

December 31, 2019

Mr. Joseph Eldredge
Project Manager, NTD Validation Services

Ms. Angie Wang
National Transit Database Program Manager
Federal Transit Administration
Washington, D.C.

Dear Mr. Eldredge and Ms. Wang:

I am writing this memo out of concerns that our local transit agency Sonoma-Marín Area Rail Transit (SMART –NTD Transit Agency No 12134456789) may be providing faulty information to the National Transit Database (NTD) and inconsistent information to the San Francisco Bay Area MPO, the Metropolitan Transportation Commission (MTC).

My focus is on two key performance metrics: ridership and operating expenses. I have reviewed not only what has been submitted to the NTD and MTC, but what has also been reported to the public in SMART documents, which I cite below. I focus on the time period: FY 17/18, as this information is contained in NTD ridership and operating expense files as well as recent (April 2019) submissions to the MTC. SMART commenced passenger rail service on August 25, 2017.

The memo is organized into the two main categories (ridership and operating expenses) and ends with an observation and recommendation for a detailed audit by both agencies as it appears apparent that there is a lack of financial rigor and quality control over what is being submitted to the NTD and MTC.

Ridership

Table 1 provides reported ridership from the various sources I have been provided.

Table 1
Reported SMART Ridership for Various Periods and Sources

Row	Period	Source	Ridership
I	Aug 2017 - June 2018	Sum of Monthly NTD Data	598,818
II	July 2017 - June 2018	Sum of Monthly NTD Data and 2018 Annual Data	636,029
III	FY 17/18 "Current Adjusted"	MTC - "Applications" Spreadsheet F(b)	636,029

Observation #1: In the above table, the difference between the values in Row I and the other two rows is 37,211. This is the ridership SMART posted to the NTD for July 2017. SMART was not in operation until August 25, 2017 and so the 37,211 riders posted for July 2017 were not for fare paying passengers on scheduled service. Indeed, as an August 17, 2017 announcement still on SMART's website states:

“The Sonoma-Marin Area Rail Transit (SMART) District announced today that it has received the green light from the Federal Railroad Administration to begin full passenger train service. Service will begin on August 25.”¹

In a recently released memo on ridership to the SMART Board, the General Manager published the following:

Table 2
Recently Reported Ridership Detail for July 2017

Date	Manual Count	Reason
29-Jun-17	3,000	Public Preview Rohnert Park to San Rafael
1-Jul-17	1,380	Public Preview Marin County Fair
4-Jul-17	1,365	Public Preview Marin County Fair
7-Jul-17	1,151	VIP Preview
8-Jul-17	2,885	Public Preview
9-Jul-17	3,077	Public Preview
11-Jul-17	713	VIP Preview
13-Jul-17	3,524	Public Preview
15-Jul-17	3,269	Public Preview
16-Jul-17	3,035	Public Preview
18-Jul-17	678	VIP Preview
19-Jul-17	4,018	Public Preview
20-Jul-17	1,103	VIP Preview
22-Jul-17	3,735	Public Preview
23-Jul-17	4,278	Public Preview
Subtotal	37,211	

Source: “SMART Ridership Counts through November 2019 (pdf)” available at <http://sonomamarintrain.org/RidershipReports>. Ridership on June 29, 2017 was included in the submission for July 2017 and is included in the recently released report.

By contrast, the reported ridership for the seven service days in August 2017 was 17,273.

Operating Expenses

SMART financial staff reports revenues and expenditures to its Board. Summary statements are made in budget presentations, such that the reports for expenditures for the fiscal year are close to final expenditures. Financial reports stratify revenues and expenditures into three categories²: Administrative, Capital, and Operating.

In Table 3 below, I report the fiscal year end totals for Operating and Administrative “Department” Expenses, ignoring those expenses associated with their Capital Department. As the Administrative Budget includes debt service payments, I also exclude these expenses as they are not included in the NTD operating expense definition.

¹ See www.sonomamarintrain.org/node/120.

² Their budget presentations refer to these categories as “departments.”

Operating expenses are compared in the table to what was reported to the NTD (Row III in bold) for FY 2017-18. For reference I also report just their Operating Department expenses (Row IV) and combined administrative and operating expenses for subsequent fiscal years. In Row VIII I report what was included in a recently adopted “Strategic Financial Plan” for FY 2020 and labeled “O&M expenses.”³

**Table 3
Comparison of Operating Expense Totals Submitted to the NTD and the MTC**

Row	Period	Source	Op Exp (\$000)	Adjustments - Notes
I	FY 17/18	SMART's Administrative and Operating Expenses	32,469	Excludes \$14,217 in Principal and Interest in Admin Expense
II	FY 17/18 "Current Adjusted"	MTC - "Applications" Spreadsheet F(a)	30,282	Excludes Interest of \$5,820 from Bonds
III	FY 17/18 or "2018"	NTD Operating Expenses	23,901	
IV	FY 17/18	SMART's Operating Expenses	21,012	Excludes \$14,217 in Principal and Interest in Administrative Department Expense
V	FY 18/19	SMART's Administrative and Operating Expenses	39,449	Excludes \$16,300 Principal and Interest in Admin Expense
VI	FY 18/19 "Budgeted"	MTC - "Applications" Spreadsheet F(a)	37,982	Excludes Interest of \$7,731
VII	FY 19/20	SMART's Administrative and Operating Budgets	42,322	Excludes \$16,748 in Principal and Interest in Admin Budget
VIII	FY 19/20 O&M Expenses	SMART's Strategic Plan Sep 2019	41,300	Published in October 2019

Observation #1: None of the reports from SMART’s financial staff to the agency’s Board of Directors indicate an operating expense close to that reported to the NTD. If one assumes Administrative Dept. expenses are non-operating expenses, then the submissions the MTC materially overstate the operating expenses. And, if the MTC submissions overstate operating expenses, the Strategic Plan also overstates them. The evidence is suggestive that the information reported to the NTD materially understates the agency’s operating expenses. It is materially inconsistent with other accounting documents and likely significantly understates the agency’s true operating expenses.

In Table 4 (see next page), I compare SMART’s reported expenses from its budget reports with information reported in the MTC spreadsheet. As indicated there is a two million dollar difference in the total operating expenses reported that is largely due to difference in the subtotal of labor costs including benefits.⁴

³ SMART’s 2019 Strategic Plan can be found at www.sonomamarintrain.org/file/1096.

⁴ Reviewers should also note that there are material differences within this latter category between the amounts assigned to labor costs vs. the amounts assigned to benefits. These differences also require an explanation.

Table 4
SMART’s “Operating Department” Budget Compared to NTD Operating Expense
FY 2017-18 (\$000)

MTC Categories	SMART Budget	MTC Report	Estimation Notes
Labor, Operators (501.01)	14,486	3,988	A
Labor, Others (501.02)		7,878	
Subtotal Labor	14,486	11,867	
Fringe Benefits (502 except 502.02)	325	4,122	A
Fringe Benefits, Pension Plans (502.02)		962	
Subtotal Benefits	325	5,084	
Subtotal Labor + Benefits	14,812	16,950	
Services (503)	7,893	2,519	B
Fuel and Lubricants (504.01)	1,012	932	
Tires and Tubes (504.02)		0	
Other Materials and Supplies (504.99)		2,495	
Utilities (505)	540	655	
Casualty and Liability (506)	2,389	1,297	
Purchased Transportation (508)		32	
Leases and Rentals (512)	751	797	
Other (507, 509, 510)	5,072	4,605	C
Total Operating Expenses ex Interest	32,469	30,282	D

Notes: A – I am unable to allocate SMART budget figures into these categories. B - Total services from SMART’s Operating and Administrative department budgets less the non-blank entries below C- a plug calculation to ensure values sum to total reported. D- As indicated, interest expense is excluded from the total Operating Expense reported in MTC tab F(a).

Observation #2: The information in Table 4 above provides further support for my concerns that SMART has understated its operating expenses in the NTD by a material amount. The source of the differences may be that SMART has not including recorded expenses from its Administrative Budget that are included in the MTC submission, but not included in the NTD submission.

In the last table included in my analysis (Table 5, next page) the MTC spreadsheet tab F(a) asks transit agencies to report operating expenses from on a “functional” classification as well as an “object” classification. An image of this spreadsheet is provided in Appendix A for your review.

Observation #3: The note in the MTC spreadsheet in “**TOTAL, LINE 6 MUST EQUAL LINE 22!** .” As indicated in the file (see Appendix), these totals do not agree.

Table 5
SMART’s NTD Submission by Functional Expense Category compared to MTC
“Functional” Classification FY 2017-18 (\$000)

Functional Expense Category	NTD (2018)	MTC
Vehicle Operations	10,319	6,144
Vehicle Maintenance	3,003	3,817
Non-Vehicle Maintenance*	3,560	7,174
General Administration (160)	7,019	8,291
Total	23,901	25,425

Relevance of the Two Key Performance Metrics to the Public

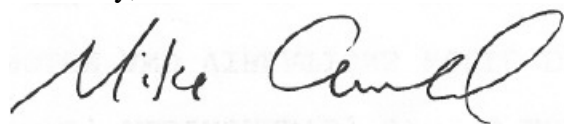
Ridership and operating expenses combine to make two key performance metrics relevant to the public. Ridership in turn generates fare revenue affecting other important metrics: farebox recovery and taxpayer subsidy per rider. Both calculations are highly sensitive to the reported values in the NTD particularly when comparing SMART’s performance with other rail transit systems in the nation and the other transit systems in the San Francisco Bay Area. In particular, the material difference in reported operating expenses has significant impact on the public’s understanding and interpretation of the success or failure of the large investment made in rail transit services in Marin and Sonoma counties.

Key Recommendation

As I don’t have access to the detailed expense files from SMART, nor do I have the qualifications to audit such files, I can’t prove the differences in reporting that I’ve identified above are largely from exclusion of administrative costs in the submissions to the NTD. And to be fair, neither can I determine that operating expenses have been inappropriately included in the submissions to the MTC. It does seem that it is in the public interest to resolve such differences.

This leads me to a key recommendation: SMART’s expense and ridership submissions need to be audited by an experienced independent auditor. The MTC and NTD need to report and reconcile any differences in these reports for the public and for use by appropriate regulators and in future research.

Sincerely,



Mike Arnold, Ph.D.

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Lecturer, Fromm Institute, University of San Francisco

Residence: Novato, CA

- cc. William Bacon, Metropolitan Transportation Commission
- Cheryl Chi, Metropolitan Transportation Commission

Appendix A

Image from Tab F(a) in the MTC provided spreadsheet “SMART FY 18-19 MTC-Application.XLS”

A	B	C	D	E
1	MTC Claim Application - Document F(a)			
2	Operating Expenses and Revenues			
3	FY 2018-19	Calculations and mode names appear automatically in the cells highlighted blue		
4	Submittal Date: April 26, 2019	Systemwide		
5	Operator: SMART	Systemwide		
6	IF YOU ARE AN FTA GRANTEE, PAST ACTUAL MUST BE CONSISTENT WITH YOUR NID REPORT!	Past	Current	Budgeted
7		Actual	Adjusted	Budgeted
8		FY 2016-17	FY 2017-18	FY 2018-19
10	1. Vehicle Operations (010)	\$ -	\$ 6,143,618	\$ -
11	2. Vehicle Maintenance (041)	\$ -	\$ 3,816,583	\$ -
12	3. Non-Vehicle Maintenance (042)	\$ -	\$ 7,173,798	\$ -
13	4. General Administration (160)	\$ -	\$ 8,290,989	\$ -
14	5. Adjustment (provide explanation on Form X)	\$ -	\$ -	\$ -
15	6. TOTAL, LINE 6 MUST EQUAL LINE 22!	\$ -	\$ 25,424,988	\$ -
16	7. Memo Item (514, 515, 516)	\$ -	\$ 28,476,857	\$ -
17	OPERATING EXPENSES – OBJECT CLASS			
18	8. Labor, Operators (501.01)	\$ -	\$ 3,988,185	\$ 6,532,678
19	9. Labor, Others (501.02)	\$ -	\$ 7,878,350	\$ 9,329,088
20	10. Fringe Benefits (502 except 502.02)	\$ -	\$ 4,122,066	\$ 2,880,491
21	11. Fringe Benefits, Pension Plans (502.02)	\$ -	\$ 961,514	\$ 1,449,906
22	12. Services (503)	\$ -	\$ 2,519,238	\$ 5,131,035
23	13. Fuel and Lubricants (504.01)	\$ -	\$ 931,918	\$ 1,345,504
24	14. Tires and Tubes (504.02)	\$ -	\$ -	\$ 5,000
25	15. Other Materials and Supplies (504.99)	\$ -	\$ 2,494,902	\$ 5,236,214
26	16. Utilities (505)	\$ -	\$ 654,847	\$ 960,764
27	17. Casualty and Liability (506)	\$ -	\$ 1,297,144	\$ 1,928,000
28	18. Purchased Transportation (508)	\$ -	\$ 32,301	\$ -
29	19. Interest Expense (511)	\$ -	\$ 5,819,778	\$ 7,730,850
30	20. Leases and Rentals (512)	\$ -	\$ 796,640	\$ 897,444
31	21. Other (507, 509, 510)	\$ -	\$ 4,604,836	\$ 2,286,115
32	22. Adjustment (provide explanation on Form X)	\$ -	\$ -	\$ -
33	23. TOTAL, LINE 22 MUST EQUAL LINE 6!	\$ -	\$ 36,101,720	\$ 45,713,089