



MCRCOG System Performance Review

April 13, 2016

MCRCOG Performance Report

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AGENCY PUBLIC TRANSPORTATION PROFILE

Agency	Mercer County Regional Council of Governments (d.b.a. MCRCOG, SVSS, MCCT)	
Year Founded	1971	
Reporting Fiscal Year End (FYE)	FYE 2014	
Service Area (square miles)	670	
Service Area Population	116,638	
Annual Operating Statistics*	Fixed-Route Bus	Paratransit (Shared Ride + ADA)
Vehicles in Maximum Service (VOMS)	4	22
Operating Cost	\$1,018,411	\$1,657,856
Operating Revenues	\$52,300	\$1,452,931
Total (Actual) Vehicle Miles	166,374	693,781
Revenue Miles of Service (RVM)	158,645	429,361
Total Vehicle Hours	12,635	44,241
Revenue Vehicle Hours (RVH)	11,329	21,309
Total Passenger Trips	110,320	86,805
Senior Passenger (Lottery) Trips	16,221	46,218
Act 44 Performance Statistics		
Passengers / RVH	9.74	4.06
Operating Cost / RVH	\$89.89	\$77.80
Operating Revenue / RVH	\$4.62	\$68.18
Operating Cost / Passenger	\$9.23	\$19.14
Other Performance Statistics		
Operating Revenue / Operating Cost	5.14%	87.64%
Operating Cost / Total Vehicle Hours	\$80.60	\$37.47
Operating Cost / Total Vehicle Miles	\$6.12	\$2.39
Total Passengers / Total Vehicle Hours	8.73	1.96
Operating Cost / RVM	\$6.42	\$3.86
RVM / Total Vehicle Miles	95.35%	61.89%
RVH / Total Vehicle Hours	89.66%	48.17%

* source: PennDOT dotGrants 2014 reporting

EXECUTIVE SUMMARY

In July 2007 the Pennsylvania Legislature passed Act 44, establishing a framework for a PennDOT driven transit agency performance review process. The purpose of a review is to assess efficiency and effectiveness of service, financial stability, and general management/business practices. The assessment identifies best practices that can be shared with other transit agencies and makes transit agencies aware of improvement opportunities.

The Act 44 transit performance review of the Mercer County Regional Council of Governments (d.b.a. MCRCOG) was conducted in May 6-7th, 2015. The performance review focused on fixed-route bus service. This report addresses the performance criteria that Act 44 established, specifically related to fixed-route bus service. Also addressed are, MCRCOG trends and comparisons with MCRCOG peers, targets for future performance, and opportunities for improvement that should assist MCRCOG in meeting the future targets. This report also addresses the management, general efficiency and effectiveness of services.

On the basis of this performance report, MCRCOG will develop an action plan which identifies the steps MCRCOG will take to meet the agreed upon Act 44 performance criteria targets by FY 2019-20. The general goals are to maximize efficiency and promote cost savings, maximize service quality, and maximize ridership and revenue. The action plan should focus on the most critical areas for the agency, as prioritized by MCRCOG's management and its governing board.

A draft action plan is due to the Department within 90 days of receipt of this report. PennDOT will work with MCRCOG to agree on a plan which, when approved by the MCRCOG Board, will be submitted as the final action plan. MCRCOG must report quarterly to the Board and PennDOT on the progress of the action plan, identifying actions taken to date, and actions to be implemented. MCRCOG's success will be measured in part on meeting performance targets established through this review.

ACT 44 PERFORMANCE DETERMINATION

Act 44 performance factors were analyzed to quantify MCRCOG's fixed-route bus performance in comparison to its peer agencies in Fiscal Year End (FYE) 2013 and over a five-year trend period from FYE 2008 to FYE 2013 (the most recent NTD data available at the time of the peer selection). Peers were selected through an analytical process and were agreed to in advance by MCRCOG.

A transit agency's performance can fall into two categories: "In Compliance" or "At Risk." The following criteria are used to make the determination:

- "At Risk" if more costly than one standard deviation **above** the peer group average in –
 - Single-year and five-year trend for Operating Cost / Revenue Vehicle Hour
 - Single-year and five-year trend for Operating Cost / Passenger

- "At Risk" if performing worse than one standard deviation **below** the peer average in –
 - Single-year and five-year trend for Passengers / Revenue Vehicle Hour
 - Single-year and five-year trend for Operating Revenue / Revenue Vehicle Hour

If the agency falls outside of these prescribed boundaries, it is considered "At Risk" for that factor and must improve as agreed upon between PennDOT and the agency.

An analysis of the eight key criteria mandated by Act 44 was conducted and **it was determined that MCRCOG is “In Compliance” for seven criteria and “At Risk” for one.** The peer comparison process as applied to Act 44 criteria (below, in bold typeface) revealed the following:

In Compliance

1. **FYE 2013 passengers / revenue vehicle hour** ranks 2nd out of the 9 transit agencies and is better than the peer group average.
2. The **five-year trend of passengers / revenue vehicle hour** is better than the peer group average.
3. The **five-year trend for increase in operating cost / revenue vehicle hour** is better than the peer group average.
4. **FYE 2013 operating revenue / revenue vehicle hour** ranks 8th out of the 9 transit agencies and is worse than the peer group average.
5. The **five-year trend for operating revenue/ revenue vehicle hour** is worse than the peer group average.
6. **FYE 2013 operating cost / passenger** ranks 5th out of the 9 transit agencies and is better than the peer group average.
7. The **five-year trend for operating cost / passenger** is better than the peer group average.

At Risk

1. **FYE 2013 operating cost / revenue vehicle hour** ranks 9th out of the 9 transit agencies and is worse than the peer group average.

A summary of the specific Act 44 measures and their values are presented in the following table.

Performance Criteria	FYE	Determination	Rank (of 13)	Relation to Peer Average	Value	Peer Average
Passengers / Revenue Hour	2013	In Compliance	2	Better	12.37	8.92
	Trend	In Compliance	4	Better	0.64%	-0.15%
Operating Cost / Revenue Hour	2013	At Risk	9	Worse	\$100.24	\$73.74
	Trend	In Compliance	5	Better	1.64%	2.29%
Operating Revenue / Revenue Hour	2013	In Compliance	8	Worse	\$5.80	\$7.89
	Trend	In Compliance	4	Worse	3.38%	5.24%
Operating Cost / Passenger	2013	In Compliance	5	Better	\$8.10	\$8.76
	Trend	In Compliance	3	Better	1.00%	2.45%

GENERAL FINDINGS

In accordance with Act 44, findings are indicated as “best practices” or “opportunities for improvement.” Best practices are current practices that enhance the efficiency, effectiveness, and/or quality of service of MCRCOG and may be shared with other agencies as techniques for improvement. Improvement opportunities identify tasks that may be undertaken to increase the efficiency, effectiveness, and /or quality of service of the agency.

BEST PRACTICES

1. Coordinates mapping and related GIS work with SVATS MPO
2. Use of a color coded envelope system to separate farebox revenues and coordinate daily farebox recovery
3. Shared use of mechanics with the City of Hermitage

OPPORTUNITIES FOR IMPROVEMENT TO ADDRESS IN PART 1 OF THE ACTION PLAN (SEE P. 33)

1. Address accounting practices that lead to the independent auditor’s finding that “inaccurate financial reports are being presented to management”
2. Coordinate with PennDOT for a financial review of fixed-route and shared-ride programs to determine true program cost
3. Perform policy GAP analysis to determine formal policy needs
4. Adopt a quality control policy and develop a quality control program for data collection
5. Initiate a transit development plan (TDP) to reflect changing demographics
6. Include a technical analysis prior to fare increases
7. Develop a fare policy that keeps pace with inflation and maintains a satisfactory farebox recovery
8. Explore opportunities for advertising
9. Establish a formal annual performance review process for the Executive Director
10. Develop performance targets for all key agency functions
11. Complete PennTRAIN Board training
12. Determine the legal separation between transit operations and other functions of MCRCOG
13. Assess if funds dedicated to transit are at risk from litigation against MCRCOG from non-transit functions
14. Adopt a formal emergency drill protocol

15. Adopt a formal accident reduction plan

FINANCIAL REVIEW

Mercer County, the City of Hermitage and surrounding municipalities contribute monies for MCRCOG's public transportation funding requirements. MCRCOG has no outstanding debt or line of credit, and currently has a balanced operating budget. MCRCOG projections of service levels and budget indicate that MCRCOG plans to maintain a balanced budget over the next five years. MCRCOG had no 1513 carryover funds available, but had \$30,680 in local carryover funds at the end of FYE 2013. By the end of FYE 2014, MCRCOG had no available state carryover subsidies and local carryover subsidies had decreased to \$12,414. A projected annual increase of 1.6% appears low in comparison to recent experience (4.8% annually). The lack of identifiable reserves means that the agency has no capacity to manage short-term cost increases, such as a change in fuel or parts prices.

The performance review has identified major concerns regarding how MCRCOG conducts its finances and accounting practices:

First, MCRCOG staff could not clearly document how costs are allocated between shared-ride and fixed-route service. A high-level assessment conducted for this review indicates that shared-ride costs may be understated while fixed-route may be overstated.

Second, MCRCOG operates two different types of accounting approaches (i.e., modified cash and modified accrual) and for both calendar and state fiscal years (July 1 through June 30). This practice makes MCRCOG's finances difficult to interpret for management and auditors. It also increases the amount of effort necessary to manage the agency's finances as well as the likelihood of errors.

Finally and most significantly, MCRCOG has "problems ... with recordkeeping and various reconciliations," including year-end account balances. "Inaccurate reports are being presented to management." The auditor concludes that the 2013 audit reports were "misstated." Inaccurate and misstated reports make prudent financial stewardship difficult and well-informed management decisions impossible to achieve.

Management should take appropriate actions immediately to address its accounting practice shortcomings, control costs, achieve farebox recovery goals, and rebuild cash reserves to improve MCRCOG's overall financial health.

FIVE-YEAR PERFORMANCE TARGETS

This transit agency performance report outlines areas where improvements may be made to enhance the overall quality, effectiveness, and efficiency of the transit system. As a result of the performance review, a set of "performance targets" has been established and detailed on page 17. These performance targets are required to comply with Act 44 performance criteria and represent the minimum performance levels that MCRCOG should work to achieve during the next review cycle (i.e., five years from the date of this report). These performance targets were created using historical data analyzed during the five-year trend analysis as well as the most current audited PennDOT dotGrants information available (FYE 2015). Standards were extrapolated to FYE 2020 and are designed to be aggressive, yet achievable. They are summarized as follows:

Performance Criteria	Fiscal Year End (FYE)				Target Annual Increase
	2013 Actual	2014 Actual	2015 Actual	2020 Target	
Passengers / Revenue Hour	12.37	9.70	7.34	8.51	3.0%
Operating Cost / Revenue Hour	\$100.24	\$93.57	\$87.45	\$101.38	3.0%
Operating Revenue / Revenue Hour	\$5.80	\$4.62	\$9.83	\$11.39	3.0%
Operating Cost / Passenger	\$8.10	\$9.65	\$11.92	\$11.92	0.0%

NEXT STEPS

Upon final transmission of the performance review report, Act 44 regulations stipulate that MCRCOG “...shall develop and submit to the Department within 90 days...a strategic action plan that focuses on continually improving the system to achieve the established minimum performance targets.” The action plan should outline corrective action that will be taken to address “Opportunities for Improvement” – as prioritized by the MCRCOG oversight board and management.

Functional area “opportunities for improvement” are areas in which adjustments may result in cost savings, improved service quality, and ridership and/or revenue increases. Achieved improvements in these areas will assist in meeting the performance targets by directly addressing areas that affect Act 44 performance criteria. It should be noted that many functional areas are interrelated, and the action plan should establish a comprehensive program that focuses on actions that address the larger issues within MCRCOG.

The template for the Action Plan has been provided as an appendix to this report. This template is where MCRCOG should address its proposed actions to address the “*Opportunities for Improvement*” findings that directly affect the Act 44 performance metrics. Some actions will be quickly implementable while others may take several discrete steps to achieve over a longer period of time. The template provides a simple-to-follow order of key findings. MCRCOG must select, prioritize and schedule its intended actions using the temple.

MCRCOG must submit the proposed draft Action Plan using the format provided to the Department for comment. The proposed draft Action Plan may then be revised based on consultation between MCRCOG’s management and the Department. The finalized Action Plan then must be approved by the MCRCOG Board and formally submitted to PennDOT. At the very least, MCRCOG’s management must report quarterly to the Board and the Department on progress towards accomplishing the Action Plan including actions taken in the previous quarter and actions planned for upcoming quarter(s).

INTRODUCTION

PURPOSE

In July 2007 the Pennsylvania Legislature passed Act 44, which established a framework for a performance review process for all public transportation agencies receiving state financial assistance. This report documents the findings and observations of the public transportation agency performance review for the Mercer County Regional Council of Governments (d.b.a. MCRCOG).

This performance review was conducted to emphasize the importance of good management, proactive planning, and efficient service, which maximizes the effectiveness of federal, state, and local funding. In addition, other important goals of the review process and this document are to:

- Find, document, and publicize best practices that contribute to efficient, high-quality public transit service delivery, encouraging other Pennsylvania transit agencies to apply them as appropriate.
- Provide guidance to transit agencies on cost-effective ways to improve efficiency, effectiveness, and quality of service.
- Identify and document legal, institutional, or other barriers beyond the control of the transit agency that may impede efficiency in service delivery and management.

PERFORMANCE REVIEW PROCESS

In May 2015, an Act 44-mandated performance review was initiated for MCRCOG. PennDOT, with consultant assistance, conducted the review according to the steps outlined below:

1. Initial notification of performance review selection and transmission of document request
 - A review of available data and requests for what should be “off-the-shelf” information that may not be publicly available was transmitted.
2. Peer selection
 - A set of peers, used for comparative analysis, was jointly agreed upon by MCRCOG and PennDOT.
3. Act 44 performance criteria analysis
 - Performance criteria mandated by Act 44 were analyzed for the peer group.
 - Additional performance criteria were calculated for informative purposes to help guide the on-site review.
4. On-site review
 - An on-site review was conducted on May 6 through May 7, 2015.
 - An interview guide customized for MCRCOG’s service was used for the review.
 - Topics covered during the interview process included:
 - Governance
 - Management
 - Human/Labor Relations
 - Finance
 - Procurement
 - Operations and Scheduling
 - Maintenance
 - Safety and Security
 - Customer Service
 - Information Technology
 - Capital Planning
 - Marketing and Public Relations
 - Planning

AGENCY DESCRIPTION

The Mercer County Regional Council of Governments (d.b.a. MCRCOG) was created in 1971 in Mercer County, Pennsylvania from 28 municipalities. MCRCOG has an interlocal agreement with the City of Sharon to operate the Shenango Valley Shuttle Service (d.b.a. SVSS), a fixed-route service sponsored by the Mercer County, the Cities of Sharon, Hermitage, Farrell and the Boroughs of Sharpsville and Wheatland. SVSS originally operated fixed-route service as the Shenango Valley Transportation Company and was transferred to MCRCOG in 1982. MCRCOG also operates Mercer County's paratransit service, Mercer County Community Transit (d.b.a. MCCT). In addition, MCRCOG provides to member municipalities a range of services including:

- Animal Control
- Animal Shelter
- Audio/Visual Equipment
- Bidding
- Bonding, Joint Tax Collectors
- Cable TV Negotiations
- Circuit Rider Program
- Computer Services
- Directory, Municipal Officials
- Dog Law Enforcement
- Enterprise Zone
- Equipment Sharing
- Fire Mutual Aid
- Grant Administration
- Insect & Weed Control
- Joint Bidding
- Lock-up Facilities
- Mechanic Services
- Mutual Aid – Fire
- Mutual Aid - Police
- Police Administration
- Police Communications
- Police Labor Relations
- Police Mutual Aid
- Purchasing
- Recreational Facilities
- Refuse Collection Bidding
- Road Material Purchasing
- Sewer Cleaning
- Softball/Soccer fields
- Swimming Pool
- Technical Assistance
- Transportation Planning (MPO)
- Trick or Treat Scheduling
- Uniform Construction Code
- Vehicle Maintenance

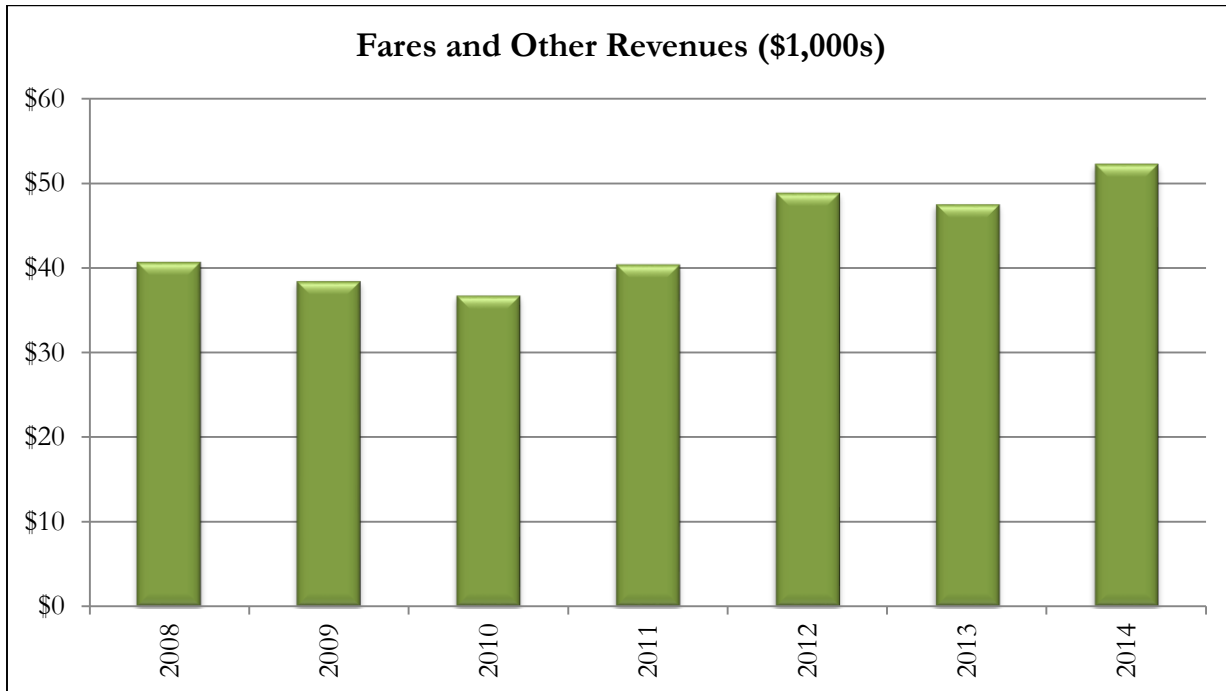
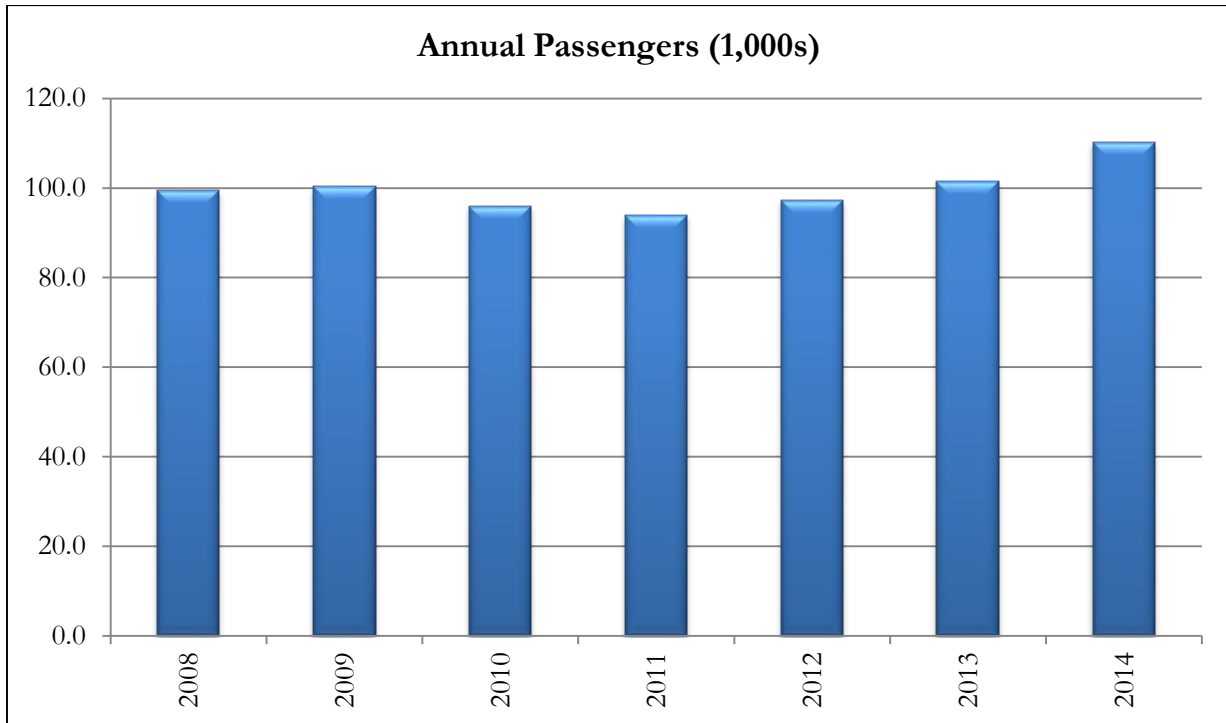
SVSS is overseen by a six member Board representing Mercer County, the Cities of Sharon, Hermitage, Farrell, the Boroughs of Sharpsville and Wheatland. MCCT is overseen by a representative from all MCRCOG municipalities. The Executive Director of MCRCOG serves as the SVSS Administrator. MCRCOG is responsible for planning, administrative oversight and daily operations for SVSS and MCCT.

Currently, MCRCOG operates 5 regular fixed-routes, typically between 7:00 a.m. and 6:00 p.m. Monday through Friday, and 4 on Saturday. August through June, MCRCOG operates 4 seasonal routes that offer tripper service for Mercer County schools. **Exhibit 1** and **Exhibit 2** present fixed-route bus statistics for MCRCOG derived from PennDOT dotGrants.

Important observations evident from the trends in demand, revenues, and operating characteristics for the Legacy reporting period of Fiscal Year End (FYE) 2008 through 2014 for MCRCOG's fixed-route service are as follows:

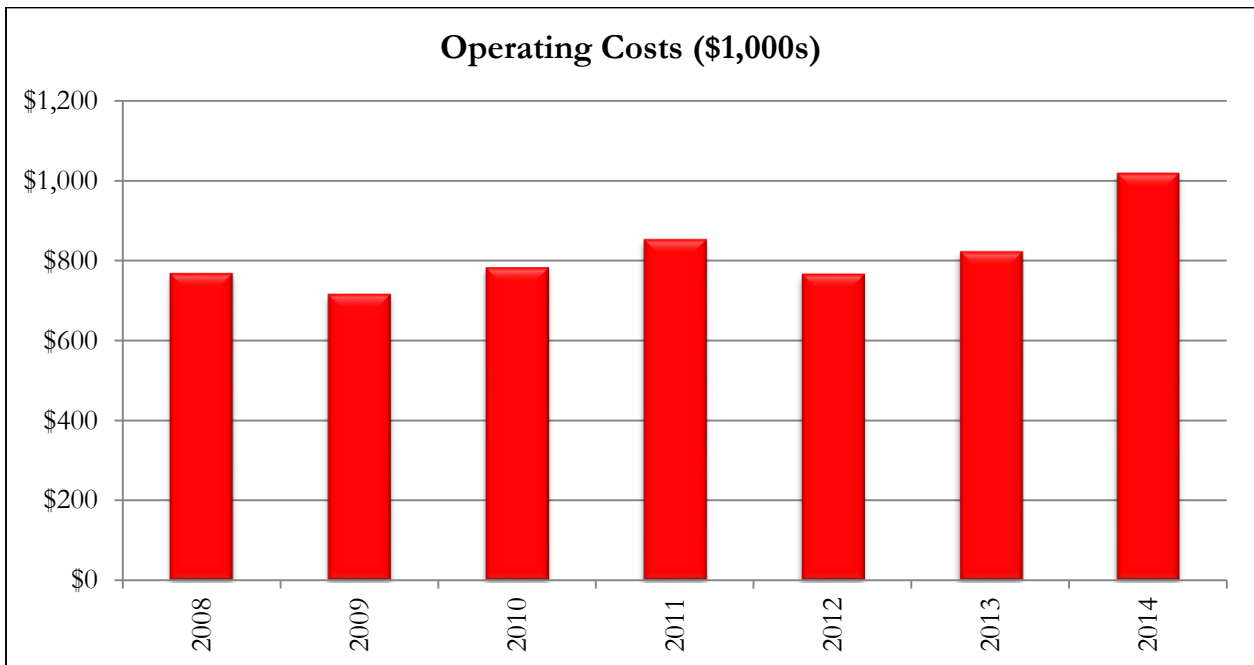
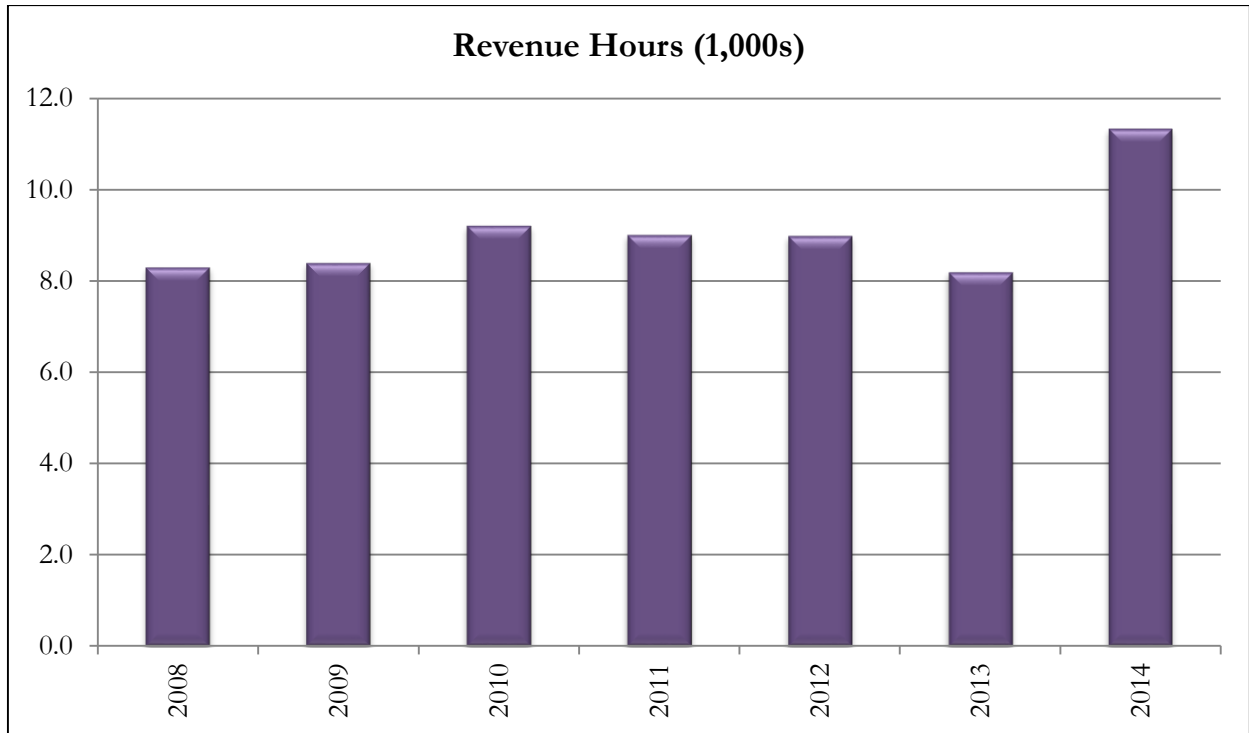
1. MCRCOG's annual fixed-route ridership has increased an average of 1.7% since 2008 and was about 110,300 passengers in FYE 2014. Despite a fare increase for fixed-route midway through 2014, ridership continued to increase.
2. MCRCOG's 2014 total operating revenue (including passenger fares, advertising and other local revenues) is \$2.11 per passenger trip in FYE 2014. MCRCOG's regular base fare is \$1.25 and transfers are \$0.25. Farebox revenue alone is \$1.04 per passenger. This equates to a farebox recovery of 5.1% of total operating expenses.
3. Revenue hours of service increased by a net of 36.1% between 2008 and 2014. MCRCOG provided 11,300 revenue hours of service in FYE 2014 as compared to 8,300 revenue hours in FYE 2008.
4. Total operating costs increased in total by about 33% between 2008 and 2014, an average 4.8% annual increase, going from about \$767,000 to \$1,018,400 annually. Operating costs have increased broadly, with no single area responsible for the overall increase.

Exhibit 1: Fixed-Route Passengers and Revenues FYE 2008-2014



Source: NTD and PennDOT Legacy Reporting System (dotGrants)

Exhibit 2: Fixed-Route Revenue Hours and Operating Costs FYE 2008-2014



Source: NTD and PennDOT Legacy Reporting System (dotGrants)

ACT 44 PERFORMANCE ASSESSMENT

Act 44 establishes the framework for a performance review process as follows:

“The Department may conduct performance reviews of an award recipient under this section to determine the effectiveness of the financial assistance. Reviews shall be conducted at regular intervals as established by the Department in consultation with the management of the award recipient. After completion of a review, the Department shall issue a report that: highlights exceptional performance and identifies any problems that need to be resolved; assesses performance, efficiency, and effectiveness of the use of the financial assistance; makes recommendations on follow-up actions required to remedy any problem identified...”¹

The law sets forth the following performance criteria to be used to satisfy its objectives²:

- Passengers / revenue vehicle hour;
- Operating cost / revenue vehicle hour;
- Operating revenue / revenue vehicle hour;
- Operating cost / passenger; and,
- Other items as the Department may establish.

Performance criteria are to be compared for both the system being reviewed and for a group of five or more peers by mode, determined by considering the following: ³

- Revenue vehicle hours;
- Revenue vehicle miles;
- Number of peak vehicles; and,
- Service area population.

The law further instructs PennDOT to prepare a five-year trend analysis for the local transportation organization under review and the peer systems by performance criteria and by mode, and make a determination of “In Compliance” or “At Risk” status based on findings.

PEER SYSTEM SELECTION

A list of tentative peers was submitted to MCRCOG’s management for review and comment. After discussions were complete, the following 8 peer systems, in addition to MCRCOG, were included in subsequent analyses for peer comparison purposes:

1. Hernando County Board of County Commissioners (The Bus) Brooksville, FL
2. City of Loveland Transit, (COLT) Loveland, CO
3. City of Turlock (BLAST and DART) Turlock, CA
4. DUFAS (DuFast), DuBois, PA
5. Transit Authority of Warren County (TAWC) Warren, PA
6. Venango County Transportation Office (VCTO) Franklin, PA
7. Butler Transit Authority (BTA) Butler, PA
8. Mid-County Transit Authority (MIDCO) Kittanning, PA

¹ Title 74 Pa. C.S.A. §1513 (e)

² Title 74 Pa. C.S.A. §1513 (f)

³ 67 Pa Code Chapter 427, Annex A . §427.12(d)(1)(i), Jan 2011.

ACT 44 FIXED-ROUTE COMPARISONS AND FINDINGS

Comparison of MCRCOG with the selected peer systems was completed using NTD-reported data and PennDOT dotGrants Legacy statistics. Due to its consistency and availability⁴ for comparable systems, the NTD FYE 2013 Reporting Year database was selected as the primary data source used in the calculation of the five-year trend Act 44 metrics:

- Passengers / revenue vehicle hour
- Operating cost / revenue vehicle hour
- Operating revenue / revenue vehicle hour
- Operating cost / passenger

The definition of the variables used in the calculations is as follows:

- *Passengers*: Annual unlinked passenger boardings by mode for both directly-operated and purchased transportation
- *Operating Costs*: Annual operating cost of services provided (excluding capital costs) by mode for both directly-operated and purchased transportation
- *Operating Revenue*: Total annual operating revenue generated from farebox and other non-state, non-federal sources by mode for both directly-operated and purchased transportation
- *Revenue Vehicle Hours*: The total annual number of “in-service” hours of service provided by mode for both directly-operated and purchased transportation
- *Average*: Un-weighted linear average of all values being measured across all peer transit agencies, including MCRCOG
- *Standard Deviation*: Standard deviation of all values being measured across all peer transit agencies, including MCRCOG

Act 44 stipulates that metrics fall into two categories: “In Compliance” and “At Risk.” The following criteria are used to make the determination:

- “At Risk” if more costly than one standard deviation **above** the peer average in:
 - The single-year or five-year trend for Operating Cost / Revenue Vehicle Hour
 - The single-year or five-year trend for Operating Cost / Passenger
- “At Risk” if performing worse than one standard deviation **below** the peer group average in:
 - The single-year or five-year trend for Passengers / Revenue Vehicle Hour
 - The single-year or five-year trend for Operating Revenue / Revenue Vehicle Hour

If an agency is within these limits, it is considered “In Compliance.” However, if an agency is “At Risk” for any given criterion, it must very closely monitor the effectiveness of remedial strategies identified in the action plan to achieve “Compliance” prior to the next performance review⁵.

Detailed results of the MCRCOG analysis and peer comparison are presented in the **Fixed-Route Bus Performance Comparisons** section below and can be summarized as follows:

⁴ NTD data is available for almost every urbanized area transit system in the United States. The latest data available at the time of the Peer Selection was for Fiscal Year End (FYE) 2013.

⁵ Act 44 identifies potential financial penalties for agencies determined “At Risk” during the review process that are not subsequently determined “In Compliance” within 5 years of the original “At Risk” finding.

Exhibit 3: Act 44 Compliance Summary

Metric	Single Year	Five-Year Trend
Passengers / Revenue Hour	In Compliance	In Compliance
Operating Cost / Revenue Hour	At Risk	In Compliance
Operating Revenue / Revenue Hour	In Compliance	In Compliance
Operating Cost / Passenger	In Compliance	In Compliance

FIXED-ROUTE BUS PERFORMANCE COMPARISONS

For the 8 peer systems plus MCRCOG, NTD and PennDOT dotGrants data were extracted and summarized for each of the required Act 44 metrics. Measures were put into histograms and tables for visual inspection, statistical analyses, and ordinal ranking purposes. The single-year results of these analyses are presented in **Exhibit 4, Exhibit 5, Exhibit 6, and Exhibit 7**. Five-year trend analyses are presented in **Exhibit 8, Exhibit 9, Exhibit 10, and Exhibit 11**.

For measures relating to passengers or operating revenue, ordinal rankings are based on a highest-to-lowest system. For measures relating to operating cost, ordinal rankings are based on a lowest-to-highest system. Thus a ranking of “1st” consistently indicates that the agency scores best amongst its peers and a ranking of “9th” indicates that it performs the poorest on any given metric.

The findings presented in the exhibits can be summarized as follows:

1. MCRCOG’s FYE 2013 passengers / revenue hour ranks 2nd out of the 9 transit agencies in the peer group and is above the peer group average. The Passengers / revenue hour have been increasing at about 0.64% per year.
2. MCRCOG’s FYE 2013 operating cost / revenue vehicle hour ranks 9th and is the most costly of all the 9 transit agencies in the peer group. Operating cost / revenue hour was increasing at about 1.64% per year between FYE 2008 and FYE 2014. MCRCOG has received an “At Risk” finding for the FYE 2013 single year reporting. This is largely due to a broad combination of MCRCOG operating expenses. This “At Risk” finding calls MCRCOG’s cost allocation into question, whether MCRCOG truly understands actual program costs.
3. MCRCOG’s FYE 2013 operating revenue / revenue vehicle hour ranks as the 8th of the peers. The trend between FYE 2008 and FYE 2013 indicates that operating revenue / revenue vehicle hour is increasing at a rate of 3.38% per year while the peer average increased at 5.24% per year. MCRCOG increased fares in 2014.
4. MCRCOG’s FYE 2013 operating cost / passenger ranks 5th out of 9 transit agencies in the peer group. The trend of annual cost / passenger increased at a rate of 1% a year which a lower (better) rate of cost increase than the peer group average.

These findings provided a basis for further investigation during the on-site interviews and functional area reviews. Those findings are presented in the next section of the report.

Exhibit 4: Fixed-Route Passengers / Revenue Vehicle Hour

Passengers / Revenue Hour (MB)					
System	FYE 2013 Single Year		5 Year Change Since FYE 2008		
	Value	Rank	2008 Value	Annual Rate	Rank
Hernando County Board of County Commissioners	7.13	7	8.72	-3.96%	9
City of Loveland Transit	12.86	1	15.47	-3.63%	8
City of Turlock	9.44	4	8.27	2.70%	2
DUFAST	6.30	8	6.33	-0.10%	5
Transit Authority of Warren County	7.14	6	6.07	3.31%	1
Venango County Transportation	8.17	5	7.34	2.19%	3
Butler Transit Authority	12.20	3	12.42	-0.36%	6
MID County Transit	4.63	9	5.15	-2.10%	7
Mercer County Regional Council of Governments	12.37	2	11.99	0.64%	4
<i>Average</i>	8.92		9.08	-0.15%	
<i>Standard Deviation</i>	2.97		3.47	2.66%	
<i>Average – 1 Standard Deviation</i>	5.95		5.61	-2.81%	
<i>Average + 1 Standard Deviation</i>	11.89		12.55	2.52%	
Act 44 Compliance Determination	In Compliance		In Compliance		
Compared to the Peer Group Average	Better		Better		

Exhibit 5: Fixed-Route Operating Cost / Revenue Vehicle Hour

Operating Cost / Revenue Hour (MB)					
System	FYE 2013 Single Year		5 Year Change Since FYE 2008		
	Value	Rank	2008 Value	Annual Rate	Rank
Hernando County Board of County Commissioners	\$69.82	5	\$73.12	-0.92%	2
City of Loveland Transit	\$83.78	7	\$79.77	0.99%	4
City of Turlock	\$63.30	4	\$48.04	5.67%	7
DUFAST	\$57.82	2	\$68.56	-3.35%	1
Transit Authority of Warren County	\$79.13	6	\$55.72	7.27%	9
Venango County Transportation	\$55.53	1	\$49.07	2.50%	6
Butler Transit Authority	\$94.06	8	\$70.19	6.03%	8
MID County Transit	\$60.03	3	\$57.74	0.78%	3
Mercer County Regional Council of Governments	\$100.24	9	\$92.41	1.64%	5
<i>Average</i>	\$73.74		\$66.07	2.29%	
<i>Standard Deviation</i>	\$16.37		\$14.77	3.48%	
<i>Average – 1 Standard Deviation</i>	\$57.38		\$51.30	-1.19%	
<i>Average + 1 Standard Deviation</i>	\$90.11		\$80.84	5.77%	
Act 44 Compliance Determination	At Risk		In Compliance		
Compared to the Peer Group Average	Worse		Better		

Exhibit 6: Fixed-Route Operating Revenue / Revenue Vehicle Hour

Operating Revenue / Revenue Hour (MB)					
System	FYE 2013 Single Year		5 Year Change Since FYE 2008		
	Value	Rank	2008 Value	Annual Rate	Rank
Hernando County Board of County Commissioners	\$10.25	2	\$4.32	18.87%	1
City of Loveland Transit	\$7.62	5	\$8.93	-3.14%	9
City of Turlock	\$9.65	4	\$8.92	1.59%	7
DUFAST	\$3.54	9	\$3.09	2.77%	6
Transit Authority of Warren County	\$6.50	7	\$3.39	13.90%	2
Venango County Transportation	\$10.14	3	\$10.28	-0.28%	8
Butler Transit Authority	\$10.80	1	\$9.35	2.93%	5
MID County Transit	\$6.72	6	\$4.77	7.13%	3
Mercer County Regional Council of Governments	\$5.80	8	\$4.91	3.38%	4
<i>Average</i>	\$7.89		\$6.44	5.24%	
<i>Standard Deviation</i>	\$2.47		\$2.87	7.01%	
<i>Average – 1 Standard Deviation</i>	\$5.42		\$3.57	-1.77%	
<i>Average + 1 Standard Deviation</i>	\$10.36		\$9.31	12.25%	
Act 44 Compliance Determination	In Compliance		In Compliance		
Compared to the Peer Group Average	Worse		Worse		

Exhibit 7: Fixed-Route Operating Cost / Passenger

Operating Cost / Passenger (MB)					
System	FYE 2013 Single Year		5 Year Change Since FYE 2008		
	Value	Rank	2008 Value	Annual Rate	Rank
Hernando County Board of County Commissioners	\$9.80	7	\$8.38	3.17%	6
City of Loveland Transit	\$6.52	1	\$5.16	4.79%	8
City of Turlock	\$6.70	2	\$5.81	2.90%	4
DUFAST	\$9.17	6	\$10.83	-3.26%	1
Transit Authority of Warren County	\$11.08	8	\$9.18	3.83%	7
Venango County Transportation	\$6.79	3	\$6.69	0.30%	2
Butler Transit Authority	\$7.71	4	\$5.65	6.41%	9
MID County Transit	\$12.95	9	\$11.20	2.95%	5
Mercer County Regional Council of Governments	\$8.10	5	\$7.71	1.00%	3
<i>Average</i>	<i>\$8.76</i>		<i>\$7.85</i>	<i>2.45%</i>	
<i>Standard Deviation</i>	<i>\$2.20</i>		<i>\$2.23</i>	<i>2.81%</i>	
<i>Average – 1 Standard Deviation</i>	<i>\$6.55</i>		<i>\$5.62</i>	<i>-0.36%</i>	
<i>Average + 1 Standard Deviation</i>	<i>\$10.96</i>		<i>\$10.08</i>	<i>5.27%</i>	
Act 44 Compliance Determination	In Compliance		In Compliance		
Compared to the Peer Group Average	Better		Better		

Exhibit 8: Fixed-Route Passengers / Revenue Vehicle Hour Trend FYE 2008-2013

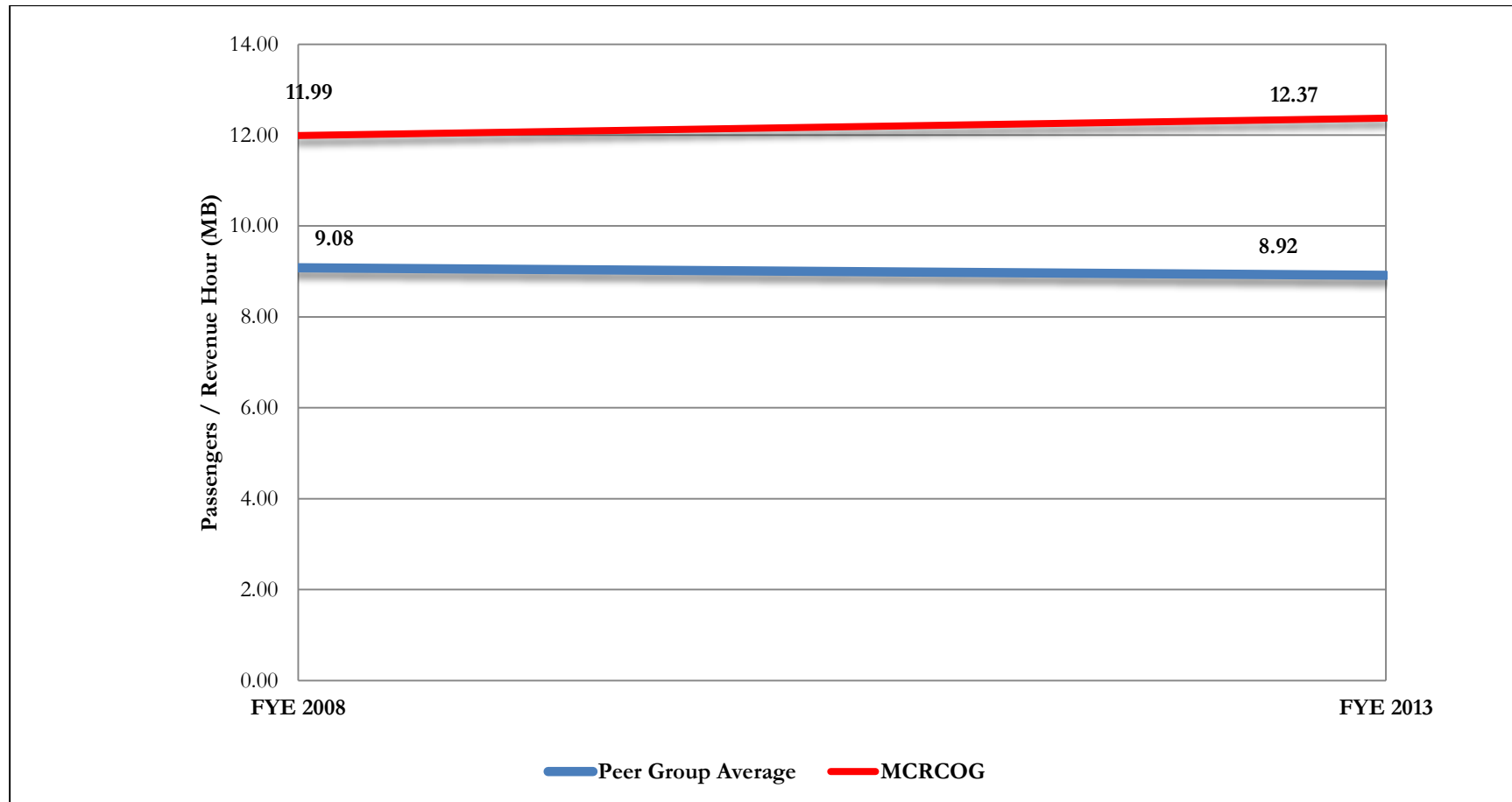


Exhibit 9: Fixed-Route Operating Cost / Revenue Vehicle Hour Trend FYE 2008-2013

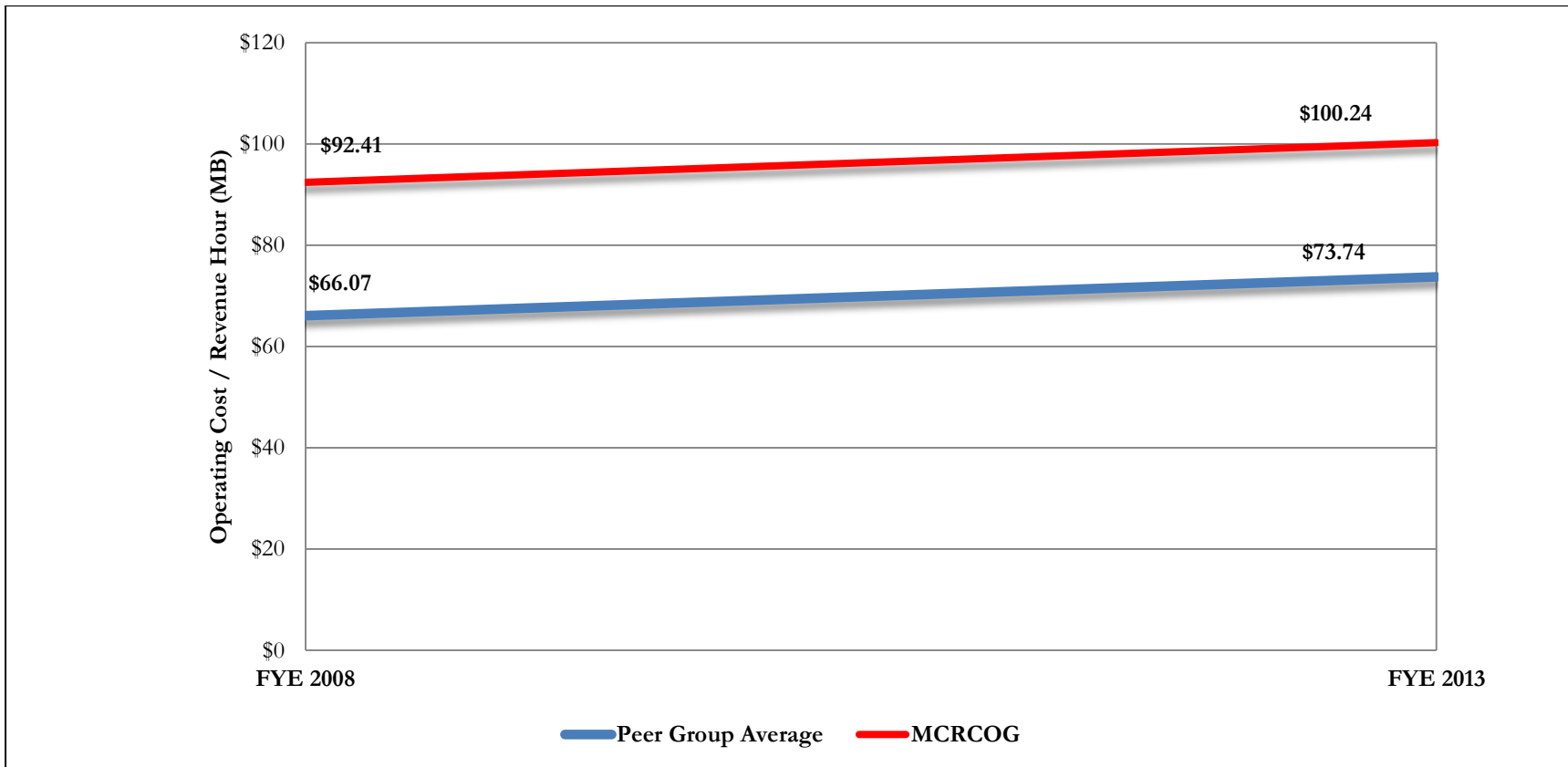


Exhibit 10: Fixed-Route Operating Revenue / Revenue Vehicle Hour Trend FYE 2008-2013

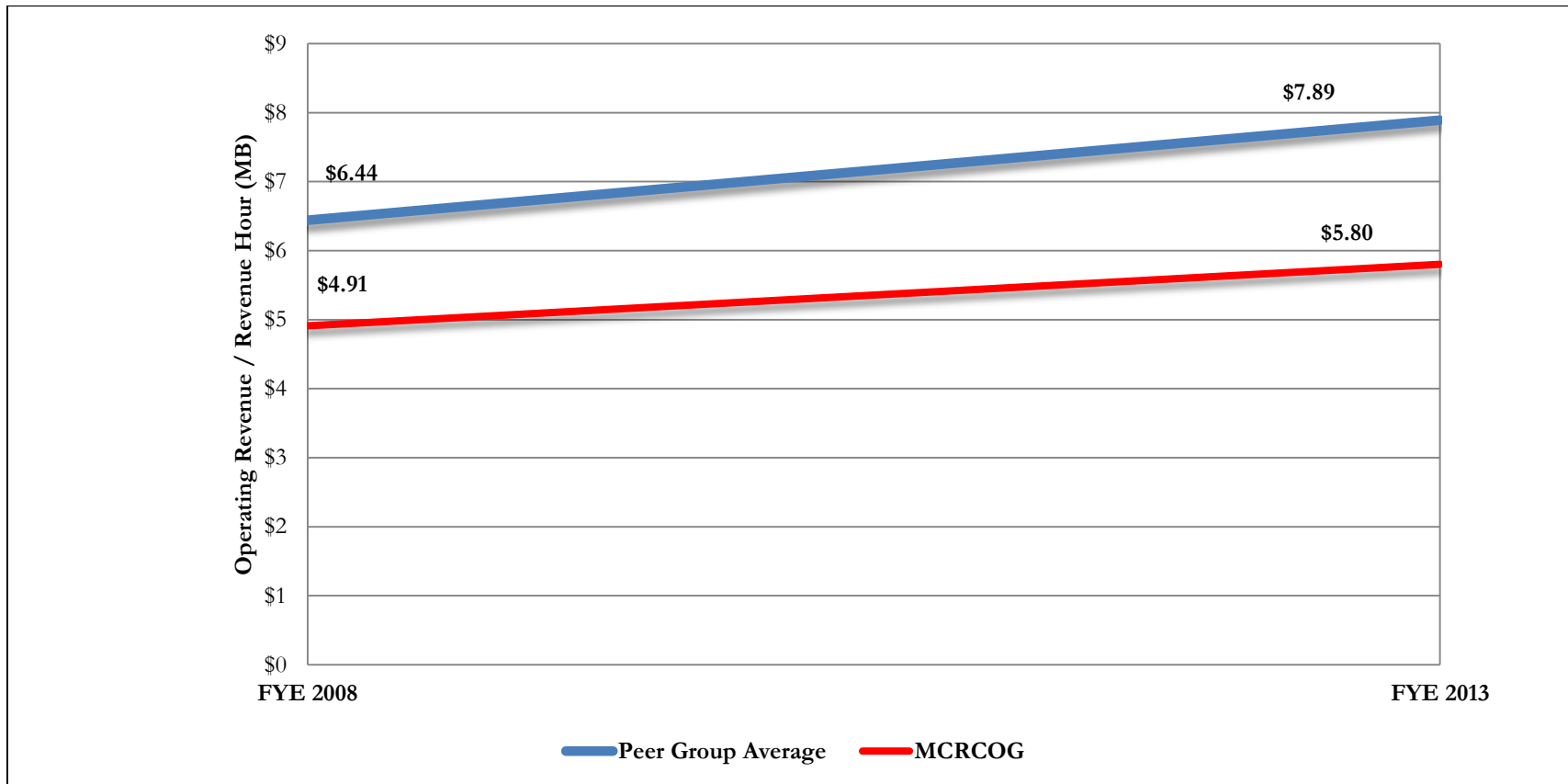
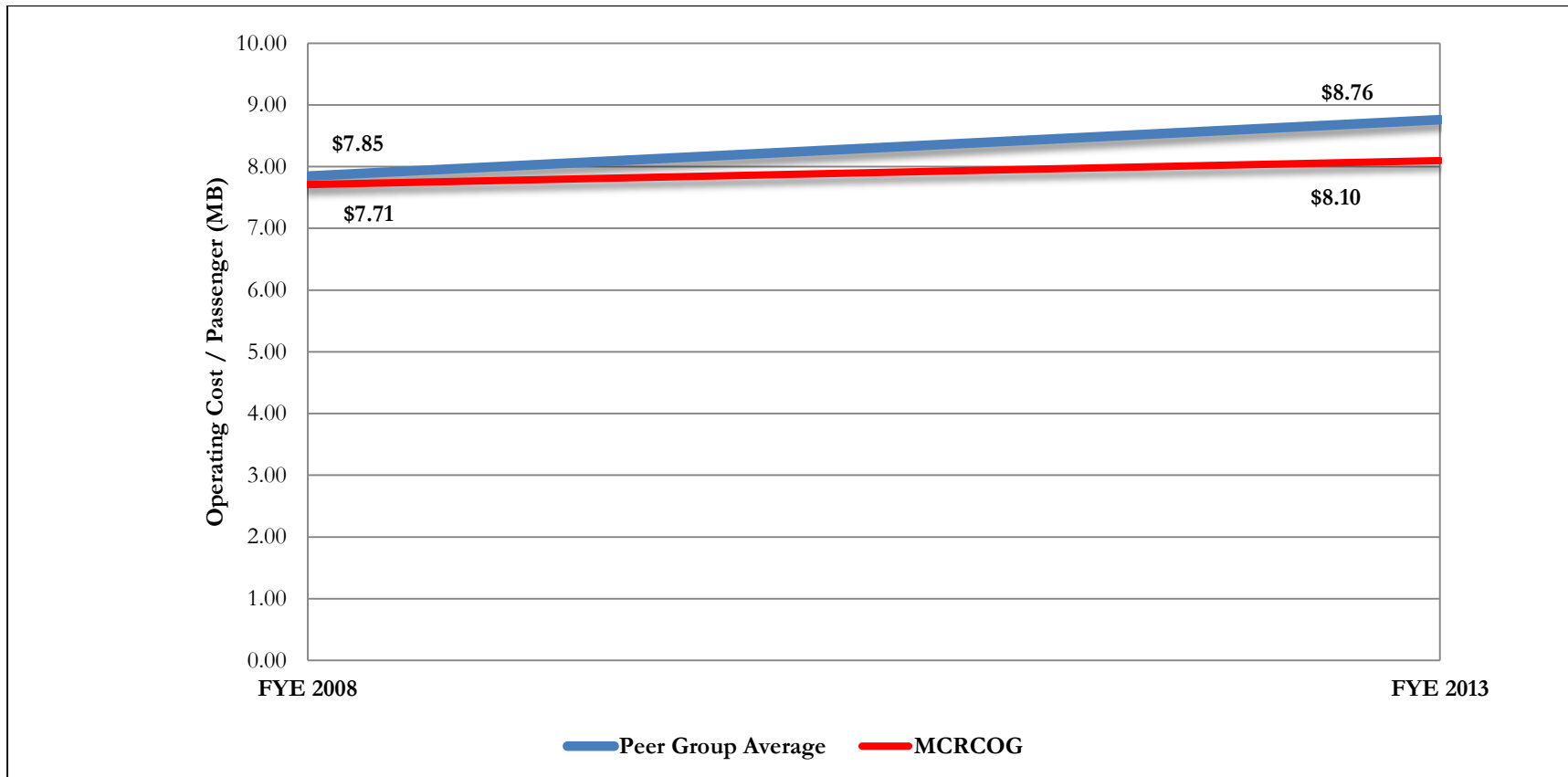


Exhibit 11: Fixed-Route Operating Cost / Passenger Trend FYE 2008-2013



FIVE-YEAR FIXED-ROUTE PERFORMANCE TARGETS

Act 44 requires that PennDOT and all local transit agencies establish five-year performance targets for each of the following four core metrics:

- Passengers / Revenue Hour
- Operating Cost / Revenue Hour
- Operating Revenue / Revenue Hour
- Operating Cost / Passenger

These metrics are intended to improve both the effectiveness and efficiency of service delivery. PennDOT uses the most recent audited and agency-verified values for passengers, operating costs and operating revenues by mode as the “baseline” from which to develop the targets. Five-year targets are then developed based on realistic and achievable expectations of improvement.

Passengers / Revenue Hour is a measure of effectiveness of transit service. Passengers may increase due to successful marketing, customer service, improved route planning and natural growth. Declines in passengers / revenue hour can occur in spite of overall ridership increases due to the introduction of relatively inefficient service. Substantial improvements can be realized through the reduction of relatively inefficient services.

Typically PennDOT suggests a minimum targeted increase of 2% per year in passengers / revenue hour of service. This target is recommended because: it is consistent with statewide historic trends; it is achievable; and, it encourages agencies to better match service delivery with customer needs. MCRCOG’s target has been set to 3.0% growth per year to help MCRCOG keep pace with inflation, maintain compliance on ridership, and improve revenues, for the next performance review.

Operating Cost / Revenue Hour quantifies the efficiency of service delivery. To some extent, costs can be / should be managed through good governance, proactive management and effective cost containment. PennDOT suggests a target of no more than 3% per year increase in operating cost / revenue hour of service. MCRCOG’s target has been set to a rate of 3.0% per year due to a need to make sure future costs and future state subsidies are aligned.

Operating Revenue / Revenue Hour, like operating cost / revenue hour, tries to ensure an agency remains financially solvent in the long run. Operating revenue is composed of fares and other non-subsidy revenues. The target is set to be the same as passenger / revenue hour (3.0%) to make sure that revenue increases keep pace with inflation or exceed cost increases.

Operating Cost / Passenger captures both the efficiency and effectiveness of transit service delivery. The target is set to be equal to the difference between maximum operating cost / revenue hour increase (3.0%) less the minimum passengers / revenue hour goal (3.0%), or 0.0%.

These performance targets represent the minimum performance level that MCRCOG should achieve for each Act 44 criteria during the next performance review cycle – five years from the date of this report. The performance targets were created using historical data analyzed during the five-year trend analysis as well as the most current certified audit information available. Standards were extrapolated to FYE 2020 and are designed to be aggressive, yet achievable. Performance targets will be agreed to between PennDOT and MCRCOG before they are finalized so that expected anomalies are reflected in the standards. The suggested performance targets for MCRCOG’s Act 44 metrics are presented in **Exhibit 12, Exhibit 13, Exhibit 14, and Exhibit 15.**

Exhibit 12: Fixed-Route Passengers / Revenue Hour Performance Targets

FYE 2020 Target.....8.51
 Interim Year Targets Annual increase of at least 3.0%

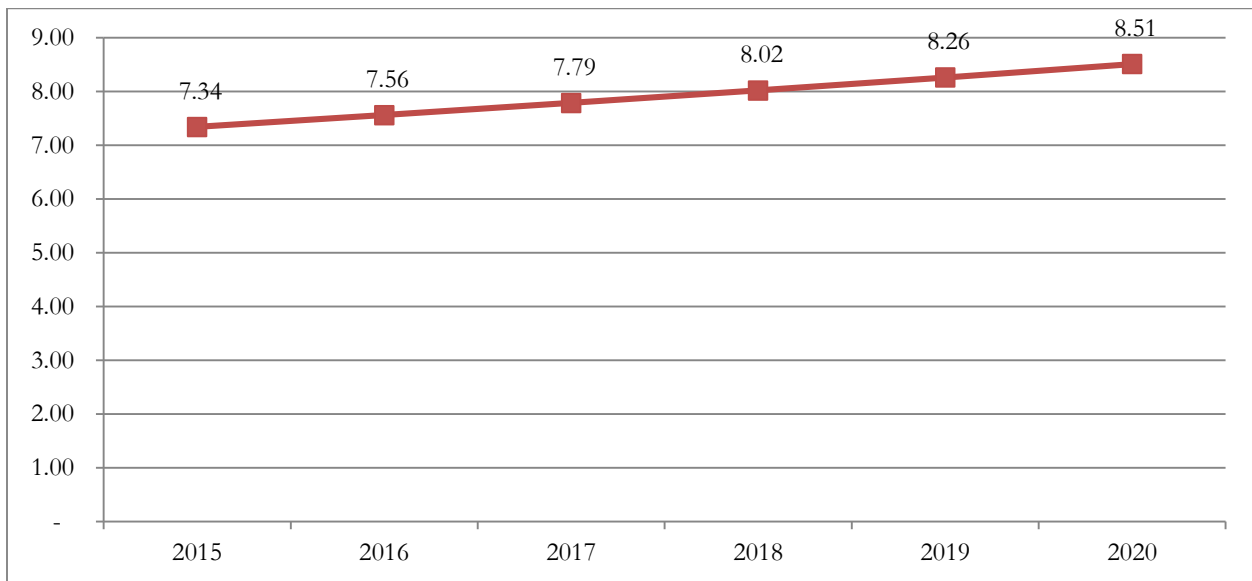


Exhibit 13: Fixed-Route Operating Cost / Revenue Vehicle Hour Performance Targets

FYE 2020 Target.....\$101.38
 Interim Year Targets Annual increase of no more than 3.0%

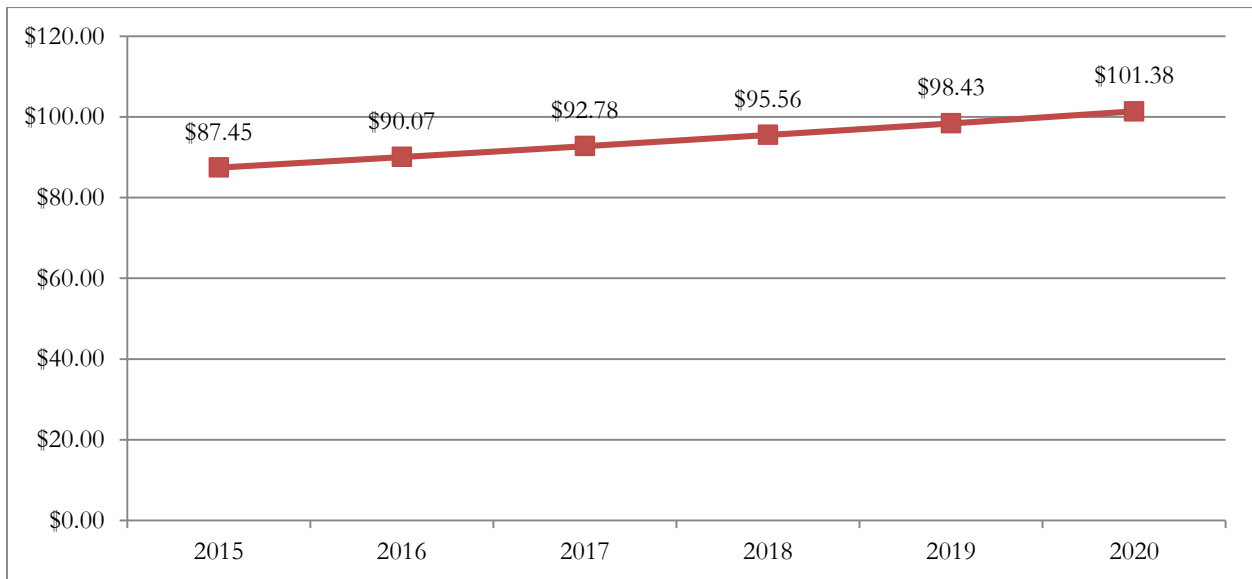


Exhibit 14: Fixed-Route Operating Revenue / Revenue Vehicle Hour Performance Targets

FYE 2020 Target..... **\$11.39**
 Interim Year Targets **Annual increase of at least 3.0%**

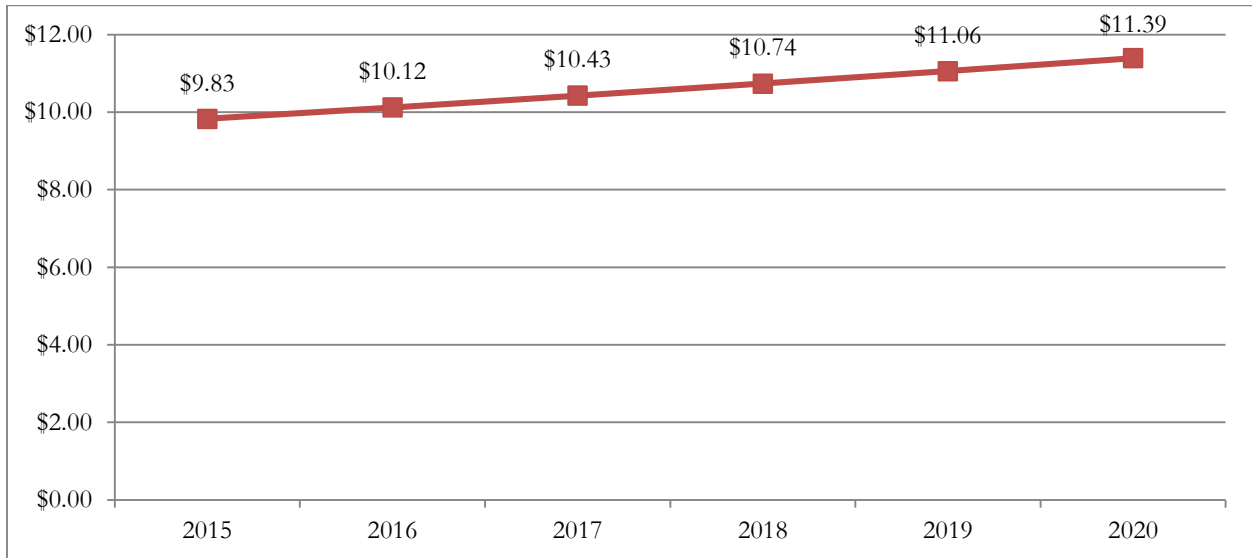
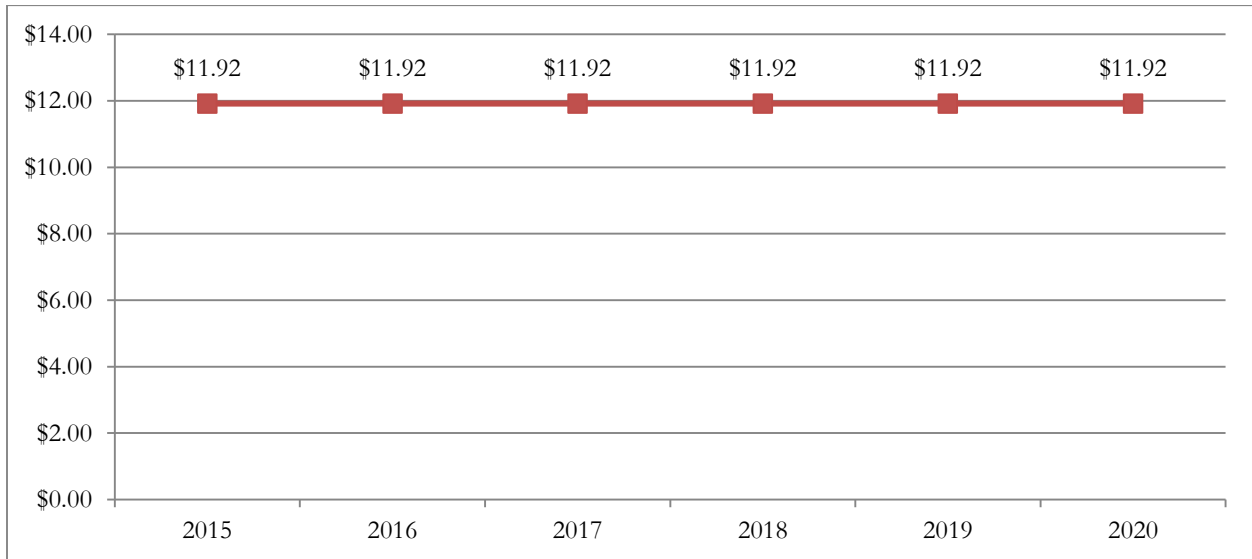


Exhibit 15: Fixed-Route Operating Cost / Passenger Performance Targets

FYE 2020 Target..... **\$11.92**
 Interim Year Targets **Annual increase of no more than 0.0%**



FUNCTIONAL REVIEW

Functional reviews are used to determine the reasons behind performance results found in the Act 44 comparisons, to catalog “best practices” to share with other transit agencies, and to identify opportunities for improvement that should be addressed in the Action Plan (see **Appendix A: Action Plan Improvement Strategies**). A total of 14 functional areas were reviewed through documents received from the agency and interviews conducted on-site. The functional areas are as follows:

1. **Governance** – Responsibilities include setting vision, mission, goals, and objectives; management oversight; recruiting and retaining top management personnel; and advocacy for the agency’s needs and positions.
2. **Management** – Responsible for the day-to-day operations of the agency. Manage, monitor, analyze, direct, and plan for the future with regard to all functional areas. Inform and report to the Governing Body, and implement governing body direction.
3. **Human Resources** – Responsible for employee retention, recruitment, training, performance reviews, grievance procedures, employee benefits, and labor relations.
4. **Finance** – Includes budgeting, accounting, cash flow management, revenue handling, and insurance.
5. **Procurement** – Includes acquisition of rolling stock, vehicle parts, non-revenue capital items (i.e., office equipment) and other operations-related items.
6. **Operations** – Includes management of daily service operations, on-street supervision and control, dispatching, and general route management.
7. **Maintenance** – Includes vehicle and facilities maintenance management, procedures, and performance.
8. **Scheduling** – Includes route and driver scheduling and decision-making, pay premium considerations, general management, procedures, and performance.
9. **Safety and Security** – Includes vehicle and passenger safety, facility security, and emergency preparedness.
10. **Customer Service** – Includes management, procedures, and performance related to current and future customers of the fixed-route system and other topics such as service information and complaint handling processes.
11. **Information Technology** – Includes automated mechanisms for in-house and customer service communication including future plans for new technology.
12. **Capital Planning** – Includes assessing and programming current and future capital needs reflecting both funded and unfunded projects. Includes the Transportation Improvement Plan (TIP), 12-Year Capital Plan, 20-Year Long-Range Transportation Plan (LRTP), and Transit Development Plan (TDP).
13. **Marketing** – Includes maximizing current markets and expanding into new markets. Includes managing the perception of the agency by the public at-large to encourage current and future ridership.
14. **Planning** – Includes analysis of information to effectively plan for changes to the system in the short-, medium-, and long-term horizons, to help ensure continued success.

The functional review findings are organized by a brief description of the Act 44 variables guiding the performance review: passengers, fare and other non-subsidy revenues, and operating costs. These 14

areas work together to effectively meet the needs of passengers, to deliver high-quality service in a cost-effective manner and to provide resources that will adapt to changing needs.

The following sections summarize the ways which service can be delivered more efficiently and effectively. It is important that service is both sensitive and responsive to the community's needs, while being able to maximize productivity, direct service hours effectively, control operating costs, and achieve optimum revenue hours. The observations that were recorded during the review process are categorized as *Best Practices* or *Elements to Address* in the *Action Plan*. *Best Practices* are those exceptional current practices that are beneficial and should be continued or expanded.

Items to Address in the Action Plan are recommendations which have the potential to maximize productivity, to direct service hours effectively, to control operating costs, and to achieve optimum revenue levels which will enhance the system's future performance overall for one or more of the Act 44 fixed-route performance factors. For the convenience of MCRCOG, Action Plan templates have been included in **Appendix A: Action Plan Improvement Strategies** (pp. 33-36). Some actions will be quickly implementable while others may take several discrete steps to achieve over a longer period of time. The template provides a simple-to-follow order of key findings of this report that should be addressed in the Action Plan.

OPPORTUNITIES TO INCREASE FIXED-ROUTE RIDERSHIP

Act 44 defines "passengers" as unlinked passenger trips, or passenger boardings, across all routes in the fixed-route transit system. Increases in ridership directly represent how effectively management has matched service levels to current demand for service.

BEST PRACTICES

1. None.

ELEMENTS TO ADDRESS IN PART 2-A OF THE ACTION PLAN (SEE P. 33)

1. From 2000 to 2014, the Mercer County declined 3% in population. However, from 2011 to 2014 MCRCOG experienced a 17% increase in ridership. Currently MCRCOG has no service planning policies in place to address demographic changes, and the current policy is based solely on Title VI compliance. **MCRCOG should develop a transit development plan (TDP)** to provide a framework for service development that meets needs of existing riders, considers demographic change and attracts non-riders.

In developing a TDP, MCRCOG should consider the following:

- Assess transportation needs within the community
- Pursue non-rider data to understand community perception of service
- Remain consistent with local comprehensive plans and the Shenango Valley Area Transportation Study MPO (SVATS MPO) long-range transportation plan (LRTP)
- Allow PennDOT an opportunity to comment on goals, objectives, policies, alternatives and implementation schedule
- Update every five years to reflect changes in the service area

OPPORTUNITIES TO INCREASE FIXED-ROUTE REVENUES

Act 44 defines “revenues” as all non-subsidy revenues generated to help fund the operation of a transit system. The largest contributors to this are typically farebox revenues, route guarantees, and advertising revenues.

BEST PRACTICES

1. MCRCOG separates farebox revenue per route with a color coded envelope system. This is an easily implemented solution to improve oversight in daily farebox recovery.

ELEMENTS TO ADDRESS IN PART 2-B OF THE ACTION PLAN (SEE P. 34)

1. MCRCOG has pursued multiple fare increases in recent years as a reaction to address revenue shortfalls. MCRCOG’s fare change policy is based solely on Title VI compliance, and has no provisions requiring an analysis to determine whether a fare increase is qualified based on an established standard. **MCRCOG should establish a fare policy** that considers the following:
 - A framework for determining the need for an increase
 - Communicate the need for a fare increase with the community
 - Keep pace with inflation
 - Maintain a satisfactory farebox recovery
 - Evaluate fares annually in conjunction with the budgeting process

In addition, MCRCOG should consider several factors when developing a fare increase such as:

- The average percent change of previous years (to be determined by the Board) in annual fixed-route or shared-ride operating costs
- The average percent change of those previous years in the consumer price index
- The average percent change in operating funding provided to MCRCOG over the years analyzed
- The average percent change in total passenger revenue over the years analyzed
- The one-time cost of implementation of an increase in fares
- The impact of a fare rate increase on ridership and the actual fare revenues collected
- The ability to easily collect and account for fares for both MCRCOG and its customers

OPPORTUNITIES TO CONTROL OPERATING COSTS

Act 44 defines “operating costs” as the non-capital costs incurred in the day-to-day operations of a transit system. Labor, maintenance, and operating costs such as fuel, tires and lubricants contribute to this measure in significant ways. Many transit agencies have noted cost increases much higher than the general rate of inflation. Compounding this is the reality that operating subsidies are not likely to increase at a comparable rate. Consequently, controlling operating cost increases is one key to maintaining current service levels.

BEST PRACTICES

1. MCRCOG established a cost effective relationship with the City of Hermitage for the shared use of mechanics. MCRCOG pays the City of Hermitage \$40,000 annually, in quarterly installments of \$10,000 for use of the mechanic. Per the agreement, the mechanic is an

employee of the City of Hermitage, therefore MCRCOG is not responsible for any wages or benefits.

ELEMENTS TO ADDRESS IN PART 2-C OF THE ACTION PLAN (SEE P. 35)

1. MCRCOG's cost allocation practices are not documented and are not consistent with the notes in the Council of Government's (COG) financial statements. Furthermore, current cost allocation practices are overstating fixed-route costs, while understating demand response costs. **MCRCOG should update its cost allocation to accurately reflect program costs between the COG and the fixed-route and demand response services. This allocation should be documented and updated on an annual basis.**
2. MCRCOG has an atypical accounting setup that does not meet GAAP standards. MCRCOG files a consolidated audit, a modified accrual and a modified cash audit. Their fiscal year is independent of the state calendar, and the use of multiple types of auditing makes it difficult to interpret consolidated audits. Their audits contain numerous findings that have not been corrected. **Management should immediately set a course to rectify uncorrected audit findings.**

OTHER FINDINGS THAT IMPACT OVERALL AGENCY PERFORMANCE

“Other Findings” is a collection of findings from the functional review that may improve current or future operations. While not directly tied to Act 44 measures, actions to address these findings will result in a more seamless operation and greater operational efficiencies.

BEST PRACTICES

1. MCRCOG is housed in the same building as SVATS MPO, and coordinates with SVATS MPO for mapping and related GIS work. Close coordination with SVATS MPO allows MCRCOG to utilize the transportation planning skillsets without investing in additional staff.

ELEMENTS TO ADDRESS IN PART 3 OF THE ACTION PLAN (SEE P. 36)

1. The MCRCOG Board does not conduct a structured, well-documented annual review of the Executive Director. Formal annual reviews help management understand the Board's vision and help management prioritize among what are often competing goals. MCRCOG's Board should **establish a formal annual performance review process for the Executive Director** that includes specific actions and measurable goals.
2. MCRCOG lacks formal policies such as, Board member education, service development and quality control, or has minimally compliant policies, like the fare change policy. It would serve MCRCOG to have set polices in place rather than rely on ad hoc solutions to agency issues. Staff should work with the Board to **perform a GAP analysis to identify formal policy needs**. The Board should lead MCRCOG administration staff in the policy development.
3. MCRCOG is a large organization with members that serve on multijurisdictional boards and would benefit from formal training. MCRCOG should **incorporate PennTRAIN Board Training modules as part of Board meetings**. By coordinating training with Board

meetings, the Board and management will develop a clearer sense of their roles and a better understanding of ways to effectively oversee and manage the agency.

4. MCRCOG operates several other services within Mercer County such as, the animal shelter, the community pool and the softball field. It is not clear how legally separate organizations administered by MCRCOG are from one another, and if SVSS and MCCT funds are at risk from litigation against MCRCOG as a result of other MCRCOG activities. Staff should **consult and determine whether SVSS and MCCT operations are legally separate from other MCRCOG services.**
5. Currently, MCRCOG does not conduct emergency drills or have an accident reduction plan in place. It is recommended Staff **develop a procedure for emergency drills to be performed at their facilities, in addition to creating an accident reduction plan to reduce incidents, vehicle crashes, passenger injuries/fatalities and employee injuries/fatalities.**

FINANCIAL REVIEW

Assessing the financial health and trajectory of transit agencies is an effort that relies on accurate data from certified audit reports, accounts payable, accounts receivable, PennDOT dotGrants, and interviews with management and financial staff. This financial review focuses on “high-level” snapshot and trend indicators to determine if additional follow up by PennDOT is warranted through the review of audit reports, other financial report, and budgets. The review assesses the financial status through a review of the following:

- High-Level Indicators of Financial Health
- Total Public Transportation Operational Expenditures and Funding
- Fixed-Route Funding
- Paratransit Funding
- Balance Sheet Findings
- Financial Projections

HIGH-LEVEL INDICATORS OF FINANCIAL HEALTH

As shown in **Exhibit 16**, MCRCOG’s transit operations (i.e., SVSS and MCCT) are not in line with industry goals and targets for high-level financial indicators. Typically, an agency should have at least a 25% combined target of state and local carryover subsidies as available reserves, however MRCOG has minimal reserves available. Accounts payable and receivable amounts are negligible. MCRCOG has no available line of credit. A lack of reserves and no available line of credit puts MCRCOG at risk of not being able to address unexpected rises in costs.

Mercer County, the City of Hermitage and surrounding municipalities,⁶ subsidize 2.1% of MCRCOG’s operating costs (FYE 2014). These local matching funds represent a 7.5% match of local to state funds. In coming years, in accordance with Act 44 requirements, local contribution amounts will increase by 5% each fiscal year. At the time of this review, management reports no concerns with finding a sufficient local match.

Available reserves, mostly attributable to local funds, have been well below 25% of annual operating cost. Available reserves have dropped from 1.3% in FYE 2009 to 0.5% in FYE 2014, an average annual decrease of 16.7%. Section 1513 funds are completely expended to cover current year operating costs, leaving no available carryover funds for MCRCOG in case of unexpected cost increases or service changes. MCRCOG has \$12,400 in carryover local funds, which account for 2.1% of the annual operating cost in FYE 2014. Carryover local funds are identified separately in PennDOT dotGrants.

While reserves are reported to be very low, the **amount of reported reserves may not be accurate.** MCRCOG operates on two different fiscal years (i.e., state and calendar) with two different types of non-standard accounting (i.e., modified cash and modified accrual). Furthermore, according to their accountant, MCRCOG has “problems ... with recordkeeping and various reconciliations,” including year-end, and “inaccurate reports are being presented to management⁷.” The auditor concludes that

⁶ Cities of Sharon, Hermitage, Farrell, the Boroughs of Sharpsville and Wheatland

⁷ Mercer County Regional Council of Government Financial Statements as of December 31, 2013 together with Independent Auditors’ Report and Supplemental Information, Black, Bashor & Porsch, LLP CPAs. See page 32, section “B- Findings – Financial Statements Audit.”

the 2013 audit reports were “misstated.” Inaccurate and unclear reporting combined with low reported reserves make it difficult to fully interpret risk when assessing MCRCOG’s overall financial health. Assuming cash reserves are close to what was reported, MCRCOG will need to aggressively control future cost increases to rebuild adequate operating reserves.

Exhibit 16: High-level Financial Indicators

Indicator	MCRCOG Value ⁸	Assessment Criteria / Rationale	Source
State Carryover 1513 Subsidies / Annual Operating Cost	0%	The combined target should be 25%+. This provides flexibility to account for unexpected cost increases or service changes.	FYE 2014 Audit and PennDOT dotGrants
Local Carryover Subsidies / Annual Operating Cost	0.5%		
Credit available/ Annual Payroll	0.0%		
Actual Local Match / Required Match	100%	Target 100%+. Local match that exceeds required minimums gives a transit agency flexibility to change service, to accommodate unexpected cost changes and make capital investments.	PennDOT dotGrants 2014
Accounts Payable (AP) 90+ days	0.0%	Target should be 0% over 90 days. Larger values indicate cash flow concerns.	MCRCOG reported value
Accounts Receivable (AR) 90+ days	0.0%	Target should be 0% over 90 days. Larger values can cause cash flow problems.	MCRCOG reported value
Debt / Annual Operating Cost	0.0%	Target should be 0%. Low debt amounts reduce borrowing costs.	FYE 2014 Audit

⁸ Values reported as end of reporting period balances.

TOTAL PUBLIC TRANSPORTATION OPERATIONAL EXPENDITURES AND FUNDING

As shown in **Exhibit 17**, MCRCOG public transportation has grown from a \$2 million per year operation in FYE 2009 to a \$2.6 million per year operation in FYE 2014, a 30% increase. Approximately 38% of MCRCOG’s operational expenses are for fixed-route service. The remaining operational expenses are for ADA complementary and shared-ride paratransit service (62%), as shown in **Exhibit 18**.

MCRCOG’s operational funding comes from a variety of sources including state funds, federal funds, local funds and passenger fares. MCRCOG has used state, federal and local funds to finance both its fixed-route and ADA paratransit operations (**Exhibit 19**). Combined state and federal operating subsidies are an important share, representing approximately 35.9% of total operating income. Passenger fares and other revenues are the largest funding source for MCRCOG (**Exhibit 20**) accounting for 62% of total operating income. Local funding is in line with Act 44 requirements.

Exhibit 17: Public Transportation Operating Expense by Service Type (FYE 2009-2014)

Expense by Service Type	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Fixed Route	\$0.7	\$0.7	\$0.7	\$0.7	\$0.8	\$1.0
ADA and Shared-ride Paratransit	\$1.3	\$1.5	\$1.6	\$1.6	\$1.5	\$1.6
Total (\$ millions)*	\$2.0	\$2.2	\$2.3	\$2.3	\$2.3	\$2.6

* May not add due to rounding

Exhibit 18: Share of Public Transportation Operating Expenses by Service Type

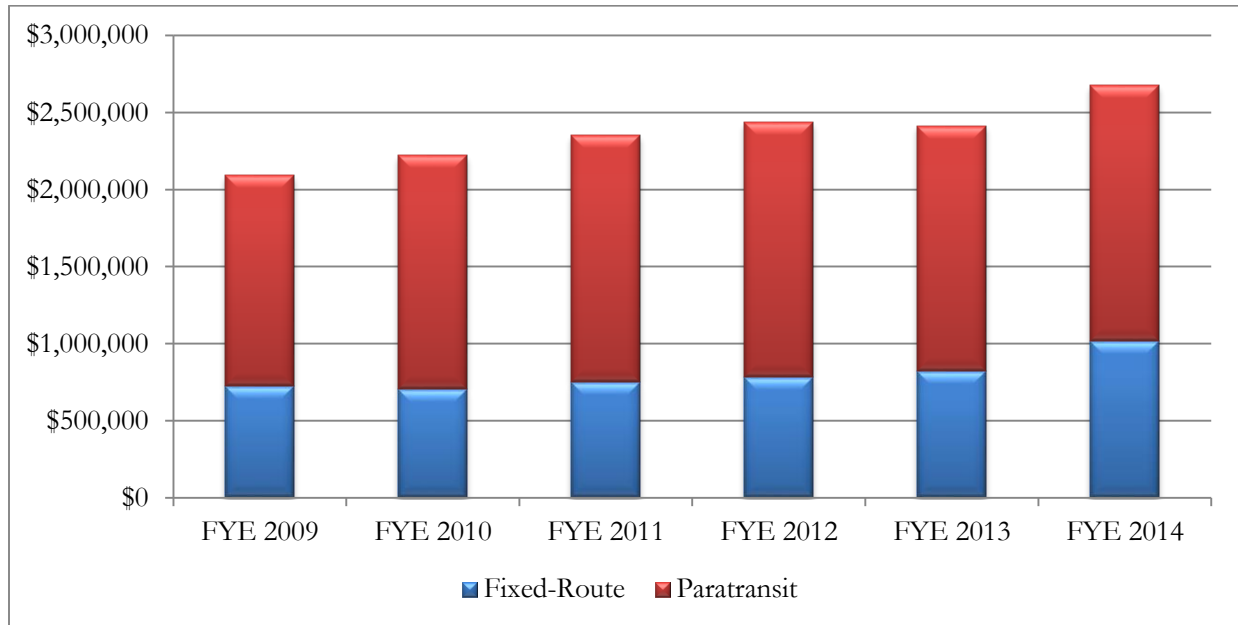
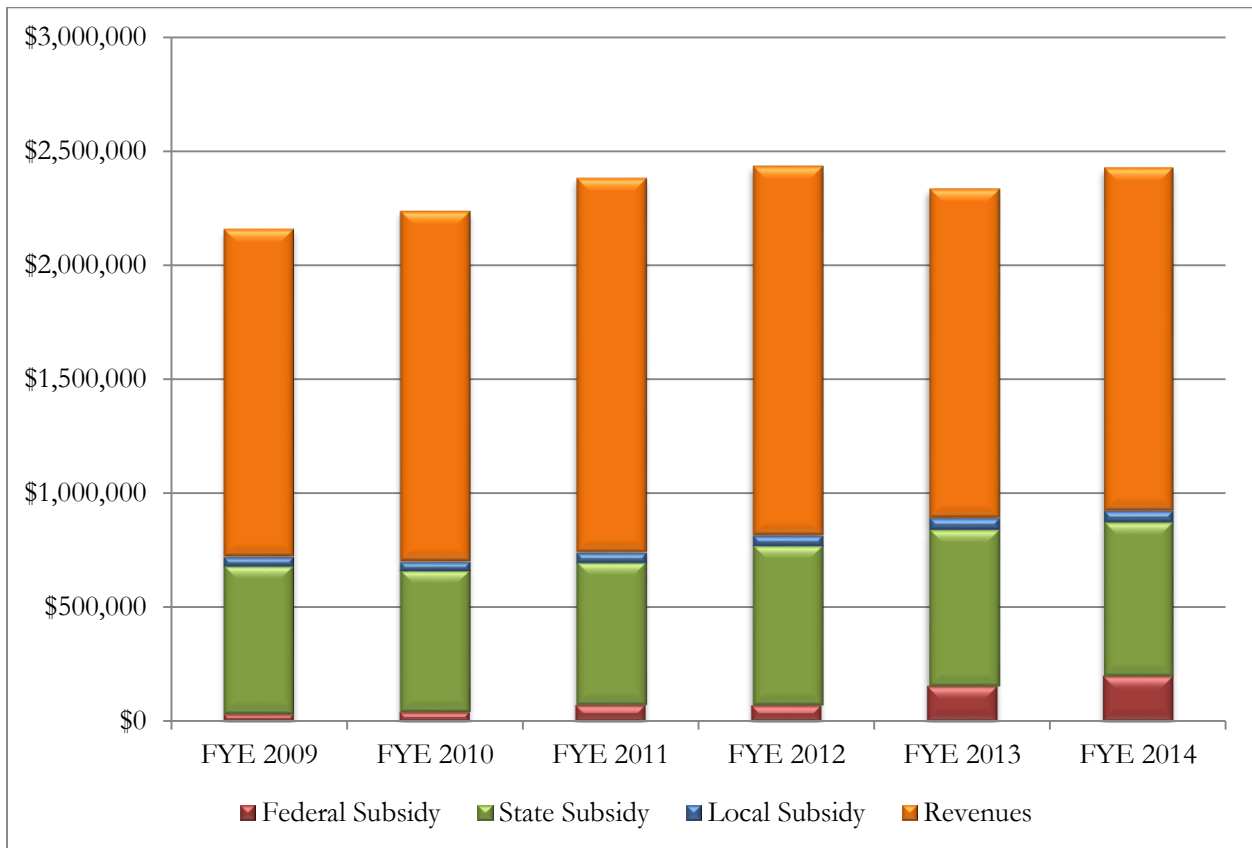


Exhibit 19: Public Transportation Operational Funding by Source (FYE 2009 – FYE 2014)

Share of Funding	2009	2010	2011	2012	2013	2014
Federal Subsidy	1.4%	1.8%	3.0%	2.9%	6.5%	8.1%
State Subsidy	30.1%	27.7%	26.3%	28.7%	29.4%	27.8%
Local Subsidy	2.0%	1.9%	1.8%	1.9%	2.2%	2.1%
Revenues	66.5%	68.6%	68.9%	66.5%	61.8%	62.0%
Local Subsidy / State Subsidy	6.5%	6.7%	7.0%	6.6%	7.5%	7.5%

Exhibit 20: Public Transportation (Fixed-Route + Paratransit) Operational Funding



FIXED-ROUTE FUNDING

MCRCOG's fixed-route funding is derived from general revenues and government subsidies. Direct Passenger fares have covered between 5.2% and 6.2% of total operating revenues (**Exhibit 21**).

Based on the FYE 2010 to FYE 2014 dotGrants reporting, MCRCOG operated current year funding with no excess state funds being "carried over" and the end of 2014. MCRCOG had \$12,414 in carryover local funds available at the end of 2014.

Exhibit 21: Fixed-Route Funding

Funding Category	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Revenues					
Passenger Fares	\$36,764	\$40,450	\$48,881	\$47,644	\$52,287
Advertising	\$720	\$720	\$770	\$0	\$0
Charter	\$0	\$0	\$0	\$0	\$0
Route Guarantee	\$0	\$0	\$0	\$0	\$0
Other (Rent)	\$1,200	\$1,200	\$1,200	\$0	\$0
Other (Misc)	\$0	\$0	\$0	\$0	\$0
Other (Interest)	\$0	\$0	\$0	\$9,064	\$0
Subtotal	\$39,245	\$42,370	\$50,899	\$56,786	\$52,300
Subsidies					
Federal Operating Grant	\$40,038	\$70,870	\$41,392	\$100,000	\$150,000
Act44 (1513) State Prior	\$0	\$0	\$0	\$0	\$0
Act44 (1513) State Current	\$583,506	\$593,563	\$643,947	\$578,435	\$661,239
Municipal Prior	\$0	\$0	\$0	\$0	\$0
Municipal Current	\$38,757	\$41,725	\$46,104	\$48,409	\$50,829
Act 44 (1513) Advertising	\$0	\$0	\$0	\$0	\$0
Act 44 (1513) Private	\$0	\$0	\$0	\$0	\$0
Act3 BSG Grant (State)	\$0	\$0	\$0	\$0	\$0
Act3 BSG Grant (Local)	\$0	\$0	\$0	\$0	\$0
Act 3 BSG Grant (State)	\$0	\$0	\$0	\$37,603	\$14,443
Act 3 BSG Grant (Local)	\$0	\$0	\$0	\$0	\$0
Special-(Federal)	\$0	\$0	\$0	\$0	\$0
Special-(State)	\$0	\$0	\$0	\$0	\$0
Special (Local)	\$0	\$0	\$0	\$0	\$0
Subtotal	\$662,301	\$706,158	\$731,443	\$764,447	\$876,511
Total Funding	\$701,546	\$748,528	\$782,342	\$821,233	\$928,811
Passenger Fares/ Total Funding	5.2%	5.4%	6.2%	5.8%	5.6%

Source: PennDOT dotGrants Reporting System

PARATRANSIT FUNDING

Paratransit funding is about 61.9% of MCRCOG's public transportation operation and consists of ADA complementary and shared-ride services. Local, state and federal subsidies as well as passenger fares are used to finance paratransit operating costs (**Exhibit 22**). The paratransit program has decreased from \$1,533,844 in FYE 2010 to \$1,498,371 in FYE 2014. The ADA complementary and shared-ride services budget is very large in proportion to MCRCOG's fixed-route budget.

Exhibit 22: Paratransit Funding by Source

Category	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Revenues					
1 Passenger Fares	\$134,221	\$120,225	\$114,539	\$64,555	\$62,014
2 Advertising	\$0	\$0	\$0	\$0	\$0
3 Lottery	\$668,567	\$693,525	\$680,303	\$633,410	\$643,581
4 PwD Reimbursement	\$43,360	\$57,887	\$47,711	\$49,419	\$40,847
5 AAA	\$160,333	\$157,235	\$164,662	\$135,654	\$146,202
6 MH/MR	\$0	\$0	\$0	\$0	\$0
7 W2W	\$0	\$0	\$0	\$0	\$0
8 MATP	\$482,786	\$563,612	\$520,422	\$458,632	\$508,402
9 Other- Nursing Homes	\$5,238	\$5,849	\$7,061	\$10,656	\$8,931
10 Other- Insurance Rebate	\$0	\$0	\$33,572	\$34,430	\$42,954
Subtotal	\$1,494,505	\$1,598,333	\$1,568,270	\$1,386,756	\$1,452,931
Subsidies					
1 Federal Operating Grant	\$0	\$0	\$28,508	\$52,433	\$45,440
2 Act 44 (1513) State Prior	\$0	\$0	\$54,239	\$70,853	\$0
3 Act 44 (1513) State Current	\$36,278	\$31,422	\$0	\$0	\$0
4 Municipal Prior	\$0	\$0	\$0	\$0	\$0
5 Municipal Current	\$3,061	\$2,184	\$0	\$0	\$0
6 Special- (Federal)	\$206,647	\$343,512	\$0	\$0	\$0
7 Special- (State)	\$0	\$0	\$0	\$0	\$0
8 Special- (Local)	\$0	\$0	\$0	\$3,296	\$0
Subtotal	\$39,339	\$33,606	\$82,747	\$126,582	\$45,440
Total Funding	\$1,533,844	\$1,631,939	\$1,651,017	\$1,513,338	\$1,498,371

Source: PennDOT dotGrants Reporting System

BALANCE SHEET FINDINGS

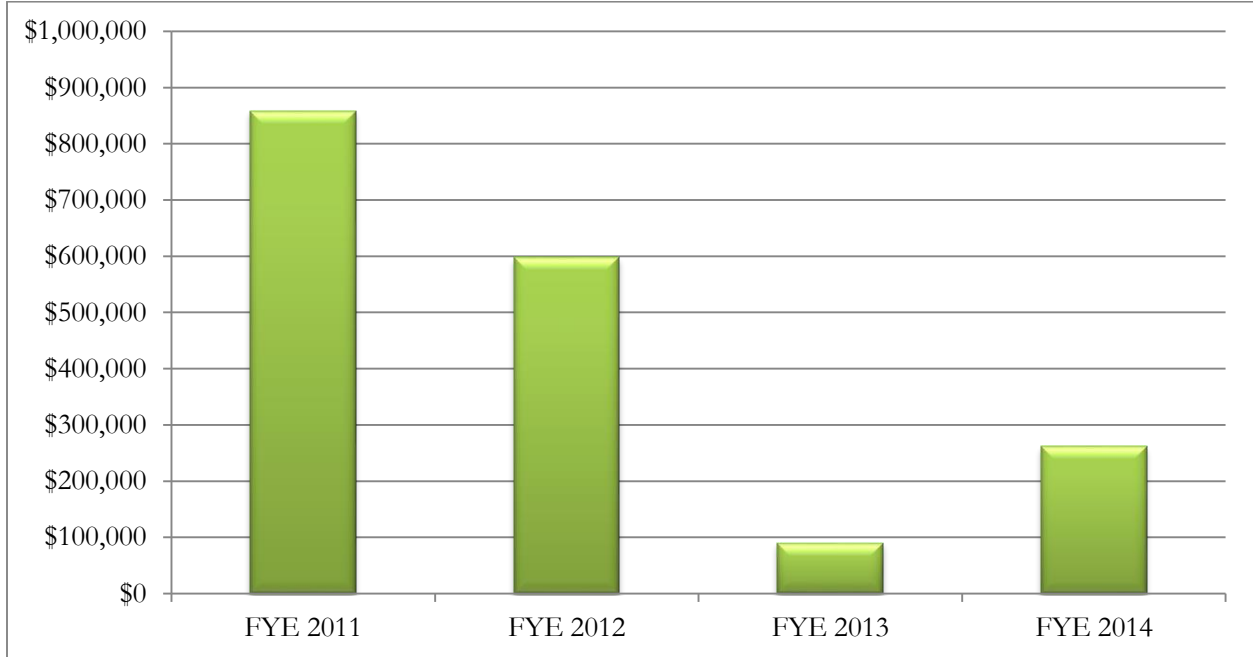
Review of balance sheets from MCRCOG shows that the agency regularly maintains adequate cash on hand (**Exhibit 23** and **Exhibit 24**). The margin between current assets and liabilities is similar to that seen in many other transit agencies in the Commonwealth, but has decreased over time. Accounts payable remains at low levels. MCRCOG does not maintain a line of credit.

Exhibit 23: Balance Sheet Summary (FYE 2011 – FYE 2014)

Balance Sheet Report	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Cash Equivalent Balance	\$858,638	\$598,363	\$90,033	\$261,306
Grants Receivable (including capital)	\$1,111,821	\$1,219,944	\$1,896,514	\$1,545,699
Other Accounts Receivable	\$0	\$0	\$0	\$0
Restricted Assets: Cash	\$0	\$0	\$0	\$0
Inventory Value	\$0	\$0	\$0	\$0
Prepaid Expenses	\$14,756	\$15,567	\$14,642	\$20,659
Accounts Payable (including capital)	\$115,873	\$132,788	\$338,916	\$118,276
Accrued Expenses	\$17,875	\$21,264	\$21,985	\$27,009
Deferred Revenue	\$0	\$0	\$0	\$0
Line of Credit	\$0	\$0	\$0	\$0
Total Operating Expense	\$2,353,000	\$2,433,359	\$2,413,179	\$2,676,267
Cash Eqv. Bal / Total Operating Exp.	36.5%	24.6%	3.7%	9.8%
Line of Credit / Annual Payroll	0.0%	0.0%	0.0%	0.0%
Current Assets	\$1,985,215	\$1,833,874	\$2,001,189	\$1,827,664
Current Liabilities	\$845,540	\$876,231	\$1,081,871	\$1,080,537
Net Current Assets	\$1,139,675	\$957,643	\$919,318	\$747,127

Source: Annual Audit Reports and dotGrants

Exhibit 24: End-of-Year Cash Equivalent Balance (FYE 2011 – FYE 2014)



CONCLUSIONS

Mercer County, the City of Hermitage and surrounding municipalities⁹ contribute monies for MCRCOG's public transportation funding requirements. MCRCOG has no outstanding debt or line of credit, and currently has a balanced operating budget. MCRCOG projections of service levels and budget indicate that MCRCOG plans to maintain a balanced budget over the next five years. MCRCOG had no 1513 carryover funds available, but had \$30,680 in local carryover funds at the end of FYE 2013. By the end of FYE 2014, MCRCOG had no available state carryover subsidies and local carryover subsidies had decreased to \$12,414. A projected annual increase of 1.6% appears low in comparison to recent experience (4.8% annually). The lack of identifiable reserves means that the agency has no capacity to manage short-term cost increases, such as a change in fuel or parts prices.

The performance review has identified major concerns regarding how MCRCOG conducts its finances and accounting practices:

First, MCRCOG staff could not clearly document how costs are allocated between shared-ride and fixed-route service. A high-level assessment conducted for this review indicates that shared-ride costs may be understated while fixed-route may be overstated.

Second, MCRCOG operates two different types of accounting approaches (i.e., modified cash and modified accrual) and for both calendar and state fiscal years (July 1 through June 30). This practice makes MCRCOG's finances difficult to interpret for management and auditors. It also increases the amount of effort necessary to manage the agency's finances as well as the likelihood of errors.

Finally and most significantly, MCRCOG has "problems ... with recordkeeping and various reconciliations," including year-end account balances. "Inaccurate reports are being presented to management."¹⁰ The auditor concludes that the 2013 audit reports were "misstated." Inaccurate and misstated reports make prudent financial stewardship difficult and well-informed management decisions impossible to achieve.

Management should take appropriate actions immediately to address its accounting practice shortcomings, control costs, achieve farebox recovery goals, and rebuild cash reserves to improve MCRCOG's overall financial health.

⁹ Cities of Sharon, Hermitage, Farrell, the Boroughs of Sharpsville and Wheatland

¹⁰ Mercer County Regional Council of Government Financial Statements as of December 31, 2013 together with Independent Auditors' Report and Supplemental Information, Black, Bashor & Porsch, LLP CPAs. See page 32, section "B- Findings – Financial Statements Audit."

APPENDIX A: ACTION PLAN IMPROVEMENT STRATEGIES

PART 1- ACT 44 PERFORMANCE METRIC FINDINGS TEMPLATE

A. ACTIONS TO INCREASE PASSENGERS / REVENUE HOUR TEMPLATE

Recommendation (page)	MRCOG Action	Estimated Initiation Date	Estimated Completion Date
Initiate a transit development plan (TDP) to reflect changing demographics (p.21)			

B. ACTIONS TO INCREASE OPERATING REVENUE / REVENUE HOUR TEMPLATE

Recommendation (page)	MRCOG Action	Estimated Initiation Date	Estimated Completion Date
Include a technical analysis prior to fare increases (p.22)			
Develop a fare policy that keeps pace with inflation and maintains a satisfactory farebox recovery (p.22)			
Explore opportunities for advertising (p.22)			

C. ACTIONS TO REDUCE OR CONTAIN OPERATING COST / REVENUE HOUR TEMPLATE

Recommendation (page)	MRCOG Action	Estimated Initiation Date	Estimated Completion Date
Coordinate with PennDOT for a financial review of fixed-route and shared-ride programs to determine true program cost (p.23)			
Address unaccounted audit findings (p.23)			

PART 2- OTHER ACTIONS TO IMPROVE OVERALL PERFORMANCE TEMPLATE

Recommendation (page)	MCRCOG Action	Estimated Initiation Date	Estimated Completion Date
Perform policy GAP analysis to determine formal policy needs (p.23)			
Establish a formal annual performance review process for the Executive Director (p.23)			
Develop performance targets for all key agency functions (p.23)			
Complete PennTRAIN Board training (p.23)			
Determine the legal separation between transit operations and other functions of MCRCOG (p. 23)			
Assess if funds dedicated to transit are at risk from litigation against MCRCOG from non-transit functions (p. 23)			
Adopt a quality control policy and develop a quality control program for data collection (p.23)			
Adopt a formal emergency drill protocol (p.23)			
Adopt a formal accident reduction plan (p.23)			

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