations.
- During the audit period, Fortuna Transit met 6 of the 9 applicable TDA compliance requirements. Areas where Fortuna Transit was not compliant are:

- Operating costs increased by more than 15 percent in FY 2018-19.
- Fortuna Transit’s definition of FTEs is not consistent with the TDA Guidebook.
- Fortuna Transit services met the TDA required farebox ratio of 10 percent for rural transit systems each year of the audit period.
- Fortuna Transit is a productive rural demand response transit system as it carries over three one-way passenger-trips per hour.

RECOMMENDATIONS

Overall, the Auditors find the Fortuna Transit system 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.

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.

Recommendation 2: If farebox ratio falls below the 10 percent TDA requirement, consider accounting for Measure E funds as local support for farebox ratio calculation purposes in the Fiscal and Compliance Audit.

Fortuna Transit met the 10 percent farebox ratio requirement each year of this audit period. In 2016, the City of Fortuna passed Measure E, a sales tax measure, which provides added general tax revenues for Fortuna services including programs for seniors. Some of this funding has been used to pay for medical trips to Eureka for Fortuna residents on Fortuna Transit. Per TDA section 99268.18, a transit operator may supplement passenger fare revenues with “local funds” if passenger fares are not enough to meet farebox ratio. Local funds are defined as any nonfederal or nonstate grant funds or other revenues generated by, earned by, or distributed to an operator. Fortuna’s Measure E sales tax revenue would qualify as local funds. It is not currently necessary to supplement fare revenues to make farebox ratio. However, if farebox ratio dips below the 10 percent, Fortuna Transit staff should work with the fiscal auditor to account for the portion of Measure E funds which are allocated to Fortuna Transit for medical trip purposes as “local funds” when calculating farebox ratio.

Recommendation 3: If funding is available, research and procure dispatch software to improve the reservation and trip assignment process.

Fortuna Transit is a small public transit operator and therefore uses a manual reservation and trip assignment process. This process is sufficient for a transit operator of this size. However, the overall

data collection and trip scheduling process could be improved using dispatch software. Benefits of dispatch software include:

- Quick and automatic preparation of reports
- Tools to remind riders of upcoming trips (this can reduce no-shows)
- Efficiency through computer-assisted trip scheduling

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 1/4 cent of the 7.25 cent state sales tax collected per dollar of retail sales in Humboldt County during the audit period and can be used for a variety of transportation purposes with a focus on public transit. 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. The funds are distributed 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 PUC requires that a Triennial Performance Audit be conducted for all transit operators and 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.

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

FORTUNA TRANSIT

The City of Fortuna has a population of around 12,000 people and is in the mid-western portion of Humboldt County along US Highway 101 (US 101). Fortuna Transit provides demand-response transit within city limits for seniors ages 50 years and older or disabled persons who are unable to drive, however persons under the age of 50 can be eligible if confirmed by a physician’s note. Fortuna Transit service runs Monday through Friday between 8:30 AM and 4:00 PM and does not run during the weekend or major holidays observed by the City. Fortuna Transit trips are limited to within the city limits except for medical trips to Eureka on Tuesdays.

Riders can make trips to up to three destinations per day. If there is enough capacity, passengers may go above the three-destination rule. Riders can call the dispatcher on the same day or one day to a week in

advance to reserve a ride for non-medical appointments. For medical appointments, reservations may be called in up to a month in advance of the scheduled appointment.

Fares

Fortuna Transit's one-way trip cash fare is \$2.50. The one-way fare was increased by \$0.50 in September of 2017. Multiride pre-paid punch cards are also available for purchase at \$22.50 for 15 trips. Free trips are provided to Parks and Recreation sponsored programs and events.

FORTUNA TRANSIT OPERATING AND FINANCIAL STATISTICS

Table 1 presents operating statistics and performance indicators for Fortuna Transit demand response services over this current and previous audit period. This information is based on data taken from internal operating data reports and annual Fiscal and Compliance Audits.

Data Collection Methods

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

- Operating Cost
- Passenger Count
- Vehicle Service Hours
- Vehicle Service Miles
- Employee Hours in Full-Time Equivalent (FTE)
- Fare Revenue

Operating Cost data for Fortuna Transit service was obtained from internal operating data reports. Financial data was obtained from the annual Fiscal and Compliance Audits and include total operating expenses for each object class, as presented in the Chart of Accounts for the Uniform System of Accounts and Records, minus depreciation costs. (Table 1 and Figure 1). As shown, operating costs jumped 17.6 percent in FY 2018-19. More specifically, salary and benefit costs increased by nearly \$22,000 in FY 2018-19.

There are multiple reasons for this increase:

- In recent years, there has been greater concern about the fact the California Public Employees' Retirement System (CalPERS) is not "fully funded" and has not been since the recession in 2008. "Fully funded" means when a pension plan has enough assets to provide for all benefits which it must pay out to retirees. The City of Fortuna provides pension benefits to employees through CalPERS. Governmental Accounting Standards Board (GASB) Standards 68 and 75 now require employers, such as the City of Fortuna, to recognize their share of the state's unfunded pension and Other Post Employee Benefits (OPEB) liabilities on the employer's balance sheet instead of in the footnotes. Some of the increase in salary and benefit costs can be attributed to unfunded CalPERS liabilities.
- The City also made a one-time Additional Discretionary Payment (ADP) to CalPERS in FY18-19 to help pay down the unfunded liability more quickly.

TABLE 1: Fortuna Transit Performance Measures

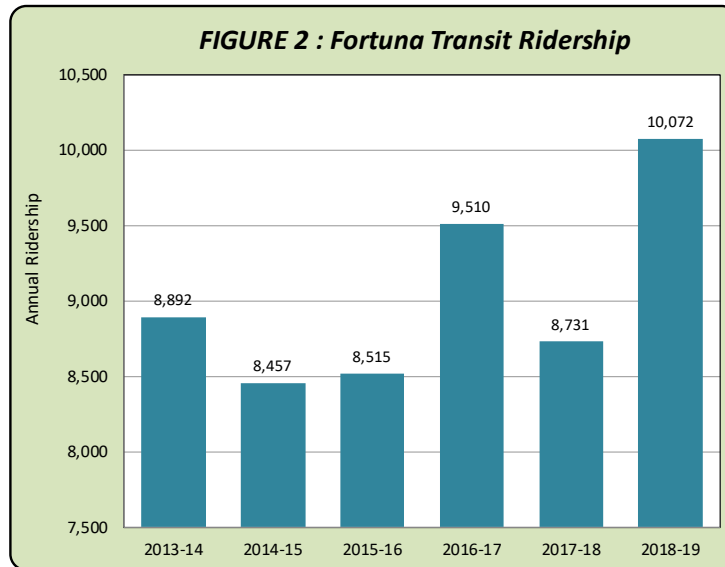
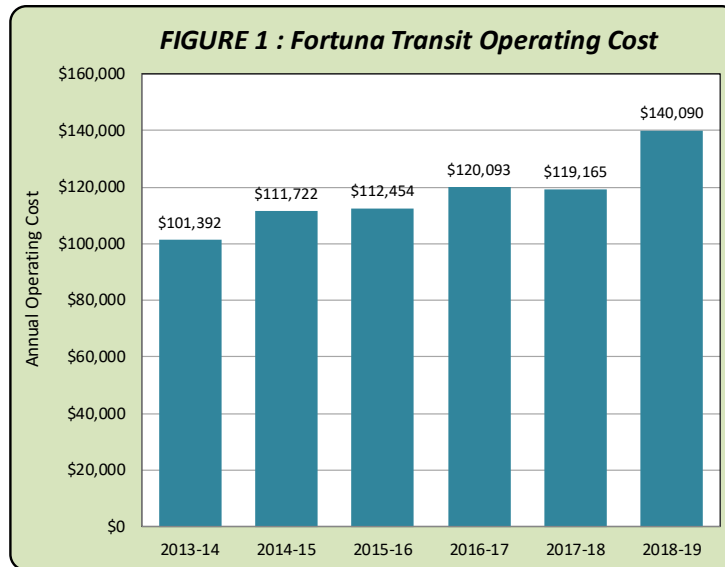
Performance Measures	Previous Audit			Current Audit		
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
One-Way Passenger-Trips	8,892	8,457	8,515	9,510	8,731	10,072
<i>% Change from Previous Year</i>	-17.6%	-4.9%	0.7%	11.7%	-8.2%	15.4%
Vehicle Service Hours	2,540	2,779	2,905	3,084	2,480	3,009
<i>% Change from Previous Year</i>	-5.0%	9.4%	4.5%	6.2%	-19.6%	21.3%
Vehicle Service Miles	21,244	24,258	22,384	24,396	20,642	27,006
<i>% Change from Previous Year</i>	-17.8%	14.2%	-7.7%	9.0%	-15.4%	30.8%
Operating Costs	\$101,392	\$111,722	\$112,454	\$120,093	\$119,165	\$140,090
<i>% Change from Previous Year</i>	13.5%	10.2%	0.7%	6.8%	-0.8%	17.6%
Number of Employees	3	3	3	3	3	3
<i>% Change from Previous Year</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Farebox Revenues	\$12,167	\$11,516	\$13,225	\$12,132	\$16,639	\$16,195
<i>% Change from Previous Year</i>	-4.8%	-5.4%	14.8%	-8.3%	37.1%	-2.7%
Operating Cost per One-Way Passenger-Trip	\$11.40	\$13.21	\$13.21	\$12.63	\$13.65	\$13.91
<i>% Change from Previous Year</i>	37.7%	15.9%	0.0%	-4.4%	8.1%	1.9%
Operating Cost per Vehicle Service Hour	\$39.92	\$40.20	\$38.71	\$38.94	\$48.05	\$46.56
<i>% Change from Previous Year</i>	19.5%	0.7%	-3.7%	0.6%	23.4%	-3.1%
Passengers per Vehicle Service Hour	3.50	3.04	2.93	3.08	3.52	3.35
<i>% Change from Previous Year</i>	-13.2%	-13.1%	-3.7%	5.2%	14.2%	-4.9%
Passengers per Vehicle Service Mile	0.42	0.35	0.38	0.39	0.42	0.37
<i>% Change from Previous Year</i>	0.3%	-16.7%	9.1%	2.5%	8.5%	-11.8%
Vehicle Service Hours per Employee	847	926	968	1,028	827	1,003
<i>% Change from Previous Year</i>	-5.0%	9.4%	4.5%	6.2%	-19.6%	21.3%
Farebox Recovery Ratio	12.00%	10.31%	11.76%	10.10%	13.96%	11.56%
<i>% Change from Previous Year</i>	-16.2%	-14.1%	14.1%	-14.1%	0.382177	-17.2%

Source: Fortuna Fiscal Audit 2013-2016 and Internal Summary Reports FY's 2016-17, 2017-18 and 2018-19

- The Parks and Recreation Director Position was vacant for over half of FY 17-18. Therefore, in comparison FY 2018-19 salary costs are higher.

Passenger Count represents one-way passenger trips. Fortuna Transit ridership in FY 2018-19 was 10,072. (Table 1 and Figure 2) Ridership has increased by 5.9 percent during this audit period from 9,510 in FY 2016-17.

Vehicle Service Hour data was obtained from internal reports. The definition of a vehicle service hour as currently used by Fortuna Transit is consistent with the definition presented in Appendix B of the *Performance Audit Guidebook*. As shown in Table 1, vehicle service hours have remained around 3,000 hours over the three-year audit period with a dip to 2,400 in FY 2017-18.



Vehicle Service Mile data was obtained from internal reports. The definition of a vehicle service mile as currently used by Fortuna Transit is consistent with the definition presented in Appendix B of the *Performance Audit Guidebook*. Service miles increased by 10.7 percent between FY 2016-17 and FY 2018-19, as shown in Table 1. Much of the increase in vehicle service miles is due to the implementation of medical trips to Eureka funded by the Measure E local sales tax initiative.

The **Employee Hours in Full-Time Equivalent** data Table 1 was obtained from state controller reports. Fortuna Transit reported 3 Full-Time Equivalent (FTE) employees during the audit period. The FTE definition currently used by Fortuna Transit is not consistent with the definition presented in Appendix B of the *Performance Audit Guidebook*. Fortuna Transit calculates FTE employee hours by summing hours worked by transit related employees and dividing by 2,080. The TDA employee hour full-time equivalent definition divides total hours by 2,000.

Fare Revenue data 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.

Fortuna Transit calculates and reports fare revenue correctly to the State Controller. Fare revenue for this audit period ranged from \$12,132 (FY 2016-17) to \$16,195 (FY 2018-19). From FY 2016-17 to FY 2018-19, fare revenue increased 33.5 percent, due to a fare increase implemented in 2017.

For the overall data collection and recording process, Fortuna Transit drivers record passenger-trips, miles and fares by hand on a "Weekly Performance Sheet". At the end of the week, operating data is tallied by administrative staff and input into electronic monthly spreadsheets.

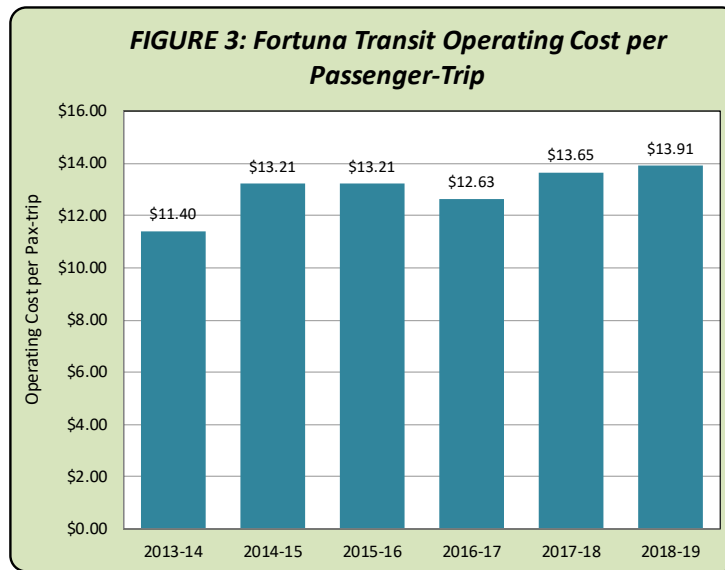
Calculation and Evaluation of Performance Indicators

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 time period. 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. As a result of increasing operating costs, operating cost per trip for all Fortuna Transit services increased from \$12.63 in FY 2016-17 to \$13.91 in FY 2018-19. Figure 3 demonstrates that operating cost per trip stayed in the \$13 per trip range for the past six years, except for FY 2013-14 and FY 2016-17 (when cost per trip was lower).



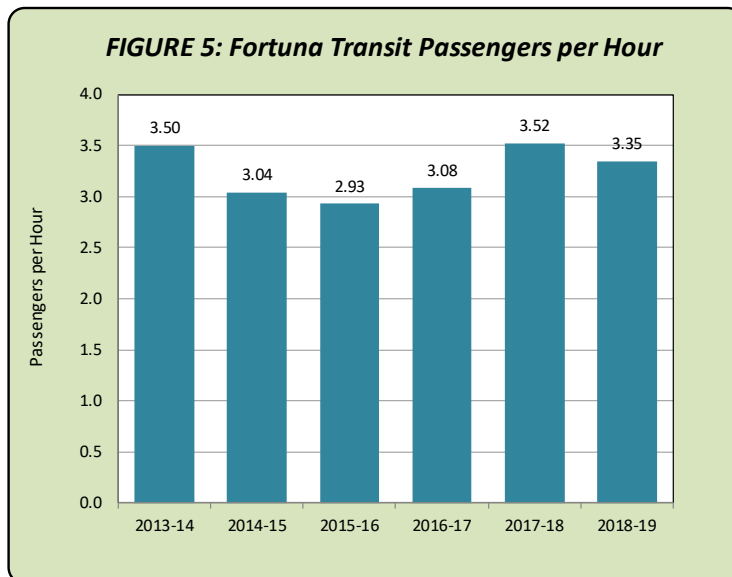
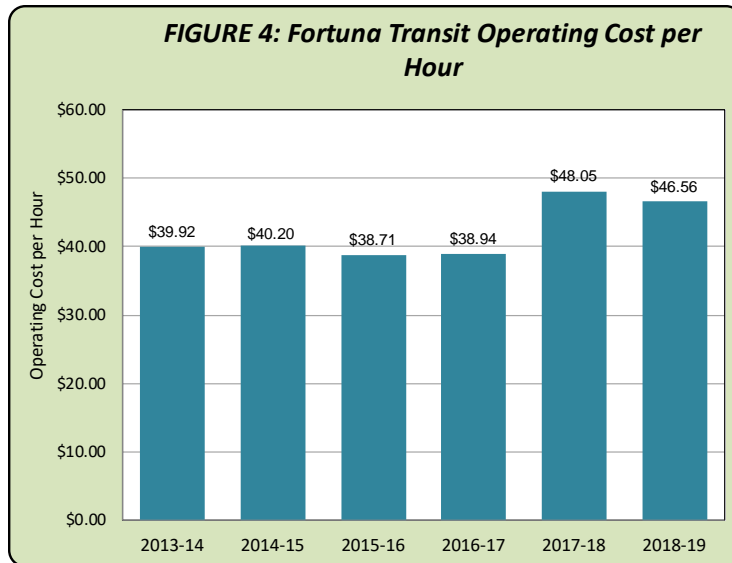
Operating Cost per Vehicle Service Hour data is presented in Table 1 and Figure 4. This performance measure is a key indicator of a transit system’s cost efficiency. As operating costs increased while vehicle hours remained relatively flat during this audit period, operating cost per hour increased by 19.6 percent over the audit period from \$38.94 to \$46.56.

Passengers per Vehicle Service Hour (commonly referred to as “productivity”) is presented in Table 1 and Figure 5. As presented, productivity increased during the audit period from 3.08 passengers per hour to 3.35 passengers per hour. This represents a satisfactory level of productivity for a demand response system.

Passengers per Vehicle Service Mile data is presented in Table 1 and Figure 6. As presented, passengers per vehicle service mile have steadily decreased during the audit period from 0.39 to 0.37, resulting in a small decrease of 4.3 percent.

Vehicle Service Hours per Full-Time Equivalent (FTE) Employee data is presented in Table 1 and Figure 7. Fluctuations in vehicle service hours per employee are a direct result of changes in service levels and the number of FTE’s has not changed for six years. Overall vehicle service hours per FTE has increased since the prior audit period and remained steady for this audit period.

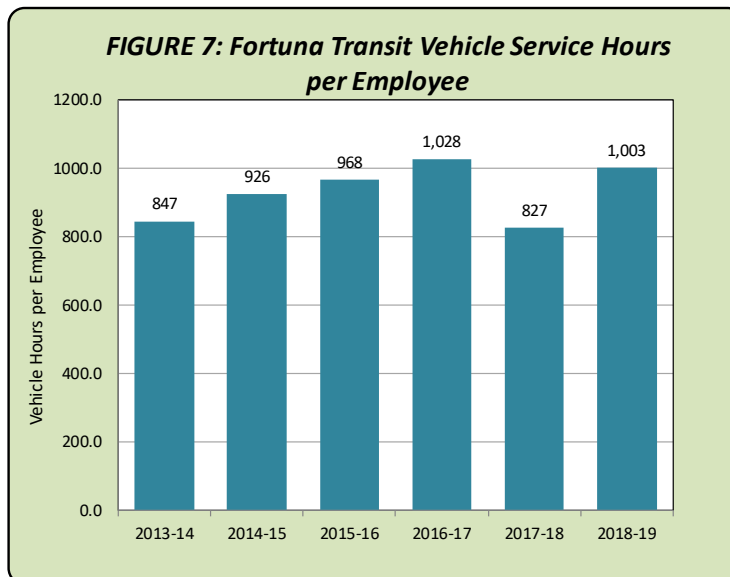
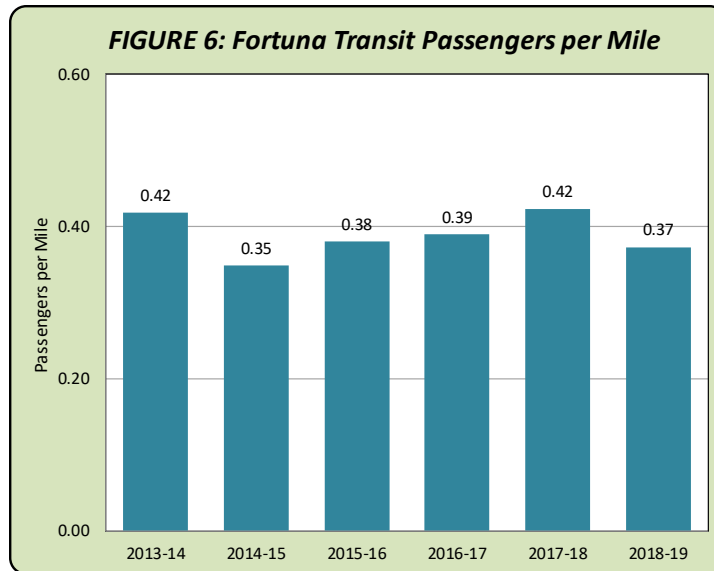
The **Farebox Recovery Ratio** data is presented in Table 1 and Figure 8. Fortuna Transit’s farebox recovery ratio has remained above the 10 percent requirement for a rural transit operator the past two audit periods. In Fiscal Year 2017-18, farebox ratio reached nearly 14 percent.



According to TDA law, operators may supplement fare revenues with “local funds” if fare revenues alone are insufficient to meet farebox ratio requirements. In 2017, local funds were more broadly redefined in TDA as “any nonfederal or nonstate grant funds or other revenues generated by, earned by, or distributed to an operator.” If operating costs continue to rise due to unfunded pension liabilities or other reasons, Fortuna Transit could supplement fare revenues with Measure E funds used to finance the additional trips to Eureka, as this would be considered “local funds.”

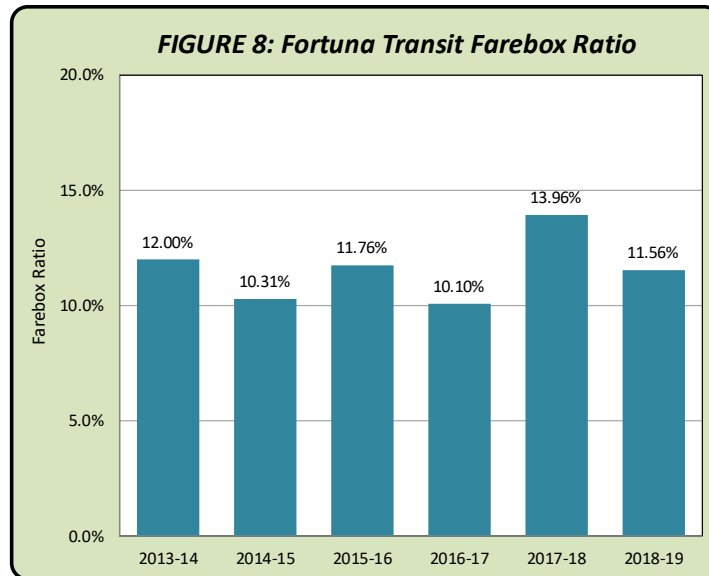
Assessment of Internal Controls

To ensure that the information gathered as part of this audit is dependable 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 aims are met.
- Ensure that resources are safeguarded and efficiently used. Ensure that reliable data are obtained, maintained and reflected in reports.
- Ensure that the transit operator follows laws and regulations.

Fortuna Transit has a reasonably well-developed system of internal controls proper to the size of the transit system. This statement is echoed in each of the three annual Fiscal Auditor's Reports.



REVIEW OF COMPLIANCE REQUIREMENTS

As an entity receiving TDA funds for transit purposes, Fortuna Transit is required to comply with laws and statutes set forth in the Act. Below is a discussion of Fortuna Transit’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, Fortuna Transit has submitted annual reports to the State Controller based on the Uniform System of Accounts and Records established by the State Controller within the required time period.
2. Per the requirements set forth in PUC Section 99245, Fortuna Transit submitted annual Fiscal and Compliance audits to HCAOG and to the State Controller within the required time period. Ninety-day extensions were requested for all operators by HCAOG for FY 2018-19. Assuming 18-19 audits are finished by March 30th.
3. In accordance with PUC Section 99251, Fortuna Transit has been certified by the CHP to be compliant with Vehicle Code Section 1808.1 within the 13 months prior to each TDA claim submitted. Driver pull notices are processed through the City.
4. In accordance with PUC Section 99261, Fortuna Transit’s claims for TDA funds were submitted in compliance with rules and regulations adopted by the Fortuna Transit for such claims.
5. Regarding PUC Section 99270.1, Fortuna Transit does not service both urbanized and non-urbanized areas. Therefore, this compliance requirement is not applicable.
6. PUC Section 99266 requires that Fortuna Transit’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 1 for actual

TABLE 2: Transit Operator Compliance Requirements - Fortuna Transit

Requirement	PUC Reference	In Compliance?	
		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	
(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	
(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
(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	
(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	

systemwide operating costs between FYs 2013 -14 and 2018-19. Annual operating costs for Fortuna Transit services increased by 17.6 percent in FY 2018-19. As indicted above, much of this due to paying off unfunded CalPERS pension liabilities which are out of the control of Fortuna Transit.

7. Fortuna Transit's definitions of performance measures must be consistent with PUC Section 99247. A review of Fortuna Transit's definitions shows that they are consistent with the requirements of the above code section apart from Employee Full-Time Equivalents.
8. Fortuna Transit does not serve an urbanized area and therefore is not subject to the 20 percent farebox ratio requirement.
9. As the Fortuna Transit service area is located completely in rural areas, Fortuna Transit services are subject to a 10 percent fare revenue ratio requirement. Fortuna Transit met this requirement each year of the audit period. Farebox ratio in FY 2018-19 was 11.56 percent.
10. In reference to PUC Section 99271, the City of Fortuna and Fortuna Transit offers a retirement plan to its transportation employees through the California Public Employees Retirement System (PERS). 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, as referenced above, 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), Fortuna Transit 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 PRIOR AUDIT RECOMMENDATIONS

The previous audit was completed by Michael Baker International in May 2017. The recommendations from that effort are enumerated below.

Recommendation 1: Continue efforts to check fare revenue and operations data in the State Controller Report.

Implementation Complete: During the prior audit period, there were discrepancies in vehicle hours and miles between the State Controller Reports and internal operating reports as well as differences in

operating cost figures in the Fiscal Audits and State Controller Reports. During this audit period, vehicle hours figures were consistent between internal reports and what was reported to the State Controller (except for FY 2018-19, where there was a 9 percent difference). Vehicle mile figures differed from the State Controller Reports on the order of 6 to 9 percent. Operating costs figures differed between the Fiscal Audit and State Controller reports. This is common as the State Controller Reports are often completed before the Fiscal and Compliance Audits, which represent audited data. However, fare revenue data reported to the State Controller matched the audited data in the Fiscal and Compliance Audits each year of the audit period.

In FY 2015/16 there was turnover in finance/audit department staff, who prepares the State Controller Reports. Beginning in FY 2017-18, the Finance Director for the City of Fortuna implemented a policy to wait until audited data is available prior to completing the State Controller Reports, if possible. This ensures more accurate financial data is reported to the State Controller.

Variances between internal data and what is reported to the State Controller is not unusual; however, keeping these differences minimal is preferred. Fortuna Transit has improved overall data reporting during this audit period. Therefore, this recommendation is considered implemented. However, Fortuna Transit staff should continue to check consistency between internal reports and State Controller Reports before submitting.

Recommendation 2: Conduct regular passenger surveys to gauge customer satisfaction and service needs.

Implementation Complete: The prior audit recommended conducting a passenger survey to garner opinions on service considering the recent rebranding of the service. On-board surveys were conducted on Fortuna Transit in 2017 as part of the TDP update. When Fortuna Transit was designing additional service to Eureka for medical appointments, staff distributed a questionnaire to determine the best day of the week to provide such a service.

Recommendation 3: Validate transit passenger database.

Implementation Complete: The prior audit recommended that Fortuna Transit purge the names of passengers no longer using the system from the database as a way for staff to better understand their ridership base and trip patterns. Staff confirmed that this process is conducted annually. This is also formalized in the Fortuna Transit Manual.

Recommendation 4: Review opportunities for increasing local revenue to boost farebox recovery.

Implementation Complete: This recommendation reflects recent changes to TDA law per State Senate Bill (SB) 508 with respect to how farebox recovery ratio is calculated. The new rules clarify and add additional categories of revenue which can be included as “fare revenue” for farebox ratio calculation. Examples include advertising and lease revenue generated by property owned by the transit operator.

Fortuna Transit met the 10 percent farebox ratio requirement each year of this audit period. In 2016, the City of Fortuna passed Measure E, a sales tax measure, which provides added general tax revenues for the City of Fortuna services including programs for seniors. Some of this funding has been used to pay for medical trips to Eureka for Fortuna residents, on Fortuna Transit. Per TDA section 99268.18, a transit operator may supplement passenger fare revenues with “local funds” if passenger fares are not

sufficient to meet farebox ratio. Local funds are defined as any nonfederal or nonstate grant funds or other revenues generated by, earned by, or distributed to an operator. Fortuna's Measure E sales tax revenue would qualify as local funds. It is not currently necessary to supplement fare revenues to make farebox ratio. However, if farebox ratio dips below the 10 percent, Fortuna Transit staff should coordinate with the fiscal auditor to include Measure E as local funds.

DETAILED REVIEW OF TRANSIT OPERATOR FUNCTIONS

This section presents a review of the various functions of Fortuna Transit. 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

Fortuna Transit services are managed by the City of Fortuna's Parks and Recreational Department. Day to day general management such as budgeting, personnel, system planning and interagency/board coordination, is provided by the Director of the Parks and Recreation Department. There is one full-time Transit Administrative Supervisor, a part time Dispatcher/Office Assistant and three bus drivers (one full-time and two part-time). Given the size of the Fortuna Transit program, its internal organization structure is appropriate. The managerial authority is well defined within Fortuna Transit. Lines of reporting are clearly defined and appropriate.

Administrative Oversight

The Transit Manager receives reviews and acts on performance and financial information compiled internally on a monthly basis. A transit staff report comparing the current month to prior month to one year ago is sent to the Fortuna City Council monthly. Management meets biweekly with drivers and speaks with maintenance staff every morning. Fortuna Transit is a small city demand response transit system. As such there is effective communication and coordination among employees who deal with transit.

Recent Program Changes and Innovations

In FY 2018-19, Fortuna Transit began offering trips to Eureka on Tuesdays for medical appointments. This program is funded through the recently passed Measure E local sales tax. In FY 2018-19 the total budget for the program was \$15,000. On average Fortuna Transit carries four to six passenger trips each week for a total annual cost of around \$10,000.

In 2017, Fortuna Transit raised the one-way fare from \$2.00 to \$2.50 with a corresponding increase in the price of punch cards. This was part of the overall city fee schedule adjustment.

Communications with Other Government Agencies

Fortuna Transit has a positive relationship with the applicable RTPA, the Humboldt County Association of Governments (HCAOG). The Department of Parks and Recreation Director serves as an intergovernmental liaison with the Fortuna City Council and other regional entities.

Service Planning and 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, Fortuna Transit has set clear, reasonable goals and objectives in the Short-Range Transit Plan and the Regional Transportation Plan. Fortuna Transit monthly reports do not include performance indicators but compare operations data to the prior year and prior month.

Planning for and Serving Special Transportation Needs

Fortuna Transit's services are designed to meet the needs of the adults with disabilities and the older adults. The public is not eligible to ride. All vehicles are equipped with wheelchair lifts and the services meet the federal and state requirements, such as ADA policies, to serve persons with disabilities.

Public Participation

All City Council meetings are open to the public and are conducted in an accessible facility per the requirements of the ADA. Public hearings were conducted prior to the fare increase in September 2017.

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 supplying transportation service.

Driver Scheduling

Fortuna Transit drivers are appropriately certified for the types of vehicles operated for Fortuna Transit. As a demand response system, there is no driver bid process. There are only three drivers and there has been low turnover for driver positions. There are no extra board drivers, but the Director of Parks and Recreation and the Transit Administrative Supervisor can fill in, if needed. Only one of the three vehicles requires a Class C license.

Assignment of Passengers to Demand Responsive Routes

Fortuna Transit has a manual reservation and trip assignment process. The dispatcher takes the reservation requests and records them by hand in a notebook of requested passenger origins, destinations and times. Driver manifests are prepared by the dispatcher based on geographical locations

of the trips. The process works adequately for such a small agency as Fortuna Transit, but the transit operator could benefit from dispatch software which allows for computer aided scheduling methods.

Fortuna Transit has an established no-show policy outlined in the Fortuna Transit Riders Guide (for passengers) and the Fortuna Transit Manual (for drivers). As the policy dictates, after the third no-show a passenger must call for a ride the same day for a two-week period. The percentage of no-shows/late cancellations of all trips was 2.6 percent in FY 2018-19. After formalizing a no-show policy in 2012, no-shows/late cancellations decreased by 86 percent from FY 2012-13 to FY 2018-19.

Personnel Management and Training

The primary reason for turnover in Fortuna Transit staff is retirement. Fortuna Transit has generally not had any trouble finding qualified drivers. When a new driver is hired, Fortuna Transit is willing to train the right person. There are no monetary or non-monetary incentive programs in place. All transit related employees receive annual performance evaluations.

Training and Safety

The Transit Administrative Supervisor conducts on-going training for drivers on a quarterly basis. Drivers also attend the all city employee's safety meetings every Monday. These meetings are an opportunity for refreshing safety practices as well as a time for employees to raise safety concerns or discuss potential safety hazards. The Parks and Recreation Director and Transit Administrative Supervisor also attend conferences to stay updated with the latest best practices.

Administration

Personnel policies about vacation, sick leave, benefits, and discipline are well defined in the City personnel manual. Full-time drivers receive medical and retirement benefits.

Budgeting and Management Information Systems

Fortuna Transit has a well-developed 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 transit budget is a collaborative effort between the City Finance Director and the Director of Parks and Recreation. The City Finance Director presents the budget to the City Council. The City Finance Director produces monthly budget reports for transit and discusses with the Director of Parks and Recreation as needed. The transit program has rarely been over budget in the past.

Financial and Grants Management

The Director of Parks and Recreation has primary oversight of grants management and grant writing duties. During the audit period, the operator had not lost any grants or neglected grant opportunities. The City has applied for and received grant funding, including, FTA 5310 for transit vehicles.

Risk Management and Insurance

Fortuna Transit is self-insured through the Redwood Empire Municipal Insurance Fund. In case of an emergency, Fortuna Transit buses are available for evacuation use. The City's Human Resources Manager oversees safety/loss prevention initiatives and discusses risk management with city department heads.

Revenue Collection and Cash Management

All Fortuna Transit buses use manual locking fareboxes. Cash boxes are brought into the cash room and fare revenue is counted by two staff people. Actual revenue is compared to projected revenue. The fare revenue count is also confirmed by the Finance Department.

Procurement

Fortuna Transit's policies and practices ensure competitive procurement and follow the City Procurement Policy. Fortuna Transit competitively obtains vehicles and other capital items. According to the policy, any purchase over \$500 requires three bids. There are limited fuel providers in Humboldt County, making it unnecessary to competitively obtain fuel. Fortuna Transit uses the Renner Petroleum card lock.

Marketing and Public Information

Schedules and service information are available to current and potential riders through the operator's website, on the buses, social service agencies, medical offices and stores. Occasionally, Fortuna Transit staff will make presentations at the local senior mobile home park. There is a procedure for taking complaints and compliments, but complaints are rarely received.

Maintenance

Maintenance services are provided by the City of Fortuna Fleet Services. Transit staff indicated that city mechanics are efficient and able to get Fortuna Transit vehicles back out on the road. One backup vehicle is available, when maintenance is needed. Most repairs can be conducted in-house. A preventive maintenance schedule is in place that meets the requirements of the bus manufacturers and FTA guidelines. Drivers conduct daily vehicle inspections. Fortuna Transit vehicles are parked and maintained at the city corporation yard, less than two miles from the Parks and Recreation office, where administrative staff is located.

Vehicle Condition

Fortuna Transit runs three vans. Fortuna Transit has a good vehicle replacement schedule in place and intends to purchase an electric vehicle over the next few years. Fortuna Transit's fleet vehicles have an average mileage of 60,000 miles and an average age of 5.6 years.

Conclusions and Recommendations

Fortuna Transit is a small demand-response system which efficiently meets mobility needs for older adults and residents with disabilities. The Auditor's analysis of Fortuna Transit services shows that, in terms of operations, the system was efficiently run and well managed during the audit period.

FINDINGS

- Despite a nationwide downward ridership trend, ridership on Fortuna Transit increased by 5.9 percent over this audit period (FY 2016-17 to FY 2018-19) and has increased by 13 percent over the past six years.
- Fortuna Transit implemented all the prior audit recommendations.
- During the audit period, Fortuna Transit met 6 of the 9 applicable TDA compliance requirements. Areas where Fortuna Transit was not compliant are:
 - Operating costs increased by more than 15 percent in FY 2018-19.
 - Fortuna Transit's definition of FTEs is not consistent with the TDA Guidebook.
- Fortuna Transit services met the TDA required farebox ratio of 10 percent for rural transit systems each year of the audit period.
- Fortuna Transit is a productive rural demand response transit system as it carries over three one-way passenger-trips per hour.

RECOMMENDATIONS

Overall, the Auditors find the Fortuna Transit system 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.

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 (*Performance Audit Guidebook*).

Recommendation 2: If farebox ratio falls below the 10 percent TDA requirement, consider accounting for Measure E funds as local support for farebox ratio calculation purposes in the Fiscal and Compliance Audit.

Fortuna Transit met the 10 percent farebox ratio requirement each year of this audit period. In 2016, the City of Fortuna passed Measure E, a sales tax measure, which supplies additional general tax revenues for City of Fortuna services including programs for seniors. Some of this funding has been used to pay for medical trips to Eureka for Fortuna residents on Fortuna Transit. Per TDA section 99268.18, a transit operator may supplement passenger fare revenues with “local funds” if passenger fares are not enough to meet farebox ratio. Local funds are defined as any nonfederal or nonstate grant funds or other revenues generated by, earned by, or distributed to an operator. Fortuna’s Measure E sales tax revenue would qualify as local funds. It is not currently necessary to supplement fare revenues to make farebox ratio. However, if farebox ratio dips below the 10 percent, Fortuna Transit staff should work with the fiscal auditor to account for the portion of Measure E funds which are allocated to Fortuna Transit for medical trip purposes as “local funds” when calculating farebox ratio.

Recommendation 3: If funding is available, research and get dispatch software to improve the reservation and trip assignment process.

Fortuna Transit is a small public transit operator and therefore still uses a manual reservation and trip assignment process. This process is enough for a transit operator of this size. However, the overall data collection and trip scheduling process could be improved using dispatch software. Benefits of dispatch software include:

- Quick and automatic preparation of reports
- Tools to remind riders of upcoming trips (this can reduce no-shows)
- Efficiency through computer-assisted trip scheduling