



City of Albuquerque

Office of Internal Audit and Investigations
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Interoffice Memorandum

August 31, 2005

Ref. No.: 05-01-120F

To: Peter Behrman, Director, Transit Department

From: Carmen L. Kavelman, Acting Director, Office of Internal Audit and Investigations

Subject: FOLLOW-UP REVIEW OF AUDIT REPORT NO. 01-120, USE OF TRANSPORTATION INFRASTRUCTURE TAX FUNDS, TRANSIT DEPARTMENT

The Office of Internal Audit and Investigations performed a Follow-up Review of Audit No. 01-120, Use of Transportation Infrastructure Tax Funds, Transit Department. The purpose of our follow-up was to review the status of the audit recommendations that had been implemented by the Transit Department (Transit).

Background Information Relating to Audit No. 01-120

A special election was held on March 31, 1999 in which City residents voted to “. . . impose, for a ten-year period; one-quarter ($\frac{1}{4}$) of one percent municipal gross receipts tax.” Twenty percent of the revenues from the Transportation Infrastructure Gross Receipts Tax ($\frac{1}{4}$ Cent Tax Funds) were to be dedicated to improving transit service in the city.

City Council Enactment No. 60-1999 states, “In order to implement Council policy, the Transit Department is directed to use a minimum of 75% of the new revenues allocated to Transit from the Transportation Infrastructure Tax to enhance service on Sun Tran routes and route segments in which bus ridership is at or greater than 20 passengers per revenue mile and to add new routes and route segments in areas which have a concentration of transit dependent individuals.”

Council Bill No. R-27 F/S (the Bill) effective February 23, 2000, identified a three-phase implementation to be followed by the Transit Department. The Bill identified the expansion of service that was to take place in an attachment. Phase 1 was to be implemented on April 1, 2000. Phases 2 and 3 were to be implemented September 1, 2000.

Council Bill No. R-30 C/S, dated April 17, 2000, delayed implementation of major route expansions until September 1, 2000. The purpose of the delay was to generate savings of \$1.1 million in Tax revenues that could be used for acquisition of expansion and replacement buses.

During the six year period from FY2000 to FY2005, Transit received \$28 million in ¼ Cent Tax Funds. Compliance with the legislative requirement that Transit “. . . use a minimum of 75% of the new revenues allocated to Transit from the Transportation Infrastructure Tax to enhance service on Sun Tran routes and route segments . . .” would have resulted in Transit using approximately \$21 million in ¼ Cent Tax Funds for those City Council mandated purposes.

We determined the following:

RECOMMENDATION NO. 1:

- A. The Administration developed the expansion proposal based on cost estimates produced by Transit, which used FY1999 actual cost figures. However, Transit may have made a miscalculation in the cost per route hour. The calculation did not include indirect overhead. Consequently, the expansion proposal developed using FY99 cost figures may not have been valid.
- B. Expenditures that were made by Transit, using the Tax, may not have been directly related to the expansion. Of the 121 positions added as part of the expansion plan, less than half (50 positions) were for drivers. Sixty-two positions that were added, using the Tax, were for support positions. Based on the additional work incurred as the result of the expansion of services, 23 positions have been identified as not attributable to the Transportation Infrastructure Tax expansion.
- C. Fifty Driver positions were added as a result of the expansion. However, Transit was been unable to fill many of the additional driver and other positions. As a result, Transit may have paid more overtime than was anticipated as a result of the positions that were unfilled.
- D. The additional mileage on the aging fleet of buses, because of the expansion, has increased repairs and maintenance expenses.
- E. The fare revenues have not increased as much as expected as a result of the expansion. However, there was a significant increase in the ridership from FY2000 to FY2001. Reasons for the modest increase in revenue despite the significant increase in ridership may be the increase in free passes and reduced cost passes distributed to encourage bus ridership. Transit did not have complete records that show how many free passes were distributed.
- F. Transit overspent its appropriation in FY 2000 by \$746,933, and by \$1,622,352 in FY 2001. Transit may not have made the legislated route enhancements because it could not manage the regular operations of the department with the existing appropriations. Transit used a portion of the Tax to resolve the Transit Operating Fund over expenditures in FY 2001.

The audit recommended that the Transit Department take the following actions:

- Submit data to the Council with its annual budget proposal that amends the enhancement that can be made with the Tax funds each year.
- Perform an analysis to determine what positions are related to the service enhancements based on normal operating ratios.
- Determine the amount of overtime and additional repairs and maintenance that may be necessary to service the added route hours.
- Maintain complete records on the free passes distributed and perform an analysis on the effect of these passes on the fare revenue.
- Transit should perform an analysis to determine the reason for the discrepancy between the increase in ridership and the smaller increase in fare revenue.
- Develop procedures that ensure that the Tax is used for route expansion as required by the Bill and develop procedures to ensure that the Tax is not used to supplement expenditures for regular operations.

The Transit Department responded to the audit as follows:

- “Transit uses the previous year’s expenditures, as well as estimated inflationary factors to develop a current year projection.
- “Transit will develop appropriate staffing ratios.
- “When Transit develops its annual operating costs, we attempt to project overtime and additional repairs and maintenance that may be necessary to service the route hours on a system wide basis.
- “Transit is in the process of reviewing its cost estimates for proposed service expansion, which would include the amended expansion plan.
- “Transit is now tracking all free passes and doing an analysis on the free passes program.
- “Transit is also performing an analysis to determine the reason for the discrepancy between the increase in ridership and increase in fare revenues. Transit will develop procedures to identify how the Tax is used.”

ACTIONS TAKEN

The audit recommendations have not been implemented. Transit did not develop procedures that ensure that the Tax is used for route expansion as required by the Bill. Transit did not develop procedures to ensure that the Tax is not used to supplement expenditures for regular operations. Transit personnel stated that it is not possible to develop a tracking procedure to determine what purposes the ¼ Cent Tax Funds are being used for (i.e., route expansion or previously existing routes).

Transit personnel provided information that indicated that the amount of passenger service being provided by Transit is currently at approximately the same level that existed prior to

Transit receiving the ¼ Cent Tax Funds. In April 1999, prior to Transit receiving any of the ¼ cent tax revenues, Transit's records indicated that its operations were at the level of 283,000 in service hours and 4.5 million total miles. In April 2001, after Transit had been receiving ¼ cent tax revenues for one year, Transit's records indicated that its operations were at the level of 382,000 in service hours and 5.7 million total miles. However, by April 2004, while Transit was receiving approximately \$5 million per year of the ¼ cent tax revenues, Transit's records indicated that its operations had reduced to the level of 277,000 in service hours and 3.5 million total miles.

The amount of passenger service being provided by Transit is currently at approximately the same level that existed prior to Transit receiving these ¼ Cent Tax Funds. Transit has not submitted data to the Council to amend enhancements that can be made with the Tax funds. Transit has not performed an analysis of positions related to the service enhancements and the added overtime and repairs and maintenance required for the enhancements.

Transit did not provide an analysis of the free passes program and the number of free passes issued during for FY2003, FY2004 and FY2005.

FOLLOW-UP RECOMMENDATION

The Transit Department should determine if procedures can be developed to track the use of the ¼ Cent Tax Funds, of which 75% was required to be used for route expansion by City Council Enactment No. 60-1999. If Transit determines if this analysis is not feasible, it should recommend changes to the requirements of the Bill.

EXECUTIVE RESPONSE FROM TRANSIT

“When the transportation infrastructure gross receipts tax became effective on January 1, 2000 (following the March 31, 1999 election), the City did not have the capability of separately and specifically accounting for those incremental revenues or their uses. At this time, the City still does not have the ability to separately and specifically account for components of a revenue or expenditure stream. With respect to revenues, the monthly GRT distribution from the Taxation and Revenue Department identifies a portion as attributable to the transportation infrastructure gross receipts tax; that is, however, nothing more than a mathematical calculation.

“As noted in the narrative of this finding, it is most likely the services originally contemplated at the time of imposition were not achievable or maintainable because of inaccurate estimates of cost to provide the contemplated service expansion. Substantive general fund challenges that

faced the City shortly after implementation of the transportation tax tended to further erode the ability of Transit to achieve or maintain the contemplated uses of that revenue stream. It is believed that service hour costs grew more rapidly than revenues during the early 2000's.

“The City general fund operating subsidy for Transit has increased from \$16.117 million in FY/99 to \$22.100 million estimated for FY/06. In attempting to meet the needs of the public, particularly with respect to the transit-dependent, Transit continues to add, delete and modify routes and offer new services. Transit believes that weekend and weekday expansion services have remained at a higher level than existed before the tax was approved.

“As the City begins to prepare for a new accounting system, more accurate tracking of both revenues and expenditures becomes a possibility. However, it is more likely than not that the new accounting system will not be fully implemented and operational much in advance of the expiration of the transportation tax in FY/09.

“The ordinance imposing the tax specifies only that 20% of the revenue from the tax was to be “dedicated” to transit purposes. It appears that all proposed uses, whether capital investment or service expansion, were done as attachments to resolutions. It is not clear how Transit would approach recommending changes to those attachments.”

RECOMMENDATION NO. 2:

The audit recommended that Transit should request approval by Council when it wishes to change the use of appropriated funds.

Council Bill No. R-30 C/S (R-30), dated April 17, 2000, had required that “The Transit Department shall issue an RFP to acquire 20 mid-sized (under 27-foot long) buses by April 28, 2000 . . . so that the Transit expansion plan adopted in R-27 F/S can be implemented on schedule.”

However, the audit determined the Tax was not used by Transit to purchase buses, but instead was used to resolve the Transit Operating Fund over expenditures in FY 2001. The mid-sized (under-27-foot long) buses, specifically mentioned in R-30, were not purchased by Transit. Transit did not comply with the Council appropriation, and did not meet the goals established.

The Transit Department response stated, “Transit Department goal is to follow City Council’s appropriation of funds. If the need should arise for any changes to this appropriation, Transit

Department will request approval from Council of these changes through a resolution or the mid-year budget clean up.”

ACTIONS TAKEN

The audit recommendation has not been implemented. During the six year period from FY2000 to FY2005, Transit received \$28 million in ¼ Cent Tax Funds. Compliance with the legislative requirement that Transit “. . . use a minimum of 75% of the new revenues allocated to Transit from the Transportation Infrastructure Tax to enhance service on Sun Tran routes and route segments . . .” would have resulted in Transit using approximately \$21 million in ¼ Cent Tax Funds for enhancement.

However, Transit is not currently complying with this expenditure requirement, because the amount of passenger service being provided is currently at approximately the same level as existed prior to Transit receiving these ¼ Cent Tax Funds. In the FY2005 budget for Transit, it was projected that the department would receive \$5.9 million in ¼ Cent Tax Funds.

Transit personnel informed the auditor that because of budget cuts, it is not possible for Transit to comply with this City Council requirement. Transit has not requested that the City Council revise the 75% expenditure requirement contained in Enactment No. 60-1999.

FOLLOW-UP RECOMMENDATION

The Transit Department should comply with the City Council requirement contained in Enactment No. 60-1999, or request that the City Council delete or revise the 75% expenditure requirement.

EXECUTIVE RESPONSE FROM TRANSIT

“Transit is in the process of finalizing the Short Range Transit Plan, which will be submitted for City Council review and approval. The Short Range Transit Plan will reflect the most current perception of the public’s needs and preferences with respect to mass transit and should provide Transit some guidance on the issue of the advisability of requesting changes in Enactment No. 60-1999.”

Follow-Up Review

Use of Transportation Infrastructure Tax Funds—Transit Department

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