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Office of the City Auditor

Kansas City Missouri
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2006

Date: November 8, 2006

To: Chuck Eddy, Chair, and Members of the Finance and Audit Committee

From: Mark Funkhouser, City Auditor

Subject: Kansas City Area Transportation Authority Share-A-Fare Program

On October 25, 2006, the Finance and Audit Committee directed us to look into issues regarding a Kansas City Area Transportation Authority (KCATA) request for proposal (RFP) for paratransit services. We focused on the following questions.

- Will the new Share-A-Fare service delivery model and contractor reimbursement method cost taxpayers more money than the current method?
- Does KCATA comply with federal disadvantaged business enterprise (DBE) regulations?
- Is the proposed service delivery method for the Share-A-Fare program a commonly recognized model in the industry?

Conclusions

- The changes to the Share-A-Fare service delivery model and contractor reimbursement method have the potential to cost significantly more money.
- KCATA complies with federal disadvantaged business enterprise (DBE) regulations.
- The proposed service delivery method is a commonly recognized model in the industry.

Work performed

We reviewed the Share-A-Fare RFP, current Share-A-Fare contracts, information about service delivery models, and other documents related to the Share-A-Fare program. We interviewed KCATA and city staff, a Share-A-Fare contractor, and a regional Federal Transit Administration representative. We examined how the current reimbursement method is different from the one proposed in the RFP. We analyzed financial data to understand the costs under each reimbursement method. We conducted our work in accordance with generally accepted government auditing standards. No information was omitted from this memorandum because it was privileged or confidential.

Background

The city contracts with the Kansas City Area Transportation Authority (KCATA) to administer the Share-A-Fare transportation program. This program serves people who need door-to-door transportation because age or a disability prevents them from driving a car on their own, or prevents them from using KCATA's bus service. These services are known as paratransit services. The Share-A-Fare service provides complementary transportation as required by the Americans with Disabilities Act (ADA). It also provides transportation for qualified Kansas City, Missouri, residents who are not covered by ADA.

KCATA uses contractors to operate the Share-A-Fare program. Earlier this year, KCATA issued an RFP soliciting proposals to provide Share-A-Fare transportation services. The RFP includes a service-delivery model and method for determining contractor reimbursements that are different from the ones used in the current contract. The proposals are under review, and the KCATA board plans to select a contractor in November 2006.

RFP Proposed Changes to Both Service Delivery Model and Method of Reimbursement

The RFP solicited proposals that could be based on a service delivery model similar to the current one or a new service delivery model. Proposers could submit proposals for either or both models. New methods of reimbursement applied to the two models.

Currently multiple contractors provide transportation services while KCATA operates the call center. Share-A-Fare contractors are assigned to designated geographic areas and provide drivers and vehicles, which are sedans (e.g. taxi cab) or vans depending on passenger needs. Neither drivers, nor vehicles are dedicated to the Share-A-Fare program. KCATA employees operate the call center.

In the new model, one contractor runs the entire operation with KCATA performing an oversight function. Drivers and vehicles, all of which will accommodate wheelchairs, will be dedicated to the Share-A-Fare program. In addition, the contractor will operate and staff the call center. The KCATA staff will primarily perform an oversight function.

The new model changes the compensation method. Under the current model, KCATA reimburses Share-A-Fare contractors by passenger mile, the number of passengers multiplied by the number of miles traveled. For example, if a vehicle has three passengers and travels 5 miles, KCATA will reimburse the provider for 15 passenger miles.

The proposed reimbursement method is based on vehicle revenue hour, which is the time from first pick-up to last drop-off, minus scheduled breaks or any downtime due to breakdowns or accidents. For example, if a vehicle is scheduled from 6 a.m. to 4 p.m. with no scheduled downtime in between, KCATA will reimburse the contractor for 10 vehicle revenue hours.

Analysis

Payment to Contractor Will Depend on Number of Trips Per Hour

It is difficult to compare costs between the two reimbursement methods since one is based on the number of passengers and miles, and the other on service hours. It is clear that costs under the new reimbursement method can fluctuate depending on the number of trips per hour per vehicle. If the number of trips per vehicle hour is low, then the cost of the program is higher.

The new reimbursement method includes productivity incentives and penalties. The RFP sets the minimum acceptable productivity to be an average of 1.3 trips per vehicle revenue hour. The desired productivity is an average of 2.0 trips per vehicle revenue hour. For every tenth of a percent the contractor goes above an average 1.5 trips per vehicle revenue hour, KCATA will pay an additional one percent in the hourly rate. For every tenth of a percent the average trips per vehicle revenue hour falls below 1.3, KCATA will assess a one percent decrease in the hourly rate.

Productivity is measured by the average trips per vehicle revenue hour. KCATA's average cost per trip in August 2006 under the current reimbursement method was around $21.00. To maintain this cost under the new reimbursement method, the contractor would need to average 2.0 trips per vehicle revenue hour. (See Exhibit 1.) If the productivity falls below this level, the cost per trip increases. For example, if the productivity falls to 1.5 trips per vehicle hour, the cost per trip will be $26.67, an increase of about 27 percent. Based on KCATA's 2007 projected purchased transportation cost, a 27 percent increase is approximately equivalent to an additional $1.4 million per year.

Exhibit 1. Estimated Cost per Trip

Average Trips Per Vehicle Hour	Hourly Rate Paid to Contractor Including Bonuses/Penalties[1]	Amount KCATA Would Pay Contractor per Trip[2]
2.3	$43.20	$18.78
2.2	42.80	19.45
2.1	42.40	20.19
2.0	42.00	**21.00**
1.9	41.60	21.89
1.8	41.20	22.89
1.7	40.80	24.00
1.6	40.40	25.25
1.5	40.00	26.67
1.4	40.00	28.57
1.3	40.00	30.77
1.2	38.80	32.33
1.1	38.40	34.91
1.0	38.00	38.00

Sources: KCATA Financial Statements, RFP for Paratransit Service, and KCATA Management.

[1] Assuming a base hourly rate of $40.00.
[2] Cost per trip includes fuel cost but not the cost for the call center.

Cost is not management's primary concern. Cost ranked sixth out of ten criteria listed for the RFP evaluation. According to KCATA management, they expected the cost would go up with the new service delivery model and reimbursement method. KCATA management's priority is to ensure ADA compliance and improve service quality. They expressed concern about an upcoming ADA review and the potential for stiff federal penalties if the program is found to be out of compliance.

KCATA Followed Federal DBE Requirements

Federal regulations expressly prohibit KCATA from setting disadvantaged business enterprise (DBE) goals in individual contracts once they have exceeded their overall federal DBE goal. KCATA records indicate that their overall DBE goal was 10 percent for federal fiscal year 2006.[3] In the reporting period preceding the release of the Share-A-Fare RFP, KCATA had a DBE participation rate of 22.7 percent. As a result, KCATA was prohibited from including a DBE goal in subsequent contracts, like the Share-A-Fare RFP.

While the RFP does not include a DBE goal, it specifies that proposers are "strongly encouraged to partner with DBE firms on this project" and all recipients and vendors "shall take all necessary and reasonable steps…to ensure that DBE's have the maximum opportunity to compete for and perform contracts." The Federal Transit Administration did not find any deficiencies with DBE requirements during their 2006 triennial review of KCATA.

Proposed Model Is Commonly Recognized in the Industry

Contracting with a full-service provider and reimbursement based on service hour are commonly used in the paratransit industry.

KCATA's proposed service delivery model is common among peer agencies. In 2001, KCATA hired TranSystems, a transportation consultant company, to assess the Share-A-Fare program. As part of the assessment, the consultant surveyed seven peer paratransit services.[4] The consultant reported that of the five peer agencies that responded to the survey, Columbus, Denver, and Minneapolis contract out all of their operations. In addition, a Federal Transit Administration representative verified that contracting with a full-service provider is not unusual for a major transportation facility like KCATA.

KCATA's proposed reimbursement method is also common among peer agencies. According to TranSystems' survey, four out of those five paratransit programs (Columbus, Indianapolis, Louisville, and Minneapolis) reimburse their contractor using an hourly rate. TranSystems suggested that KCATA consider changes to the way contractor compensation is

[3] October 1, 2005 through September 30, 2006.
[4] TranSystems selected peer paratransit transit agencies based upon ridership, annual passenger miles, annual vehicle revenue hours, and operating expenses. The metropolitan service areas for each service were also compared in terms of geographic area (in square miles), population, population density, and the total transit spending per capita for each region. The seven peer cities surveyed were Nashville, Columbus, Denver, Indianapolis, Louisville, St. Louis, and Minneapolis. St. Louis and Nashville did not respond.

structured. According to TranSystems's report, payment for services based on service hour, with incentives to keep trip productivity high and penalties if productivity falls too low can motivate contractors to optimize performance and productivity.

Observations and Issues

Current Contract with KCATA May Not Protect City from Paying Additional Costs

The changes to the Share-A-Fare program could potentially result in much higher program costs. The city's current contract with KCATA does not limit the city's financial obligation for the Share-A-Fare program, and does not specify how additional costs should be handled.

The city's current contract with KCATA does not limit its obligation for Share-A-Fare program costs. According to the city's fiscal year 2007 contract with KCATA, the city's portion of Share-A-Fare program costs will be the amount remaining after subtraction of all other funding sources. Although, the city's share of the cost is estimated not to exceed $1.9 million, the contract allows KCATA the flexibility to apply funds not required for mass transit to Share-A-Fare program costs and vice versa, up to $46.8 million.[5] The contract, however, does not specify what fund should be used to cover the program costs in excess of $1.9 million, nor does it set a cap on the city's Share-A-Fare funding. The city's budget officer told us that if Share-A-Fare costs exceed the contractual amount, KCATA would have to absorb the additional cost from their operating revenue.

The city's current contract with KCATA does not reflect the city's actual contribution to Share-A-Fare program costs. The contract estimates the city's portion of Share-A-Fare program costs will not exceed $1.9 million. KCATA's 2006 Share-A-Fare program budget, however, estimates the city's portion to be about $3.4 million of a $5.2 million program budget. (See Exhibit 2.)

Exhibit 2. Share-A-Fare Program Funding by Source

Source	2006 Budget	Percent
City	$3,396,359	64.8%
State	66,372	1.3%
Medicaid	43,921	12.3%
Federal	1,135,533	21.7%
Total	$5,242,185	100.0%

Source: KCATA, Share-A-Fare Operating Budget.

The City Manager should ensure the contract with KCATA is amended to clarify the city's financial obligation to the Share-A-Fare program and to accurately reflect the city's contribution to the Share-A-Fare program.

[5] Ordinance 060498 authorized funding for Share-A-Fare of $1,876,250 with total funding to KCATA to be no more than $46,783,732 for fiscal year 2007.

Monitoring Performance Is Crucial

The 2002 TranSystems report noted that Share-A-Fare had limited proactive monitoring of service quality and relied almost entirely on customers and contractors to report problems. The report said Share-A-Fare was keeping complaints in a database but little if any analysis was being done with the information. We found that KCATA staff look at complaints to determine whether further investigation is needed or whether points should be assessed to the contractor (which can reduce their monthly payment), but they still do not compile or analyze complaint data. Staff also told us they do not survey users to get feedback on customer satisfaction.

KCATA staff told us that one control they will use to contain costs in the new model is closely monitoring the contractor's performance to ensure quality service and productivity levels that will keep costs down. If KCATA is spending more for higher quality service, it is imperative that they be proactive in monitoring service quality and costs. KCATA should include clear and measurable performance expectations in the Share-A-Fare contract. KCATA staff should collect performance and productivity data, analyze it, and regularly report on the results. Performance data provided by the contractor should be verified for completeness and accuracy. KCATA should survey Share-A-Fare users on a regular basis for feedback about the quality of the service. Complaints should be compiled and analyzed to identify and promptly address trends.

It Will Be Difficult For KCATA To Walk Away From The Contract

Paratransit services are very specialized and ADA requirements are strict. Although the contract will have a "convenience clause" allowing KCATA to cancel the contract at any time with notification, replacing an underperforming contractor right away for this specialized service could be difficult.

cc: Mayor Kay Barnes
Members of the City Council
Wayne Cauthen, City Manager
KCATA Board of Commissioners
Mark Huffer, General Manager, KCATA