

POTOMAC AND RAPPAHANNOCK
TRANSPORTATION COMMISSION

RESOLUTION

MOTION: _____

RESOLUTION NO. 09-03-____
OFFICIAL COMMISSION MEETING
MARCH 5, 2009

SECOND: _____

RE: PASSENGER REVENUE BUDGET ADJUSTMENT AND RAMIFICATIONS ON
INCENTIVE PROGRAM

WHEREAS, the Potomac and Rappahannock Transportation Commission's ("PRTC" or the "Commission") FY 2009 mid-year budget revision included an upward adjustment to budgeted passenger revenue; and

WHEREAS, such an adjustment bears directly on the passenger revenue incentive programs in-place for PRTC's contractor (First Transit), the organization at-large, and the Executive Director; and

WHEREAS, the Commission's long-standing practice is to make companion adjustments to the passenger revenue incentive programs when mid-year budget revisions feature budgeted passenger revenue adjustments to account for changed conditions; and

WHEREAS, management has proposed an adjustment to the current year's passenger revenue incentive programs in light of the FY 2009 mid-year budget revision, as described in management's companion staff report; and

WHEREAS, in order to simplify the administration of the incentive programs, management has also proposed that the organization at-large and Executive Director's passenger revenue incentive program be altered so they become fiscal year-based on a permanent basis, just as it is presently for the contractor; and

WHEREAS, the Commission has reviewed management's proposal and concluded that it is well-founded.

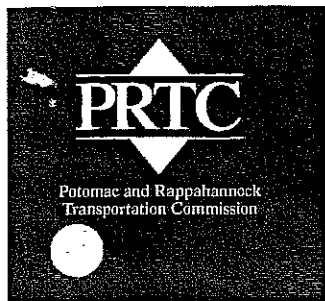
ITEM 12-B.3

(9 PAGES)

NOW, THEREFORE, BE IT RESOLVED that the Potomac and Rappahannock Transportation Commission does hereby approve revisions to all of the current year's passenger revenue incentive programs (a one-time action) and a permanent alteration to the organization at-large and Executive Director's passenger revenue incentive program so both become fiscal year-based, beginning with the balance of the current fiscal year.

BE IT FURTHER RESOLVED that the Commission also acknowledges that the migration to a fiscal year term will result in a potential partial year incentive earning for the organization at-large and the Executive Director, payable based on FY 2009 year-end results.

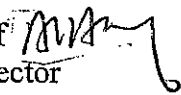
BE IT FURTHER RESOLVED that the Commission also approves passenger revenue incentive programs for the organization-at-large and the Executive Director for FY 2010 mirroring the incentive programs approved in December 2008 except for the starting-ending dates.



14700 Potomac Mills Road
Woodbridge, VA 22192

March 5, 2009

TO: Chairman May and Commissioners

FROM: Alfred H. Harf 
Executive Director

RE: Passenger Revenue Budget Adjustment and Ramifications on Incentive Programs

Recommendation:

Authorize a one-time revision to the currently adopted "passenger revenue" incentive programs to account for changed circumstances, a permanent change to those programs that are not now fiscal year-based so they become so, and passenger revenue incentive programs for FY 2010 to account for "fiscal year" change.

Background:

At the Commission's February meeting, a mid-year revision to the FY 2009 budget was approved, which among other things materially increased the FY 2009 passenger revenue budget¹. While it is not routine to adjust passenger revenue budgets at mid-year², it has happened on four occasions in the last six years, either because a favorable passenger revenue variance was needed to cover unanticipated expenses or because an unanticipated change arose in the course of the year that was materially different than the assumptions underpinning the adopted budget.

Because alterations to the passenger revenue budget bear directly on the passenger revenue incentive programs for the contracted service provider (First Transit), the organization at-large, and the Executive Director, it has been the Commission's practice to amend the passenger revenue incentive programs when a material change occurs (like a revision to the passenger revenue budget at mid-year), seeing this as an appropriate way to account for the

¹ The "passenger revenue budget" increase (by \$806,100) was possible for two reasons: (1) higher-than-budgeted ridership levels that have been present for the entire year-to-date; and (2) a mid-year fare increase not envisioned by the original FY 2009 budget. Factors contributing to the higher-than-budgeted ridership levels include: high fuel prices early in the fiscal year; the deep recession that has heightened spending sensitivities and caused some that would not ordinarily use public transit to do so; and continuing "quality" gains that add to PRTC's service appeal. The estimated FY 2009 revenue yield attributable to the mid-year fare increase is \$367,450.

² Because a favorable variance present at the mid-year mark simply becomes a "carry forward" resource if it is sustained through the end of the fiscal year and there are no offsetting unfavorable variances, lessening the magnitude of needed, future appropriations.

changed condition³. In this action item, management seeks such an amendment, the specifics of which are the subject of the balance of this staff report. Table One summarizes occasions in the past when such amendments have been made, noting the reasons and the magnitude:

TABLE ONE: History of Passenger Revenue Incentive Program Adjustments

<u>Fiscal Year</u>	<u>Reason</u>	<u>Magnitude</u>
2004	A "job action" necessitated that service be confined to only skeletal levels for four days. First Transit agreed to credit PRTC for lost passenger revenues, and the Commission authorized this credit to be treated as though it was passenger revenue for the purposes of the organization at-large and Executive Director's passenger revenue incentive programs.	\$56,346
2005	New service starts were delayed for two months, lessening operating expenses and passenger revenue. Commission authorized a reduction in the passenger revenue budget for the purposes of all the passenger revenue incentive programs.	
2006	New service starts were delayed for seven months and another service budgeted for the full year was eliminated four months into the year, resulting in a net reduction of expenses and passenger revenue. Commission authorized then net reduction for the purposes of all the passenger revenue incentive programs.	\$6,653 for organization at-large and \$47,906 for First Transit
2009	Mid-year budget revision increased the passenger revenue budget to account for higher-than-budgeted ridership and a mid-year fare increase that was not anticipated by the adopted FY 2009 budget. Amendment of the passenger revenue incentive program is the subject of this proposed action.	\$806,100

To adjust the passenger revenue incentive programs, it is necessary to account for the fact that there are differences between the program structures for PRTC's contracted service provider (First Transit), the organization at-large, and the Executive Director. As shown in Table Two, the programs differ in terms of: (1) the twelve month time frames being measured; and (2) the measurement used.

³ This was also a subject of discussion when the passenger revenue incentive program for 2009 was adopted by the Commission in December 2008. During that discussion, the Commission's Executive Committee noted that it had considered and ultimately decided against trying to define the passenger revenue incentive program in a way that seeks to exclude externalities, concluding that: (1) it is difficult, if not impossible, to do so; and (2) the present practice of adjusting the incentive program on a situational basis to account for a material, changed condition is preferable.

TABLE TWO: Passenger Revenue Incentive Program Structures

<u>Entity</u>	<u>Term</u>	<u>Measurement</u>
First Transit	PRTC's fiscal year (July through June)	25% of the total favorable variance (no cap)
Organization at-large	December thru November	Graduated levels of earnings that are a fraction of the total favorable variance, capped at \$60,000 for a variance of at least \$550,000
PRTC Executive Director	December thru November	Graduated levels of earnings that are a fraction of the total favorable variance, capped at \$10,000 for variance of at least \$475,000

The First Transit incentive program is an integral part of the PRTC – First Transit contract, while the comparable programs for the organization at-large and the Executive Director have been annually authorized by the Commission for many years in keeping with the Commission's desire to link compensation in part to the attainment of specified performance goals. As noted earlier, the current year's incentive programs for the organization at-large and the Executive Director were authorized by the Commission at its December 2008 meeting.

The benchmark used for measuring how much of a "favorable passenger revenue" incentive First Transit earns is straightforward – it is the adopted passenger revenue budget for the fiscal year in question. For the organization at-large and the Executive Director, the benchmark is the sum of two partial years – December through June of the first year and July through November of the second year, where the passenger revenue budget for each year is separately adopted by the Commission and each is prorated to mirror the number of months of each that figure in the calculation. Table Three shows the "budgeted passenger revenue" benchmarks for the two programs before the mid-year FY 2009 budget revision, as a point-of-departure for the balance of this discussion:

TABLE THREE: Passenger Revenue Budgets Before the FY 2009 Mid-Year Budget Revision

<u>Entity</u>	<u>Passenger Revenue Budget Before FY 2009 Mid-year Budget Revision</u>
First Transit (July 2008 thru June 2009)	\$6,474,900
Organization at-large (December 2008 thru November 2009)	\$7,112,752*
PRTC Executive Director (December 2008 thru November 2009)	\$7,112,752*

*This encompasses seven months of the originally adopted FY 2009 budget and five months of the proposed FY 2010 budget.

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To adjust the passenger revenue incentive program, it is necessary to explicitly account for the fact that \$806,100 mid-year increase in the FY 2009 passenger revenue budget (raising the FY 2009 passenger revenue budget to \$7,281,000) is being used to cover unfavorable expense and revenue variances elsewhere in the budget, meaning that the \$806,100 is not money that can be tapped for "incentive earning payment" purposes. Management's proposed "passenger revenue incentive program" revision respects this fact, as detailed later in this staff report. Because management is also proposing that the passenger revenue incentive programs for the organization at-large and for the Executive Director be converted to fiscal year-based programs (as is First Transit's at present) for the sake of administrative simplicity, the description of the proposed adjustments and necessary computations also account for that change.

The one-time revision as proposed would entail the following:

1. Passenger revenue incentive payments for FY 2009 would be contingent on actual FY 2009 passenger revenue being higher than \$7,281,000 (which is the revised passenger revenue budget for FY 2009).
2. The calculation of the potential passenger revenue incentive earnings would be done relative to the original passenger revenue budget (i.e., \$6,474,900), but would be payable only to the extent that a favorable passenger revenue variance exists relative to the revised passenger revenue budget as described in (1). The actual payable amount will hereinafter be referred to as the "actual passenger revenue incentive earnings".
3. In order to convert the passenger revenue incentive programs for the organization at-large and for the Executive Director to fiscal year-based programs, the maximum potential payout in both programs would be lowered on a one-time basis because there has already been a payout for a portion of the year (through November 2008). Stated differently, there would be a smaller maximum potential payout because it would be earned for the period ending June 30, 2009 (a seven month period rather than a twelve month period). Table Four summarizes the differences in terms of maximum potential payout – the lower sums in the proposed program are 7/12th of the existing program sums. Assuming this conversion is approved, the maximum potential payout would revert to the existing program level once we're beyond the transition year.

TABLE FOUR: Existing and Proposed Passenger Revenue Incentive Programs – Maximum Possible Payout

<u>Incentive Program</u>	<u>Organization at-large</u>	<u>Executive Director</u>
Existing program (through November 30, 2009)	\$60,000	\$10,000
Proposed program (through June 30, 2009)	\$35,000	\$5,833

4. To facilitate the transition of the passenger revenue incentive programs to a fiscal year basis, on a one-time basis a “favorable passenger revenue incentive sharing formula” would be used instead of the existing, adopted matrices (which have been replicated as an attachment to this staff report), whereby the actual incentive earning payouts would be as described in Table Five:

TABLE FIVE: Proposed Actual Passenger Revenue Incentive Program Payouts

<u>Amount of Actual FY 2009 Passenger Revenue</u>	<u>Organization at-large</u>	<u>Executive Director</u>	<u>First Transit</u>
≤ \$7,281,000	-0-	-0-	-0-
\$7,281,000 → \$7,523,358	14.44% of amount above \$7,281,000	2.41% of amount above \$7,281,000	83.15% of amount above \$7,281,000
> \$7,523,358	Capped at \$35,000	Capped at \$5,833	\$201,525 plus 25% of amount above \$7,523,358

The formula as proposed reflects the fact that the favorable passenger revenue variance must be at least \$243,358 in order for available funding to not be a limiting condition on actual passenger revenue incentive earnings. \$243,358 is the sum of: (1) 25% of the \$806,100 amount that budgeted passenger revenue was increased by in FY 2009 that is potentially payable to First Transit (which is 83.15% of the \$243,358); (2) the proposed maximum possible payout for the organization at-large (\$35,000, which is 14.44%); and (3) the proposed maximum possible payout for Executive Director (\$5,833, which is 2.41%).

Management is not proposing that timing of the “earnings” payments be altered – they would still occur in December since all other incentives would continue to be December through November-based.

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Finally, management seeks the Commission's approval of new FY 2010 passenger revenue incentive programs for the organization at-large and the Executive Director mirroring the ones approved in December 2008 except for the change to starting and ending dates.

Fiscal Impact:

Not applicable (this program is financially self-supporting).

Attachment: As stated

ATTACHMENT

PRTC Organization At-Large
(Matrix approved in December 2008)

<u>Favorable passenger revenue variance</u>	<u>Amount</u>
More than \$50,000 but less than \$101,904	\$10,000
Between \$101,904 and \$203,808	\$20,000
Between \$203,809 and \$305,712	\$30,000
Between \$305,713 and \$407,616	\$40,000
Between \$407,617 and \$474,999	\$45,000
Between \$475,000 and \$550,000	\$50,000
Over \$550,000	\$60,000

PRTC Executive Director
(Matrix approved in December 2008)

<u>Favorable passenger revenue variance</u>	<u>Amount</u>
More than \$50,000 but less than \$101,904	\$2,000
Between \$101,905 and \$203,808	\$4,000
Between \$203,809 and \$305,712	\$6,000
Between \$305,713 and \$407,616	\$8,000
Between \$407,617 and \$475,000	\$9,000
Over \$475,000	\$10,000