Transit Sustainability Project

Select Committee
February 11, 2011

TRANSIT SUSTAINABILITY PROJECT

Today's Agenda

1. **Project Overview**
2. **Financial:**
   Initial Cost and Revenue Analysis
3. **Service Approach**
4. **Next Steps**

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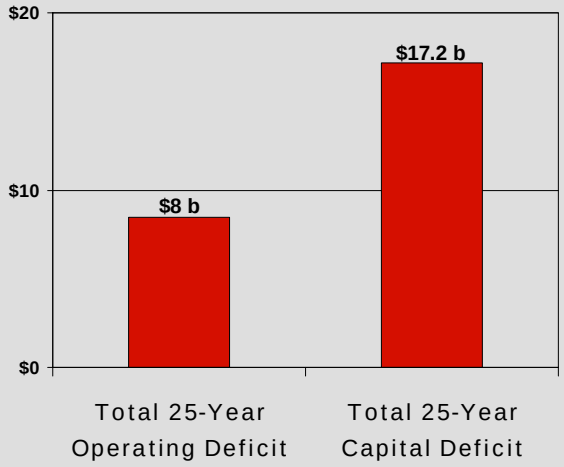
Financial: Short and Long Term Problem



Projected Deficits Transportation 2035

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Why now?

1. Severe budget shortfalls in the immediate term.
2. Service cuts are degrading the transit system.
3. Long term viability of the existing system is at risk, let alone the ability of the region to provide service expansion.
4. Need to provide a system that more people will use – customer-focused, not agency-centric.
5. A robust transit system is fundamental to the mode shift needed for the Sustainable Communities Strategy per SB 375.
6. The region has a significant opportunity to alter course as budget situation improves.

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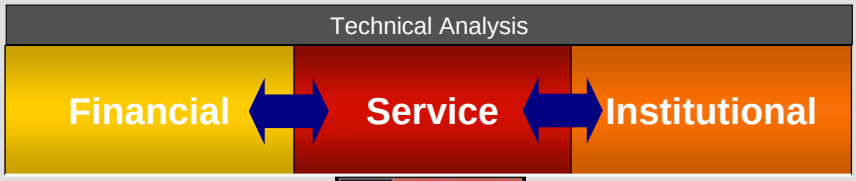
Project Approach

- 18-month project schedule
- Technical Analysis supported by advisory committees
  - Project Steering Committee – transit general managers, labor, advocacy community, business community
  - Staff Technical Advisory Committees –
    - Financial – composed of agency CFOs or equivalent
    - Service – agency service planners
- Public outreach as technical analysis advances



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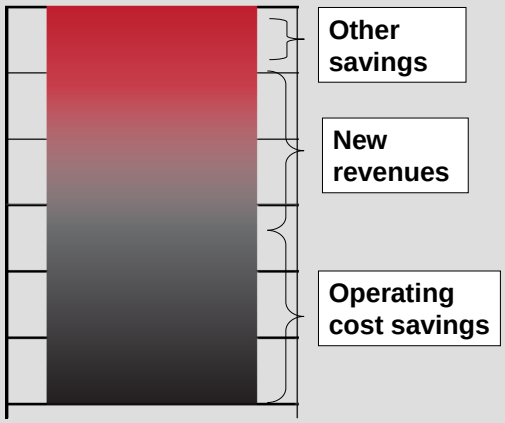
Financial Analysis

Outcomes

- Clear understanding of cost drivers and recommendation for cost reforms
- Recommended options for stable revenue sources



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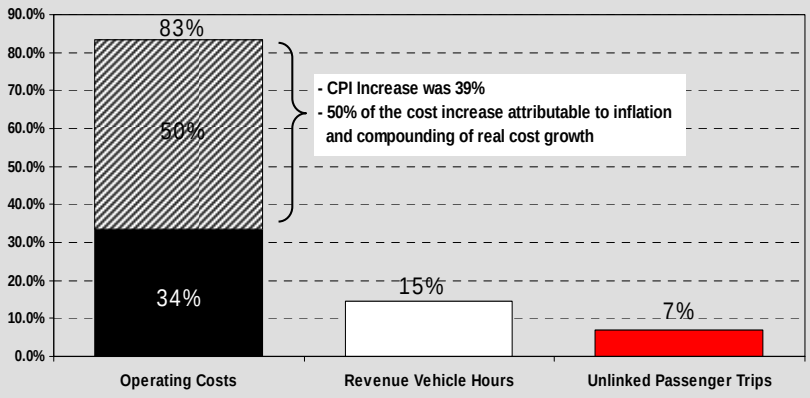
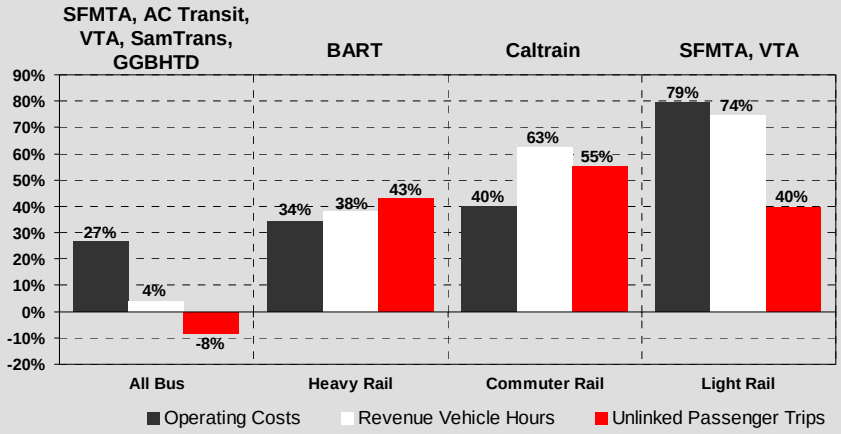
Cost Analysis

Bay Area Large Operators: Percent Change in Cost and Performance Indicators (1997 – 2008)



Source: National Transit Database, "Big 7" only. Excludes ferry, cable car and paratransit.

Major Modes: Aggregate Percent Change in Cost & Performance Indicators (1997-2008, adjusted for inflation)



Source: National Transit Database, "Big 7" only. Excludes ferry, cable car and paratransit.

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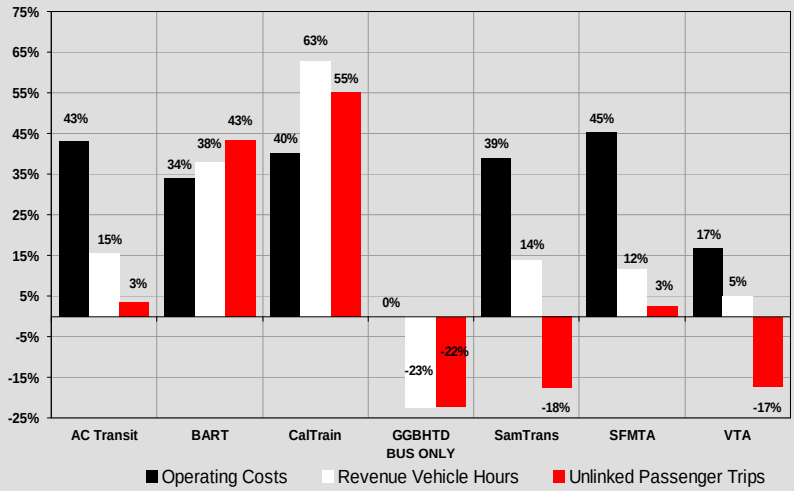
9

"Big 7": Aggregate Percent Change in Cost & Performance Indicators (1997-2008, adjusted for inflation)



Source: National Transit Database, "Big 7" only. Excludes ferry, cable car and paratransit.

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10

Observations

1. **Operating costs for all modes increased significantly**
2. **Significant variation among modes**
   - ***Bus***
     - Service level increases were not commensurate with cost increases
     - Golden Gate experience: in order to keep inflation-controlled costs stable, service reduced by 23%
   - ***Light Rail***
     - Increased service in line with increased costs, but after dot.com bust, ridership growth less than growth in service
   - ***Commuter & Heavy Rail***
     - Increased operating costs consistent with service and passenger growth
     - Rail's upfront capital costs not included in this analysis, making direct comparisons difficult

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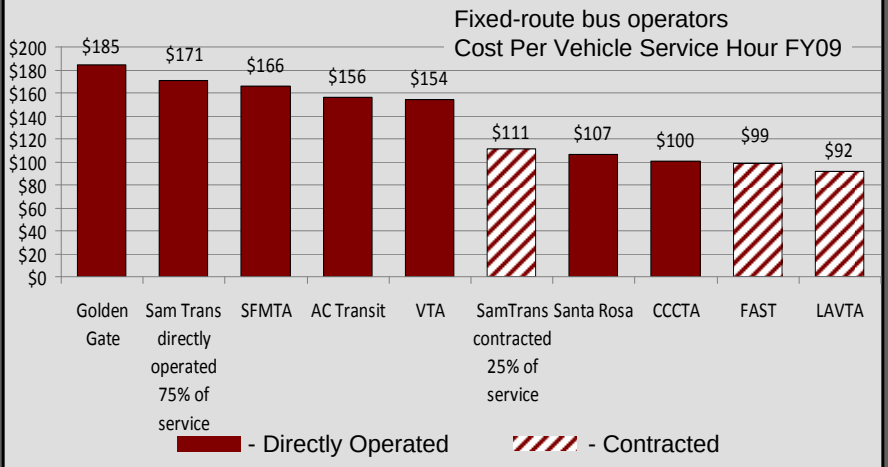
Operating Costs



All agencies use union drivers.

Contracted portions of Golden Gate, and VTA services not included.
Source: National Transit Database

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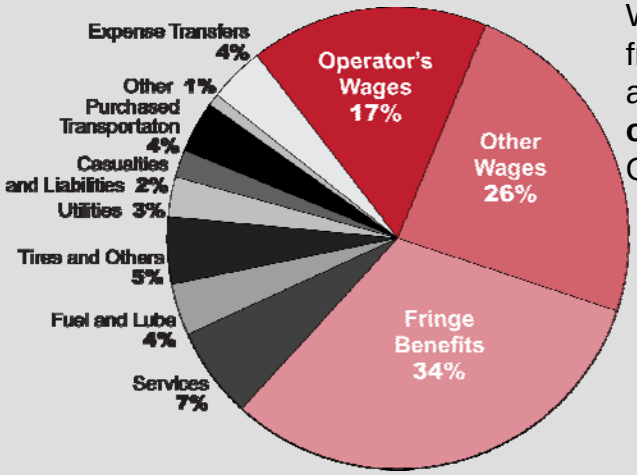
2008 Operating Costs – "Big 7" Operators
Nearly $2 billion



Wages and fringe benefits account for **over 75%** of O&M costs.

Source: National Transit Database, "Big 7" only. Includes ferry, cable car and paratransit.

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Operating Cost Drivers

Operator Wages	Other Wages	Fringe Benefits
Work Rules	Service Changes	Staffing Levels

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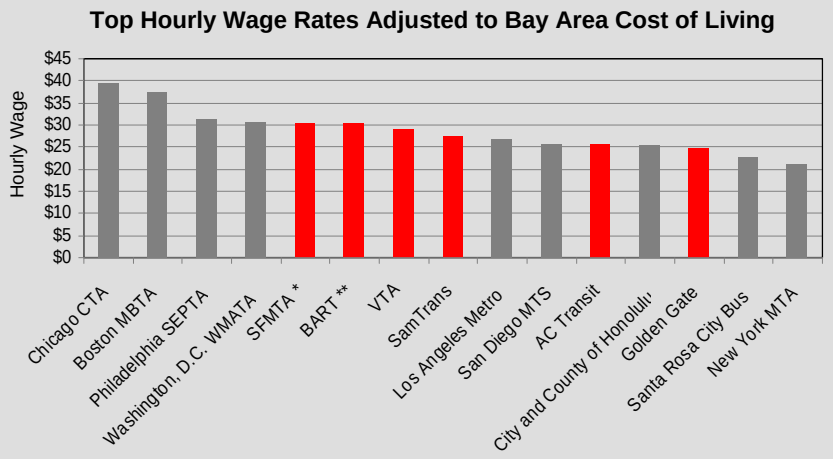
Is top hourly base wage "in line" with peer agencies?



Source: "ACCRA Cost of Living Index, 2009 Annual Average Data," prepared by the Council for Community and Economic Research, as cited by Dash & Associates. Dash & Associates, Agency data

* As of July 1, 2010
** As of June 2009

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Operator Wages – Initial Assessment

- Region's base operator wage rates are higher than many peers, but when adjusted for the cost of living, appear reasonable
- Increases in the base wage rates were higher than inflation, but lower than the overall regional wage index
- Total wage costs grew faster than inflation:
  - Also affected by work rules, which are distinct from base wage rate
  - Staffing levels, which affect total wage costs
- **Recommendation:** no further analysis of operator base wage rate, and more analysis of work rules and staffing levels

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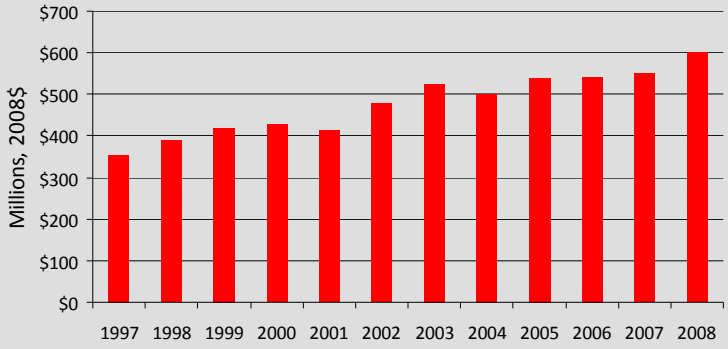
Review of Fringe Cost Trends



- The "Big 7's" total fringe costs have increased from $355 million in 1997 to $601 million from 1997 to 2008.
- Increase of 69% after adjusting for inflation.

"Big 7" operators;
Source: National Transit Database

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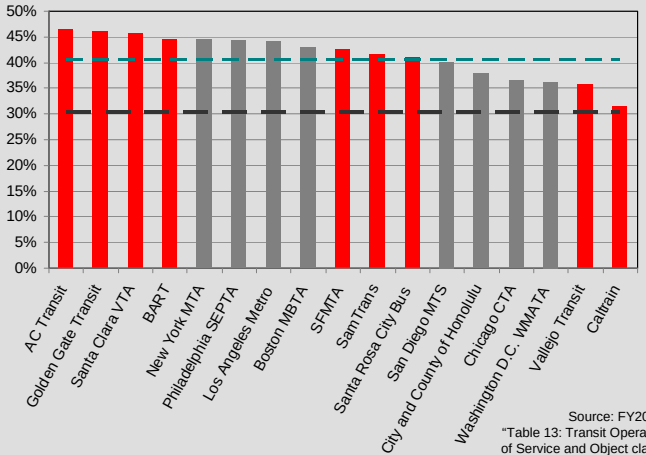
2008 Employee Benefits Costs as % of Total Compensation

Bay Area consistent with national peers but transit high compared to all sectors



Transit Agencies National Average

All Employers National Average

Note: Includes directly operated and purchased transportation

Source: FY2008 National Transit Database "Table 13: Transit Operating Expenses by Mode, Type of Service and Object class."U.S. Department of Labor (Employers' National Average)

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Sample Fringe Cost Control Strategies

Cost Control Strategy	Order of Magnitude Agency Annual Cost Savings
Health Insurance	
Medical insurance cap (BART labor agreement)	▪ Lowered retiree medical liability from $434m to $362m. ▪ Estimated on-going savings of $8m annually (as of 2013)
"Medical Coverage Opt-Out" initiative (BART labor agreement)	▪ $7m in savings over 4 years ($1.75m per year). ▪ Costing assumes another 244 employees/retirees opt out of medical coverage. Savings begin 1/1/2010.
Agency pays a capped % of health insurance costs for active employees (VTA proposal)	▪ Every 5% of costs shifted to employees yields $1.2m in savings
Insurance premium contribution cap for both active employees and retirees (SamTrans agreement)	▪ Reduced the District's overall exposure to OPEB liabilities by $6.5 million on an annual basis.
Agency limits its share of premium costs to Employee + 1 Dependent for active employees (VTA proposal)	▪ $6m in savings per year
Pension	
Create new pension tier for new hires (AC Transit proposal)	▪ $7m (only produces significant savings after 30-years)

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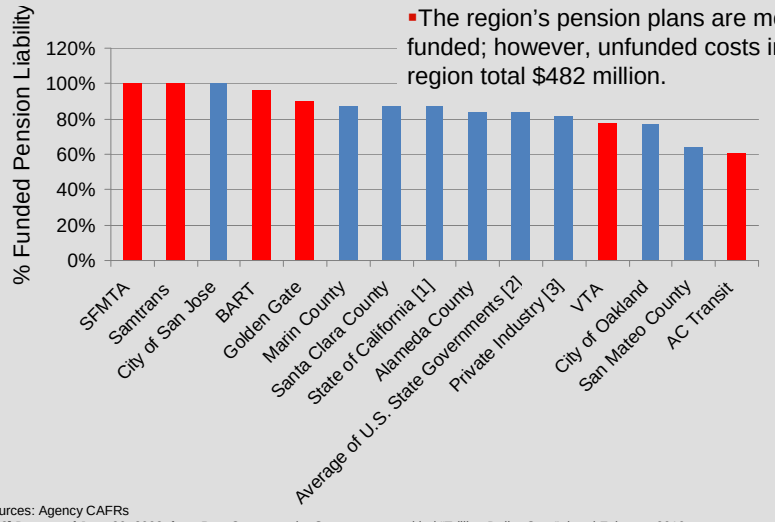
Peer Analysis of Funded Pension Liability (as of June 2008)



▪The region's pension plans are mostly funded; however, unfunded costs in the region total $482 million.

Sources: Agency CAFRs
[1, 2] Data as of June 30, 2008, from Pew Center on the States report entitled "Trillion Dollar Gap," dated February 2010.
[3] Based on S&P 500 Indices

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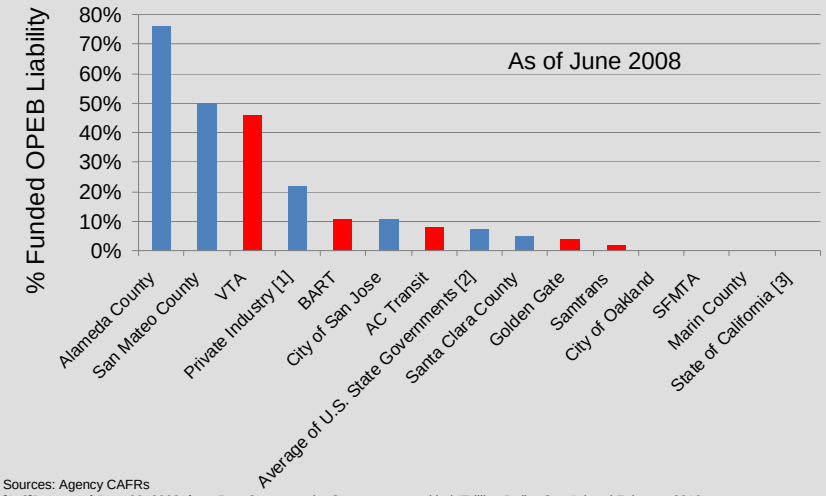
Peer Analysis of Funded OPEB Liability



Sources: Agency CAFRs
[1, 3]Data as of June 30, 2008, from Pew Center on the States report entitled "Trillion Dollar Gap," dated February 2010.
[2] Represents assets put aside on average by states to adequately fund their (non-pension) retiree health care liabilities – Pew Center Report, February 2010, p. 43

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Fringe Benefits – Summary Findings

- Fringe benefits are a major cost driver both over the short and long term
- Both health care costs and pension obligations are areas of concern, requiring increasing percentages of agencies' operating budgets over time
- Pension funding appears to be in relatively good shape; however, some unfunded liability remains
- Lower projected returns would increase unfunded pension liability
- Agencies are addressing their OPEB unfunded liabilities, but OPEB represents a substantial burden on operating budgets for foreseeable future
- Issue is not unique to transit agencies

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Staffing Levels: Administrative Cost Relative to Peers

Administrative Cost Comparison *($ adjusted to SF-Oakland 2008 CPI)*

Operator	Admin Cost *($ in thousands)*	RVH *(in thousands)*	Unlinked Passenger Trips *(in thousands)*	Admin Cost per RVH	Admin Cost per Trip	Admin Cost as a % of Total Operating Cost
Bay Area Large Operators	**$326,676**	**9,322**	**459,510**	**$35.0**	**0.71**	**19.9%**
CTA, Chicago	$117,676	7,730	526,336	$15.2	0.22	9.4%
LACMTA, Los Angeles	$185,442	7,823	474,228	$23.7	0.39	16.0%
King County, Seattle	$78,529	3,096	118,692	$25.4	0.66	16.5%
MBTA, Boston	$90,118	3,171	368,954	$28.4	0.24	9.7%
MTA, New York	$614,524	15,362	3,330,949	$40.0	0.18	11.7%
SEPTA, Philadelphia	$138,843	4,652	339,168	$29.8	0.41	15.1%
WMATA, DC	$321,539	4,134	423,524	$77.8	0.76	15.8%
MARTA, Atlanta	$76,686	2,356	150,503	$32.5	0.51	19.9%
Group Avg				**$34.1**	**0.42**	**14.3%**

Note: Data includes all modes except Vanpools, Paratransit, SFMTA Cable Car, and Ferry.
Bay Area Large Operators: BART, SFMTA, SCVTA, GGBHTD, AC Transit, and SamTrans

Source: National Transit Database 2008

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Staffing Levels Summary

- Findings
  - Bay Area operators dedicate a higher percentage of operating budgets to administrative costs than peers
  - Bay Area administrative cost per service unit is mixed compared to peers
    - Similar relative to hours of service (service efficiency)
    - Worse relative to passengers carried (service effectiveness)
- Recommended next steps for staffing levels
  - Analyze further as part of institutional analysis

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Work Rules

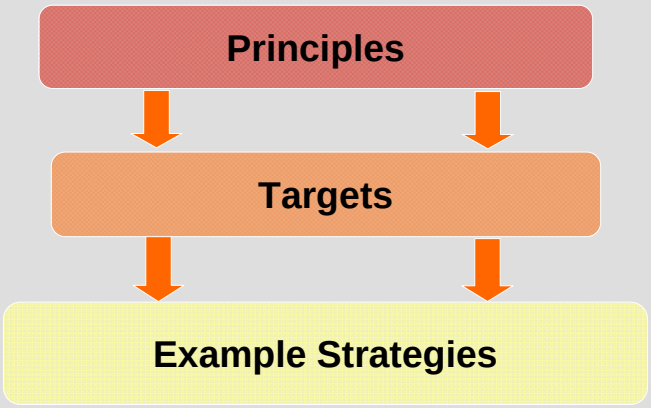
- Work rules govern the roles and responsibilities of management and employees
- Determined by a long history of Collective Bargaining Agreements and agency practices
- Impacts how transit service is delivered and the cost of delivering service
- Work rules are agency specific, but generally fall into similar categories

Work Rule Category	Proposed Test
Interlining/Layovers	Target 15% layovers
Guarantee/Overtime	Weekly guarantee/overtime (40 hours)
Report Times	10 minute sign on and 5 minute sign off
Meal Times	30 min. unpaid meal breaks as allowed in Wage Order 9
Split Shifts	Spread premium from 11th hour; Max 2 hour split break; No pyramiding
Part Time	Maximum 7.5 hours per day and up to 20% of full time roster assignments
Extraboard/Absenteeism	1-5% reduction in Extraboard staff
Holidays	One less holiday on full service day
Service Contracting	Contract operation of one division or service group

Financial Analysis Next Steps

- Cost Analysis Wrap Up
  - Conduct agency specific analysis of key work rule areas to determine potential operating cost savings and impact on service delivery
  - Consider financial principles and savings targets
- Evaluate staffing levels in greater depth as part of institutional work
- Pricing analysis in the Spring and Summer

Financial Principles and Targets Framework



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Financial Principles

Principles

#1 Improve Operating Efficiency

#2 Control Cost Growth

#3 Stabilize Operating Revenues

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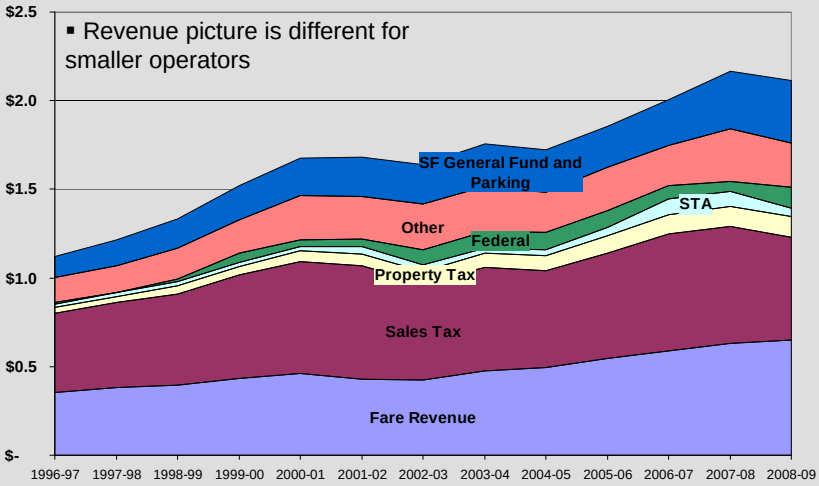
Revenue Trends

"Big 7" Revenue Composition ($ in billions)



Source: MTC Statistical Summaries

Observations

- Fare revenue has increased, in real terms, over the 12-year period by 30% or 2.4% annually. Majority of growth due to fare increases and not ridership increases.
- Sales tax has been flat in real terms over the 12-year period
- Reliance on federal funding for operating has increased from under 1% in FY1997 to 4% over the last several years; has affect on capital state of good repair
- State Transit Assistance is a relatively small revenue source for large operators – more significant for smaller operators – but every dollar counts

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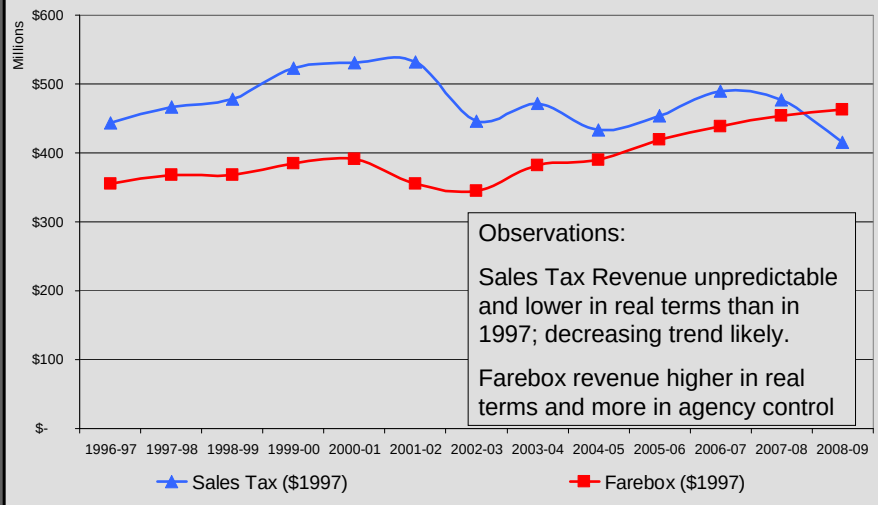
Bay Area "Big 7": Farebox and Sales Tax Revenues (Figures in $ millions)



Source: MTC Statistical Summaries

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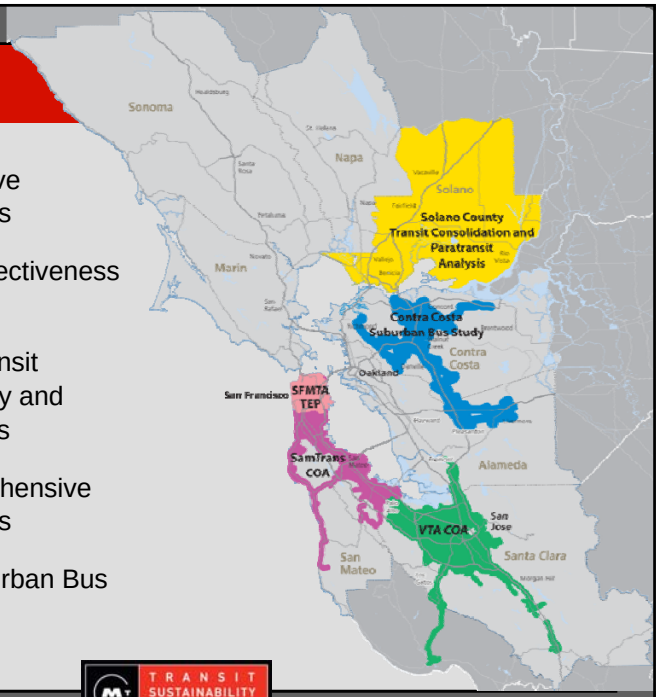
Service Analysis

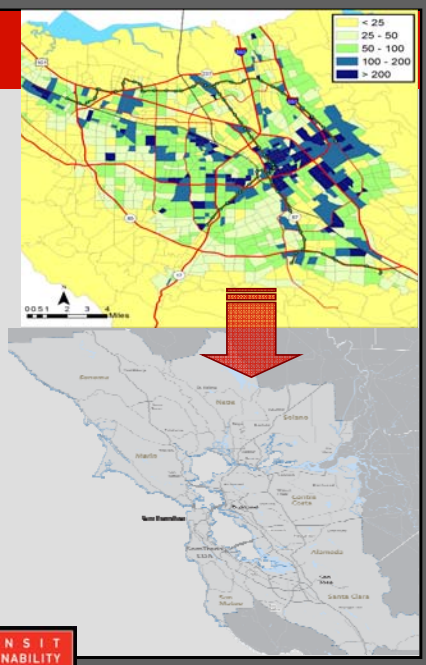
Recent Service Evaluations

- VTA Comprehensive Operations Analysis
- SFMTA Transit Effectiveness Project
- Solano County Transit Consolidation Study and Paratransit Analysis
- SamTrans Comprehensive Operations Analysis
- Contra Costa Suburban Bus Study



Service Analysis

- **System-wide:**
  - Establish performance metrics
- **Regional Services:**
  - Assessment of transit competitiveness
  - TransBay, Express, and BART Feeder Services
  - Analysis of ADA-paratransit
- **Sub-regional Service Analysis:**
  - East Bay and Peninsula



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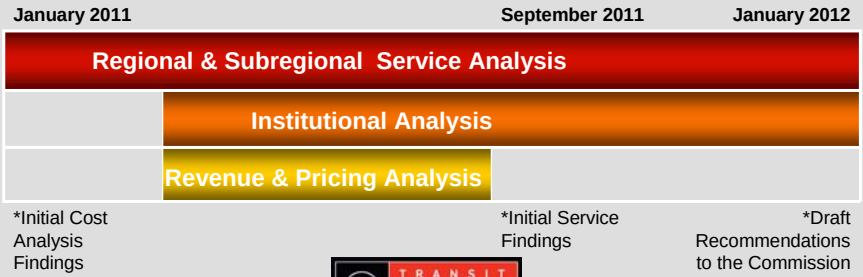
Next Steps

- Focus on Service Analysis through the Spring and Summer
- Start institutional analysis in the Summer
- Revisit the financial principles and targets as service analysis progresses
- Ongoing coordination to inform Sustainable Communities Strategy scenarios



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