



# Transit Sustainability Project

Project Steering Committee  
September 27, 2010



# Today's Agenda

1. Project Overview
2. Financial:  
Initial Cost Analysis
3. Project Visioning



# 1. Project Overview

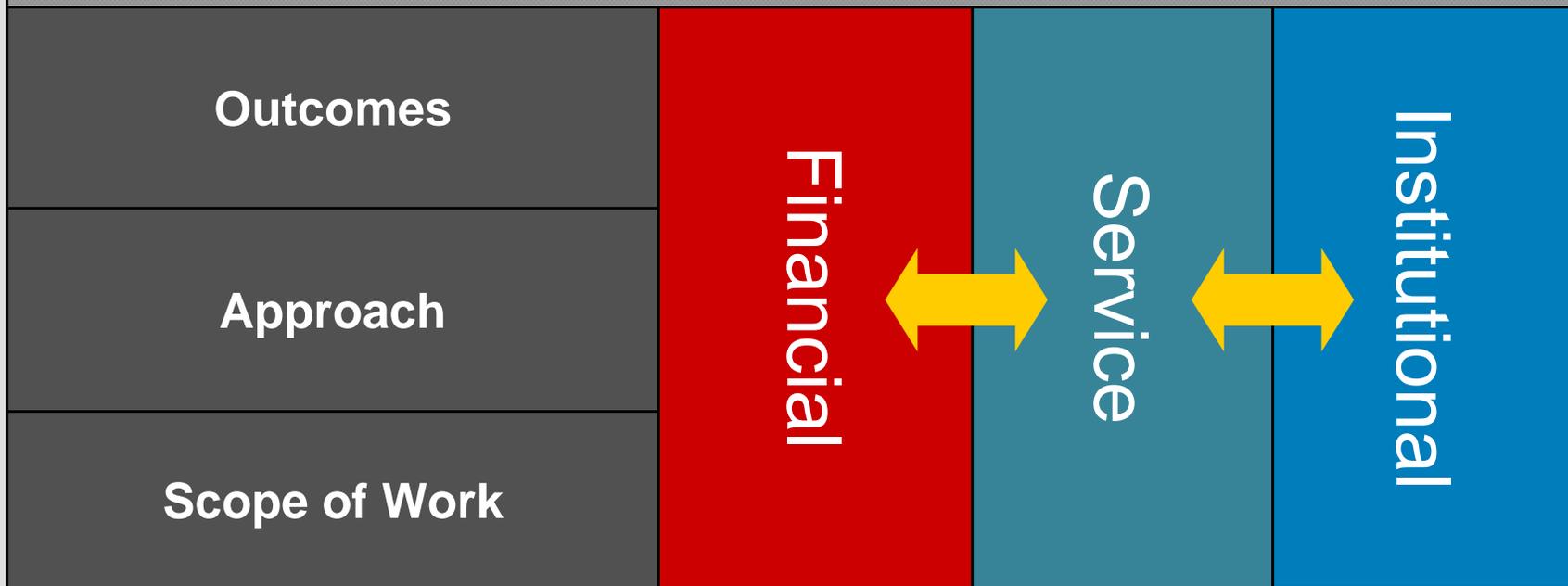
# What is a sustainable transit system?

- **Customer:** A system that functions as an accessible, user-friendly and coordinated network for transit riders, regardless of mode, location or jurisdiction.
- **Financial:** A system that can cover its operating and capital costs with a growing share of passenger fare revenues as well as reliable streams of public funding.
- **Environmental:** A system that can attract and accommodate new riders in an era of emission-reduction goals, and is supported through companion land use and pricing policies.

# Project Work Program

**Project Goal:** to identify the major challenges facing transit, confront them directly, and identify a path toward an efficient, affordable, well-funded transit system that more people will use

Technical Analysis

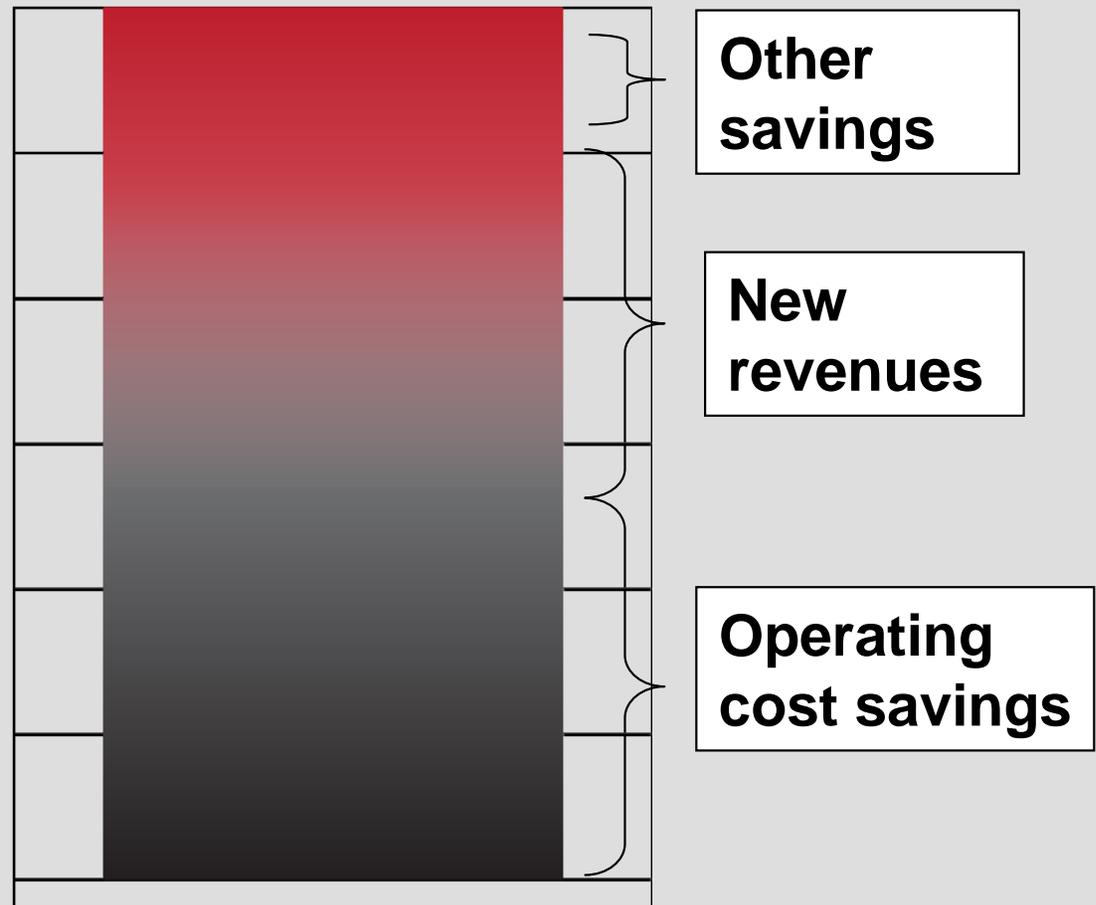


## **2. Financial: Initial Cost Analysis**

# Financial Analysis

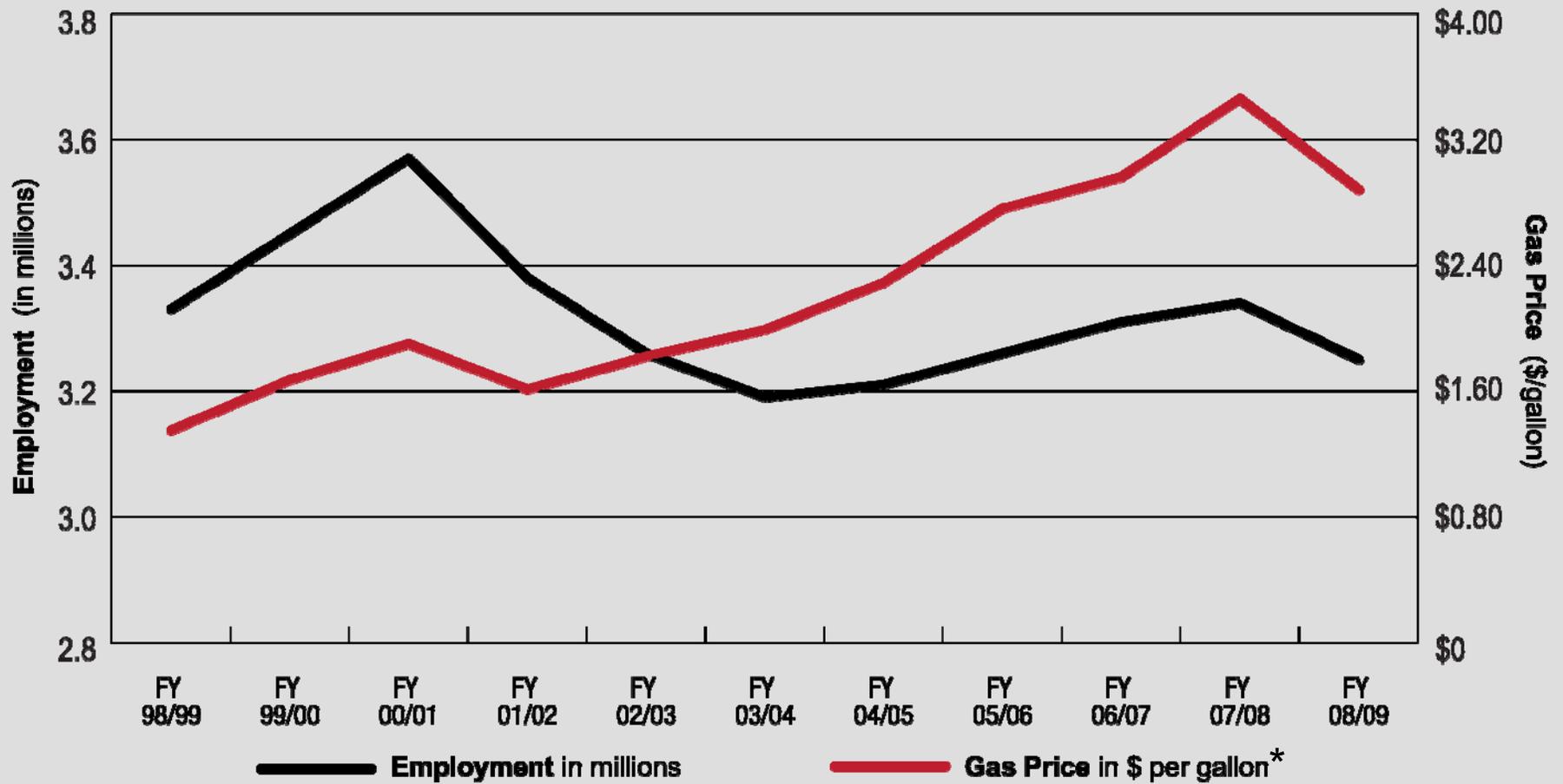
## Outcomes

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



# Regional Context — Economic Backdrop

- Employment down overall
- Gas prices up significantly



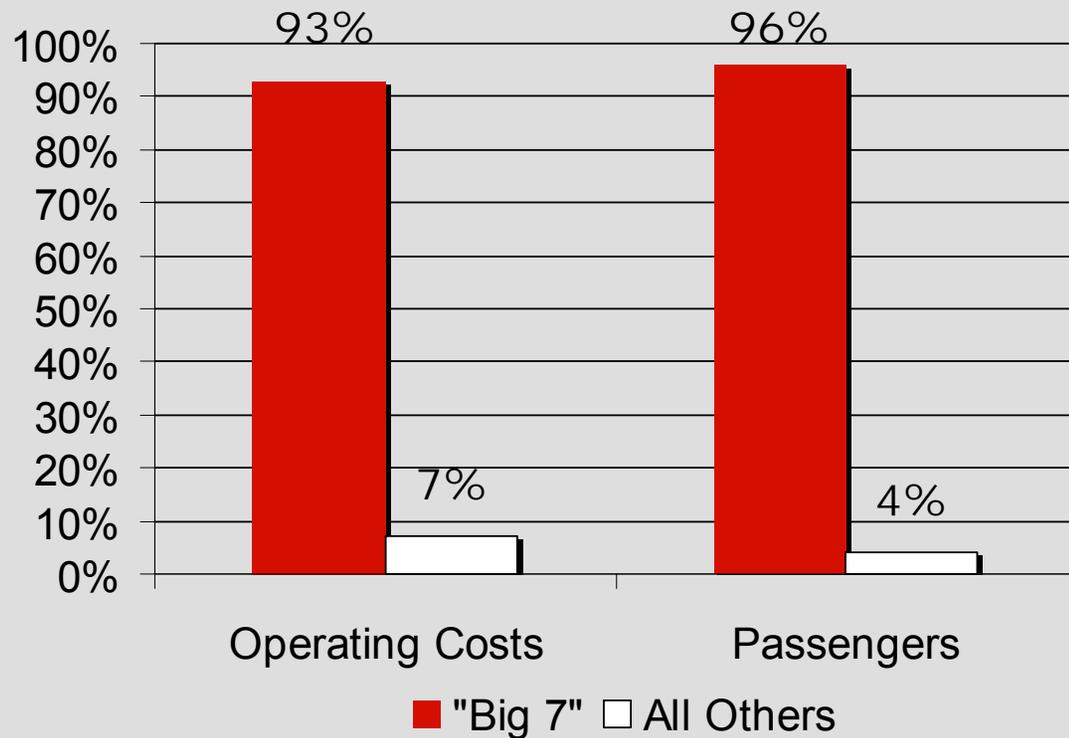
\* Not adjusted for inflation

# Methodology

- Today's focus: operating costs
- Interplay with capital costs not yet evaluated

## “Big 7”

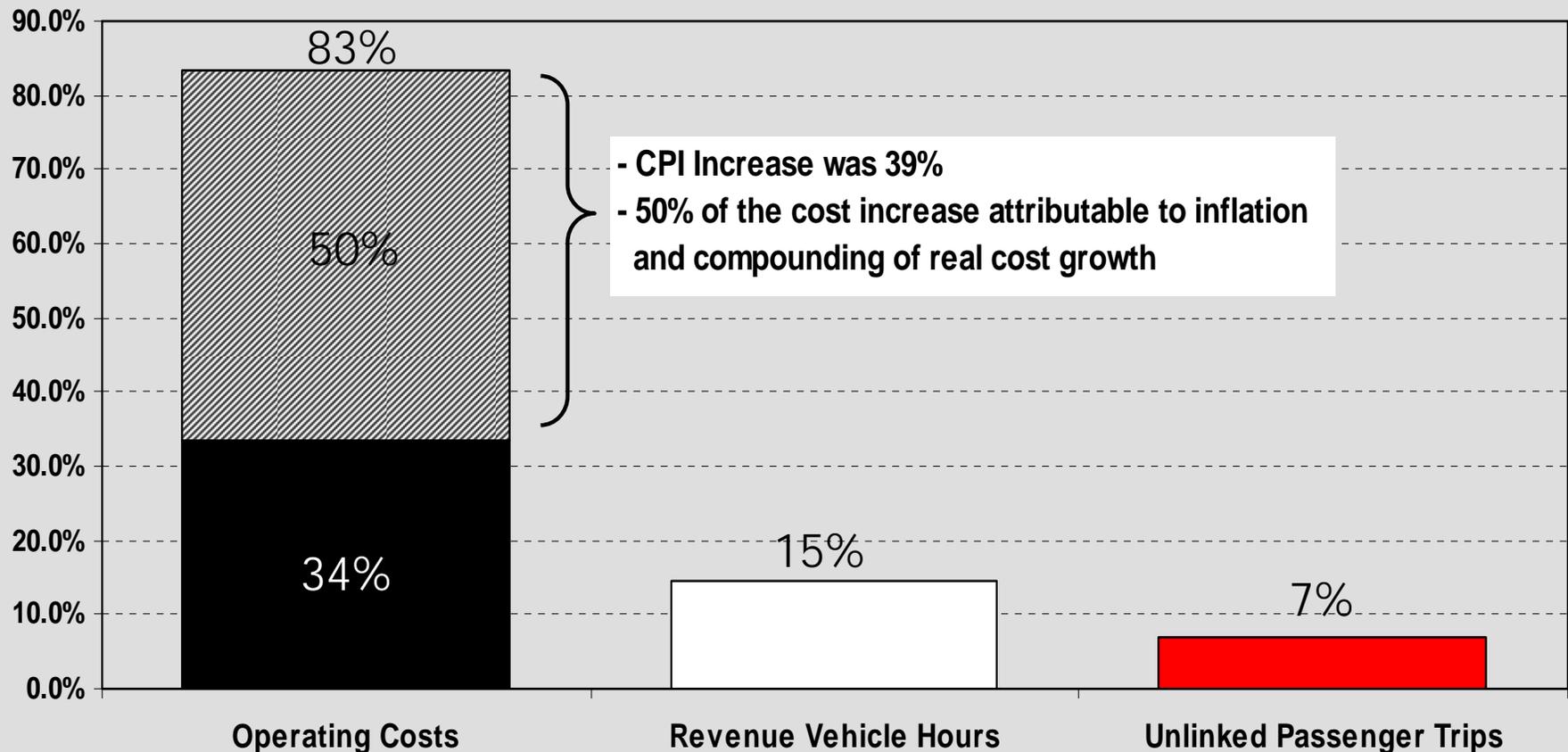
- AC Transit
- BART
- Caltrain
- Golden Gate
- SamTrans
- SFMTA
- VTA



### Data Sources

- National Transit Database
- Interviews with agencies – CFOs
- Data from agencies
- Labor Contract reviews

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



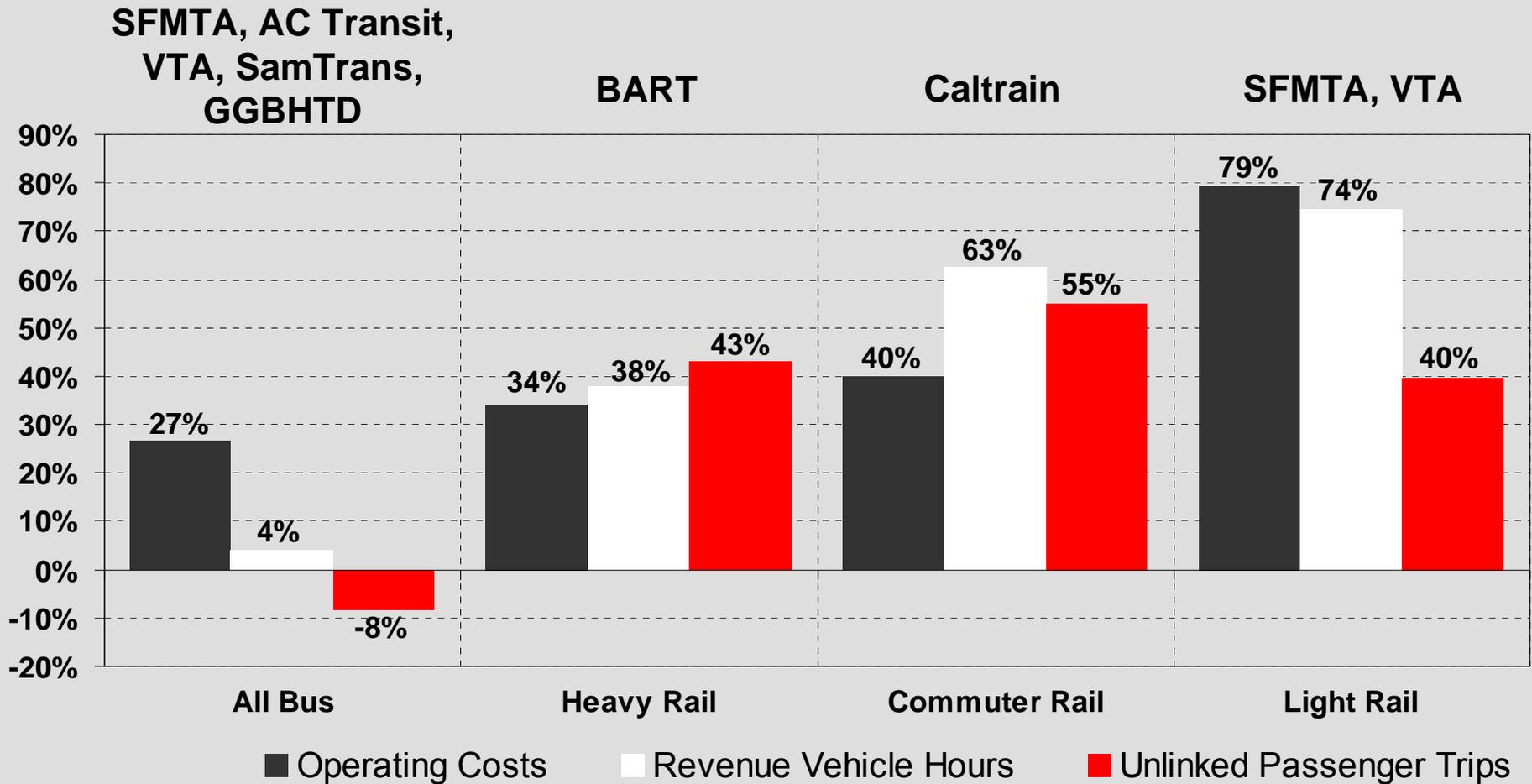
Source: National Transit Database, "Big 7" only.  
Excludes ferry, cable car and paratransit.

# Observations

- Operating costs increased more than inflation
- Service levels increased, but did not keep pace with cost increases
- Ridership grew, but less than growth in service and significantly less than cost increases

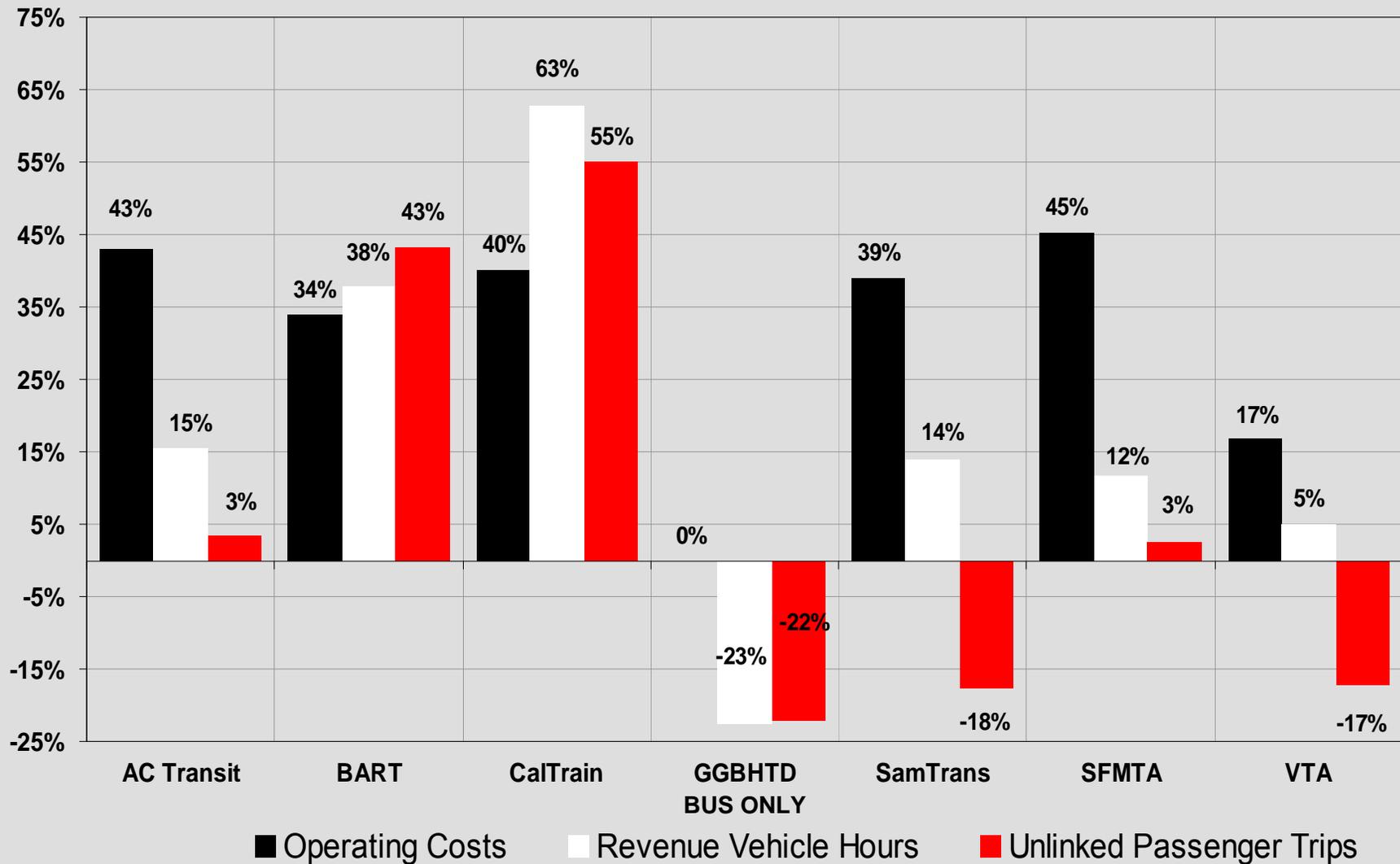


# Major Modes: Aggregate Percent Change in Cost & Performance Indicators (1997-2008, adjusted for inflation)



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

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

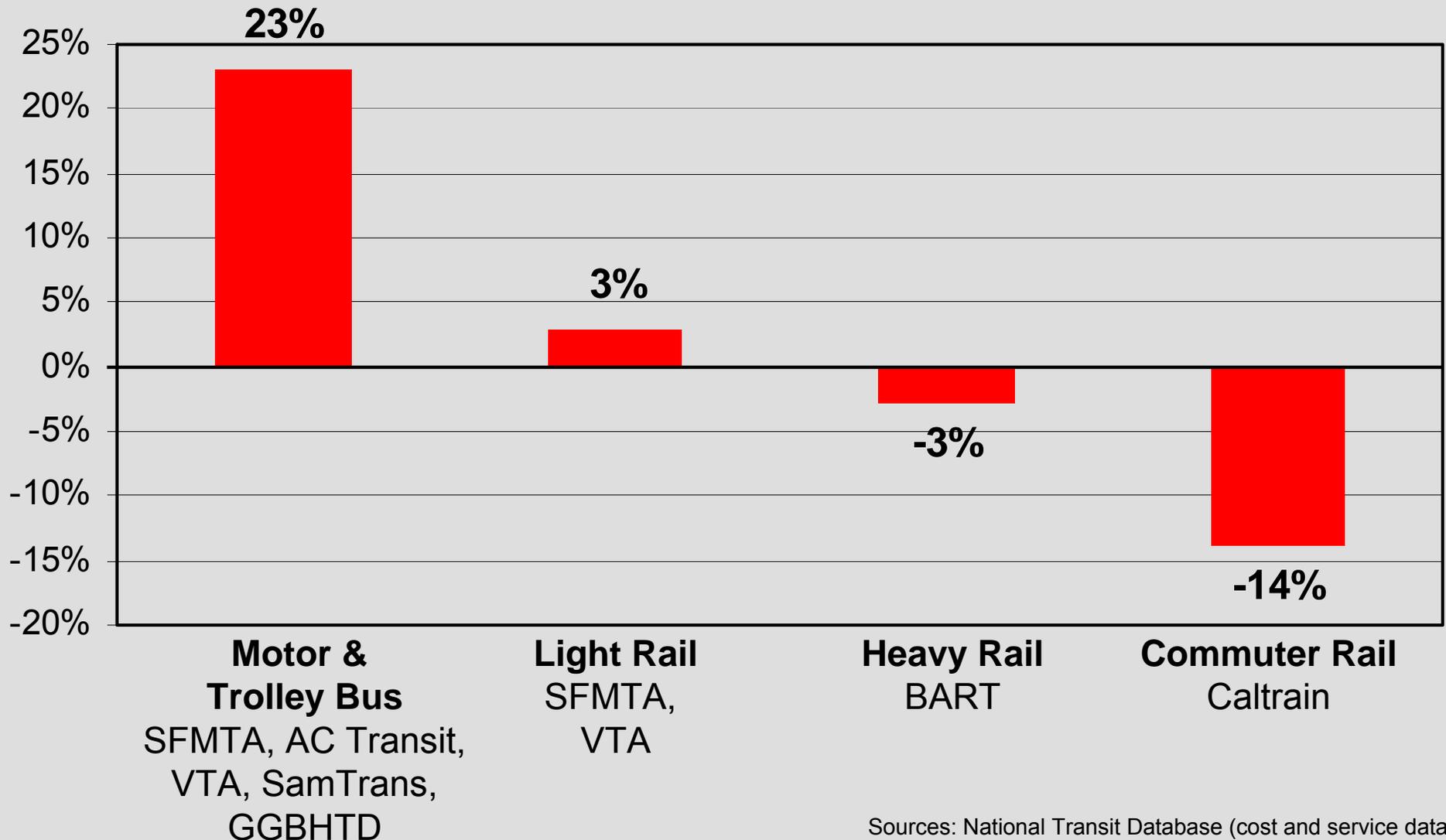


Source: National Transit Database, “Big 7” only.  
Excludes ferry, cable car and paratransit.

# 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

# Major Modes: Change in Cost Per Vehicle Revenue Hour of Service (1997-2008, adjusted for inflation)



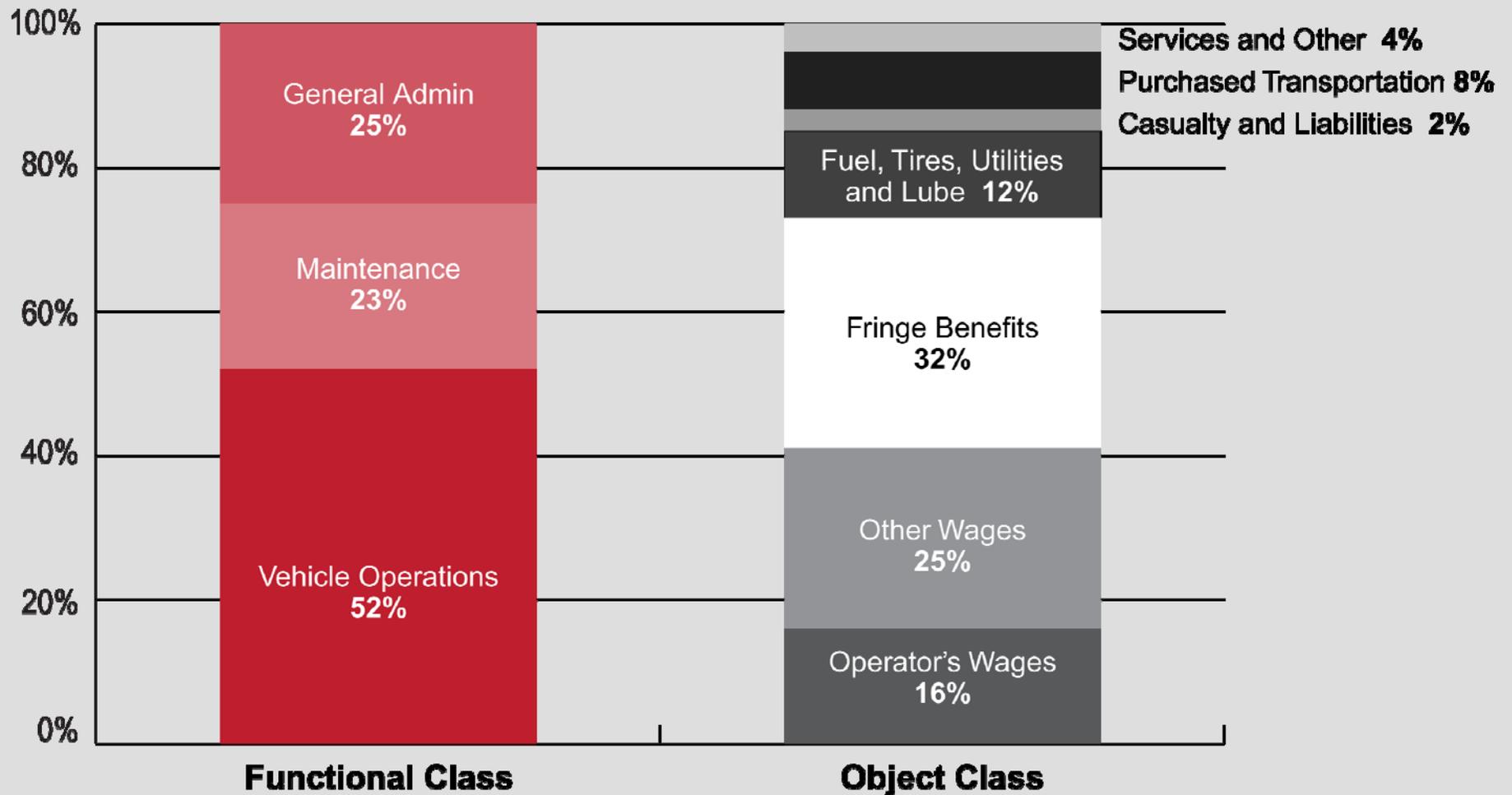
Sources: National Transit Database (cost and service data) for the "Big 7"; Bureau of Labor Statistics (inflation data)

# Observations

- **Significant difference seen in modal trends**
- **Possible explanation for increases in unit costs:**
  - Wage rates increased faster than CPI
  - Agencies spent more to improve service quality and service reliability (e.g., on improved maintenance, schedule adherence) than service increases
- **Possible explanations for decreases in unit costs:**
  - Increased productivity – e.g., agency increased service levels without increasing staff requirements
  - Adding more rail service kept rail unit cost growth low by spreading fixed costs across more hours

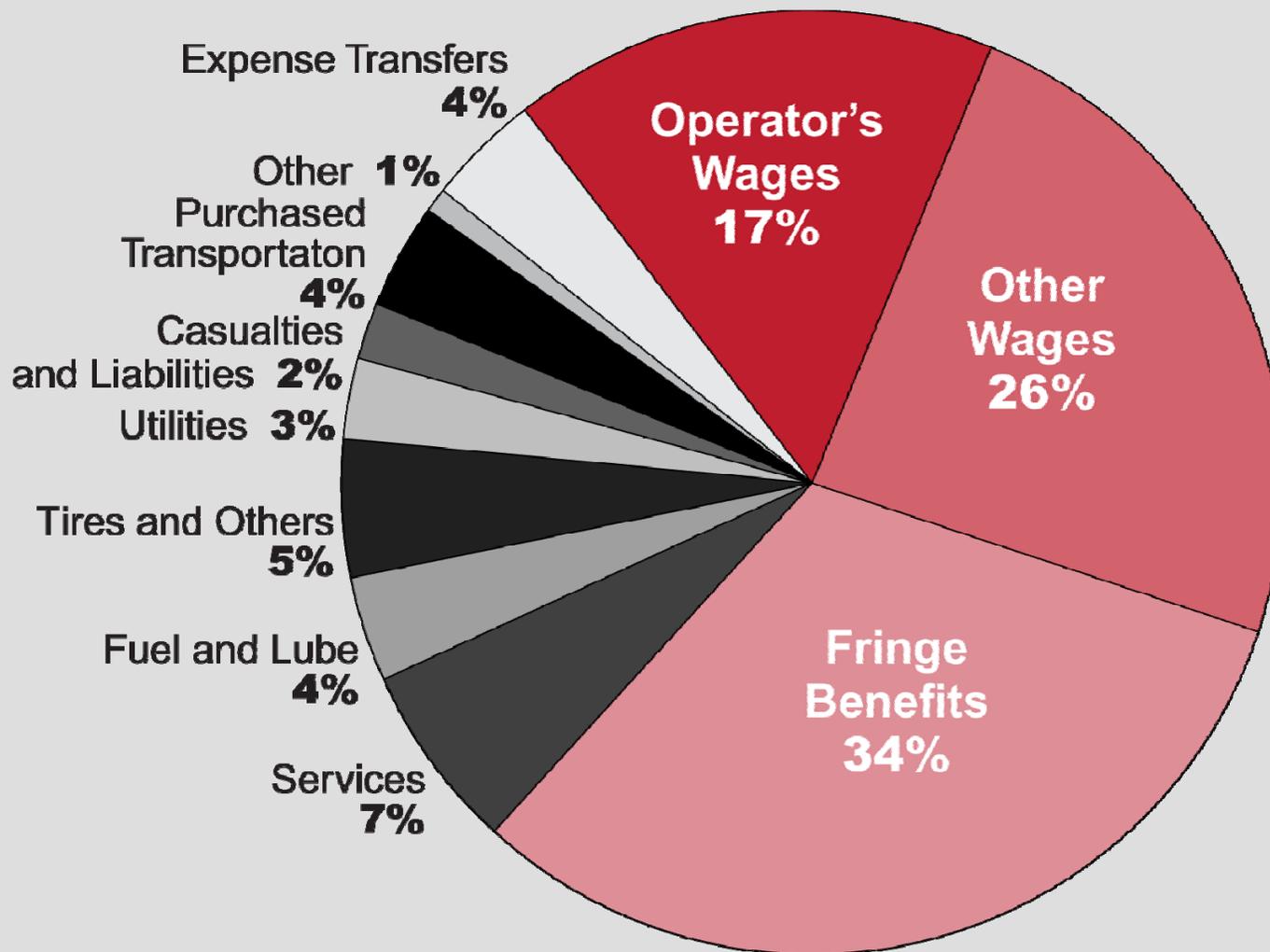
# **In-Depth Look at Operating Costs Focused on the “Big 7”**

# Composition of growth of operating costs for the “Big 7” (1997-2008)



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

# 2008 Operating Costs – “Big 7” Operators Nearly \$2 billion

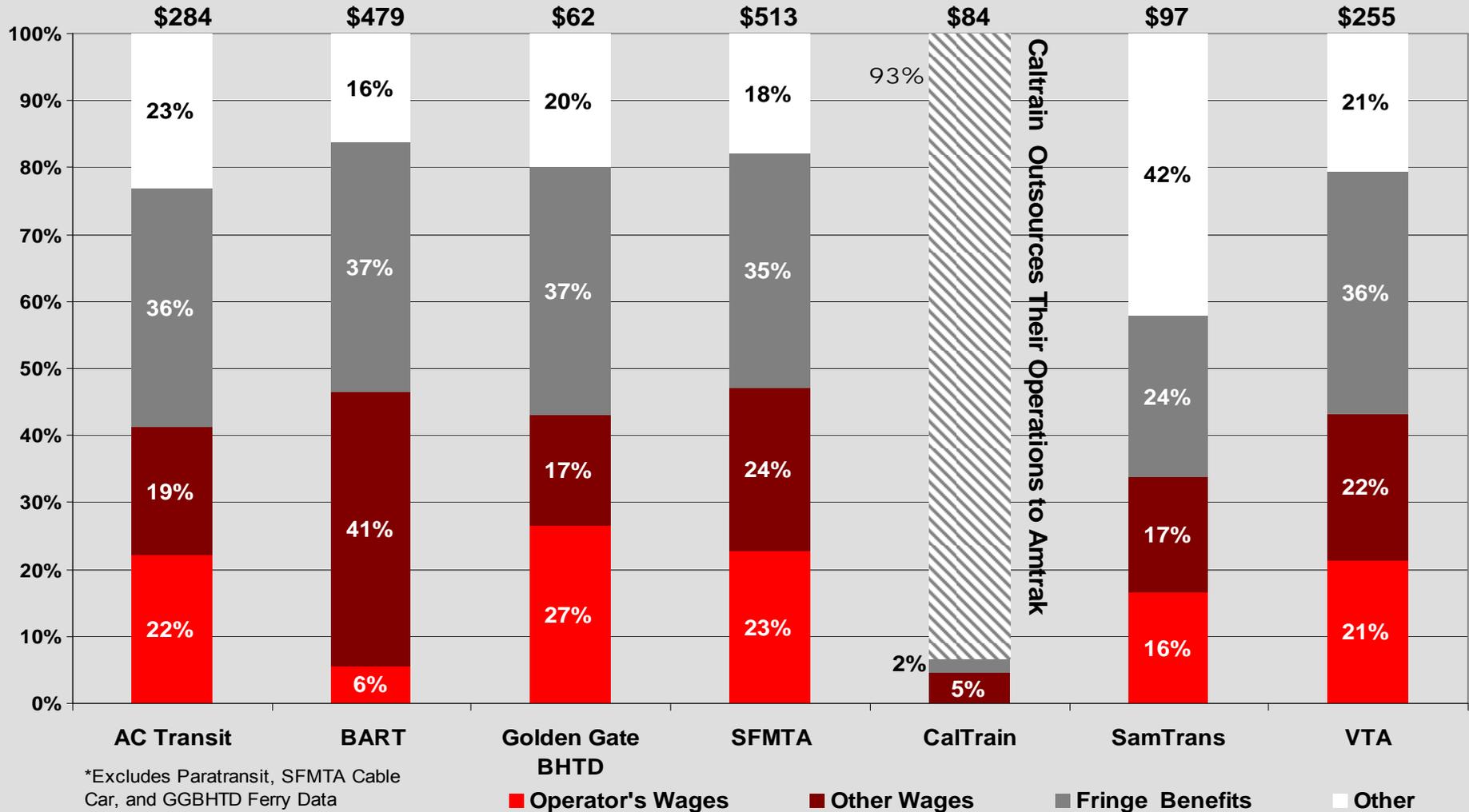


Wages and fringe benefits account for **over 75%** of O&M costs.

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

# "Big 7" Operating Cost Components

2008 Operating Costs - "Big 7" Operators Detail



# Operating Cost Drivers: Today's Focus

**Operator  
Wages**

**Other  
Wages**

**Fringe  
Benefits**

# Operating Cost Drivers: Future Focus

## Work Rules

Premium pay  
Guarantee time  
Part-time operators  
Run type requirements

## Service Changes

Service quality and reliability improvements  
Service increases/cuts  
Local road congestion

## Staffing Levels

Labor utilization  
Workforce allocation  
Functional area staffing levels

# What is the trend in total wage growth per employee?

Operator	Wage Cost per Employee After Adjusting for Inflation (2008)			
	1997	2008	1997-2008	Avg. Annual
SFMTA	\$55,927	\$66,642	18.8%	1.6%
BART	\$70,058	\$77,610	10.8%	0.9%
AC Transit	\$53,341	\$62,012	16.3%	1.4%
Santa Clara VTA	\$62,264	\$68,961	10.8%	0.9%
SamTrans	\$53,111	\$48,858	-8.0%	-0.8%
Golden Gate	\$54,025	\$53,492	-1.0%	-0.1%
<b>TOTAL</b>	<b>\$348,724</b>	<b>\$377,395</b>	<b>8.2%</b>	<b>0.7%</b>

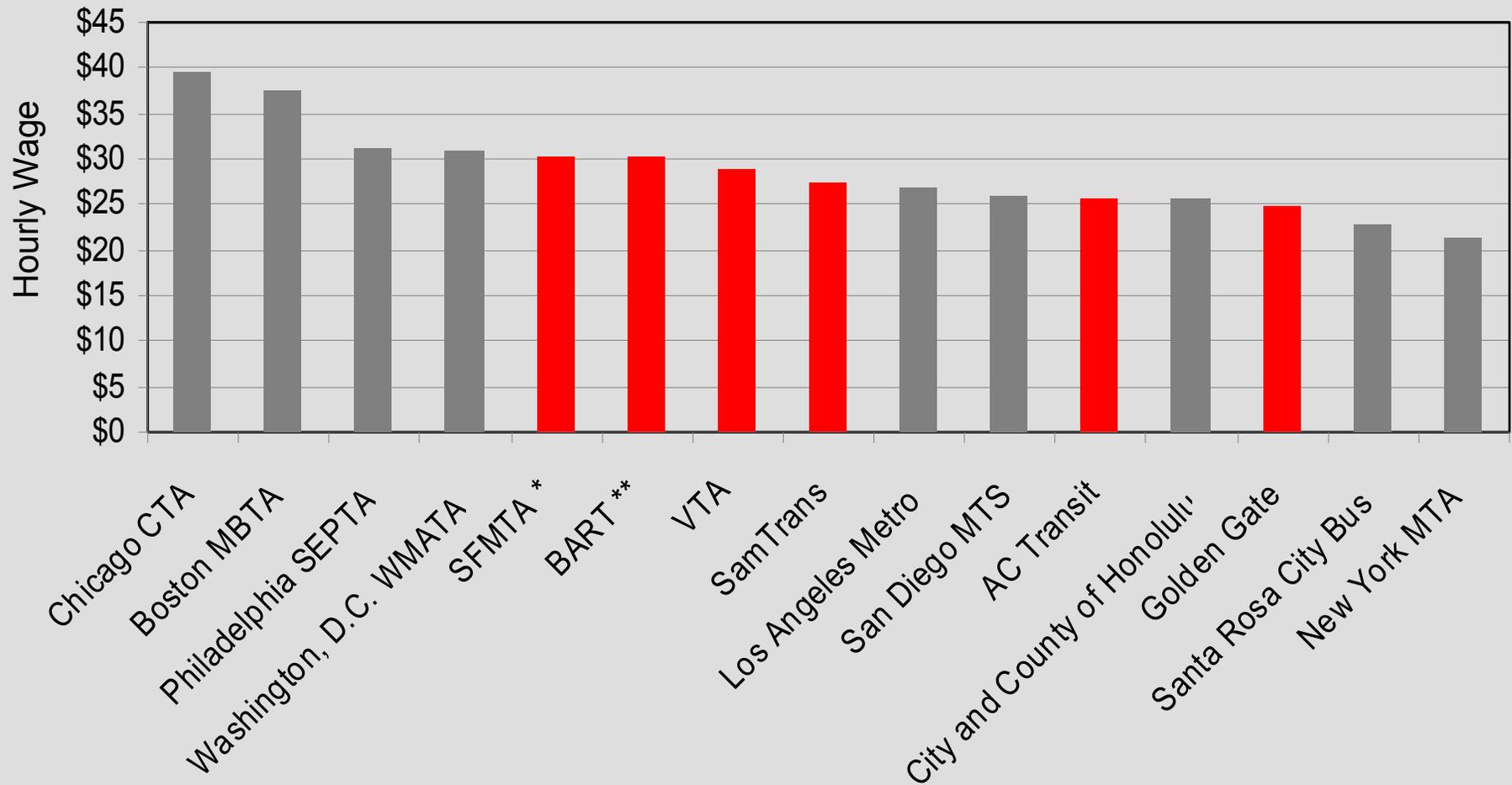
*Note: this includes total operator and non-operator wages divided by total employees. It does not include cable car, ferries, or paratransit. 2000 work hours per FTE.*

# Operator Wages

- **Cost of wages paid to bus and rail vehicle operators (drivers), who are agency employees**
- **Composed of** (exclusive of sick/vacation leave and holidays):
  - Base wages for work hours\*
  - Premium pay for work hours\*
    - Overtime
    - Other premiums (e.g. night shift premium)
- **In many cases, wage rates and work rules that affect operator pay are result of decades of collective bargaining**

# Is top hourly base wage “in line” with peer agencies?

## Top Hourly Wage Rates Adjusted to Bay Area Cost of Living



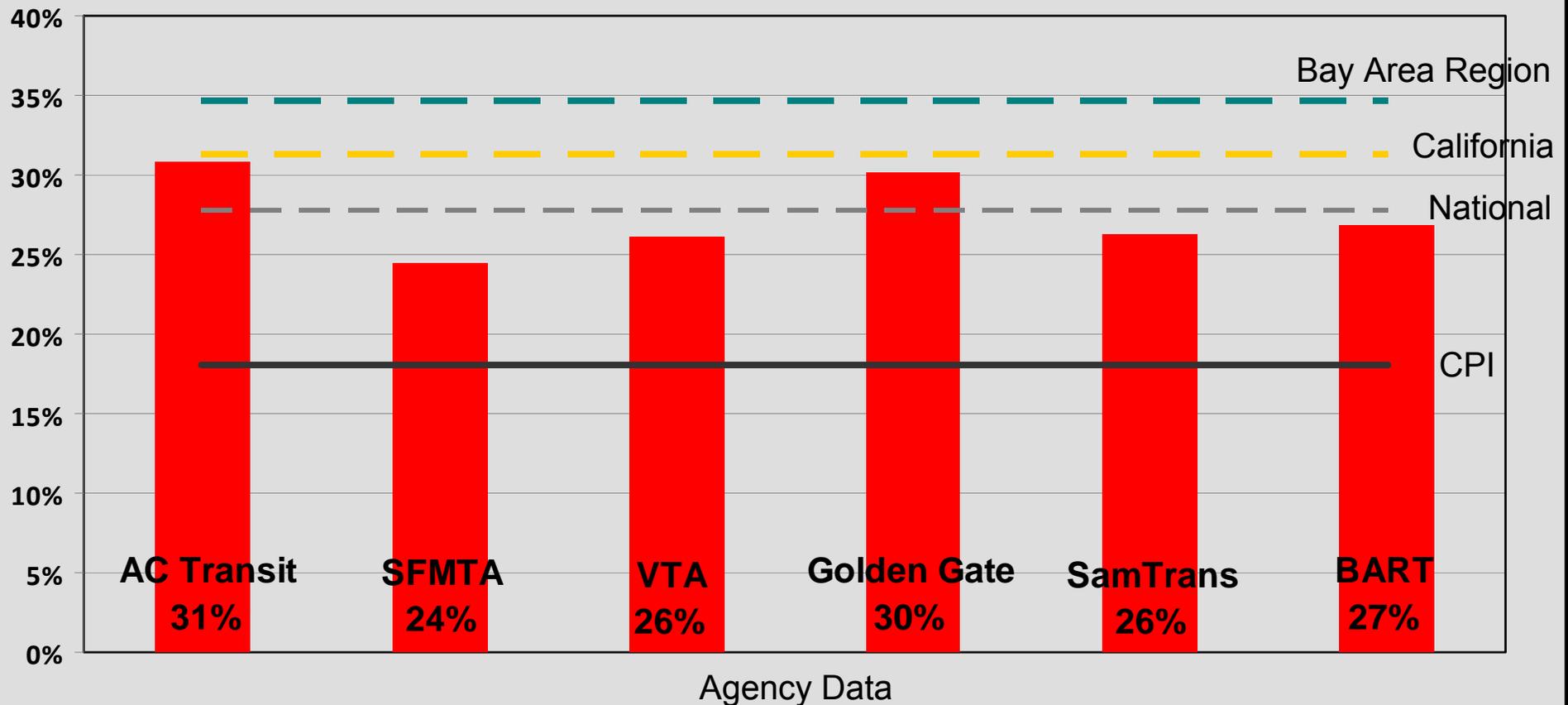
Source: "ACCRA Cost of Living Index, 2009 Annual Average Data," prepared by the Council for Community and Economic Research, as cited by Dash & Associates. Dash & Associates, Agency data

\* As of July 1, 2010

\*\* As of June 2009



# Is growth in base wage rate in line with the regional economy?



**From 2001-2009, growth in top operator wage rate was lower than growth in Regional and State wage indices for “all occupations.”**

Source for Wage Indices and CPI:  
Bureau of Labor Statistics

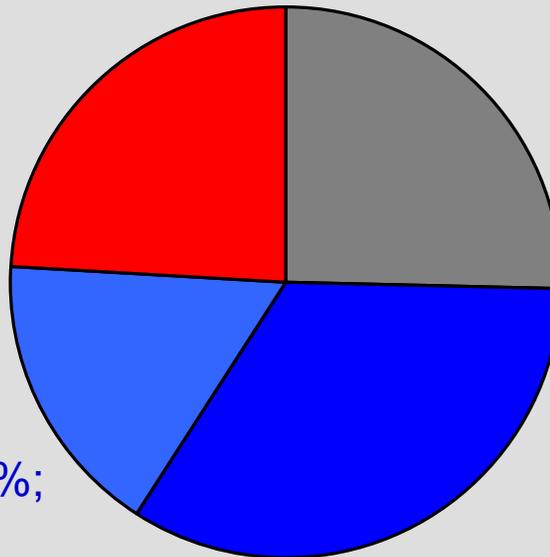
# Operator Wages – Initial Assessment

- 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:
  - Work rules, which are distinct from base wage rate, still require analysis
  - 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

# Other Wage Costs

- Wage costs for all other transit agency employees besides operators; both hourly and salaried
- Similar to operators, most other wages are subject to collective bargaining

**\$460 million**



**Administration, 24%**

e.g., Human Resources, IT, finance

**Maintenance: 51%**

Non-Vehicle Maintenance, 17%;

Vehicle Maintenance, 34%

e.g., Vehicle Mechanics and staff involved in maintenance of facilities and infrastructure

**Other Operations, 25%**

Non-vehicle operators involved in operations (e.g., supervisors, dispatchers, schedulers, fare collection, security, clerical)

# Other Wages — Next Steps in Analysis

- **Observations:**
  - NTD data includes multiple job classifications and is difficult to analyze
  - Variations in agency characteristics complicate comparisons
- **Recommendation:** Conduct focused analysis on other wages
  - Evaluate wage levels and growth of wages for non-operators
  - Analyze staffing levels related to service output



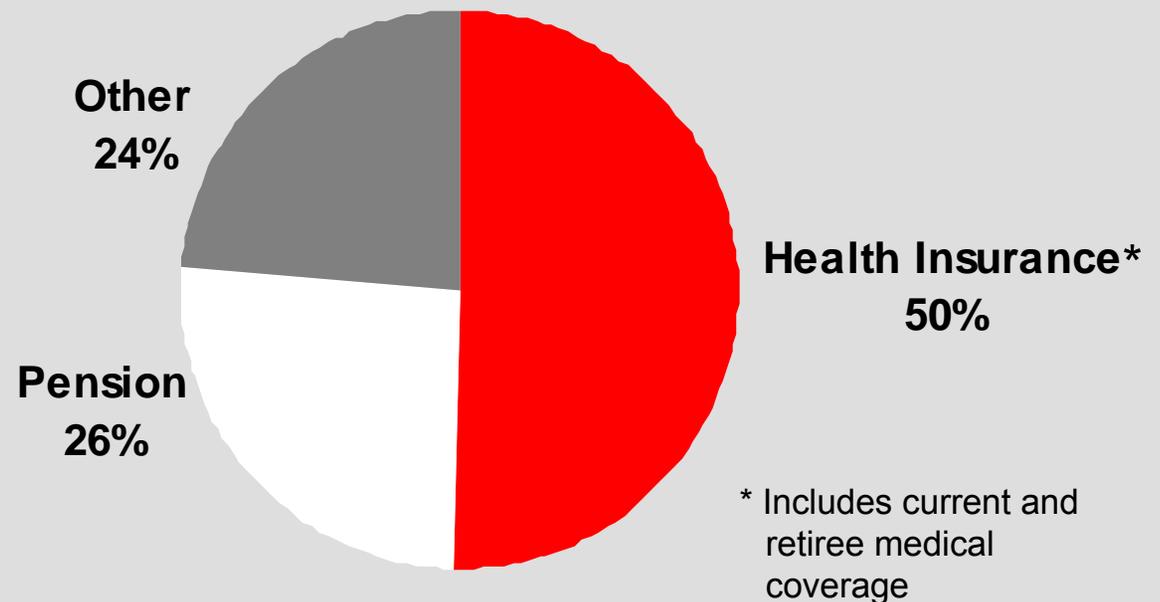
# Fringe Benefits

- **Includes:**
  - Pensions
  - Health Insurance
  - Workers' Compensation
  - Social Security/Medicare
  - Paid Vacation, Holidays, Sick Leave
- **Fringe benefit costs are affected by:**
  - Collective bargaining
  - National cost trends
  - Changes in accounting requirements for pensions and other benefit costs

# Fringe Benefits: Health Insurance and Pensions

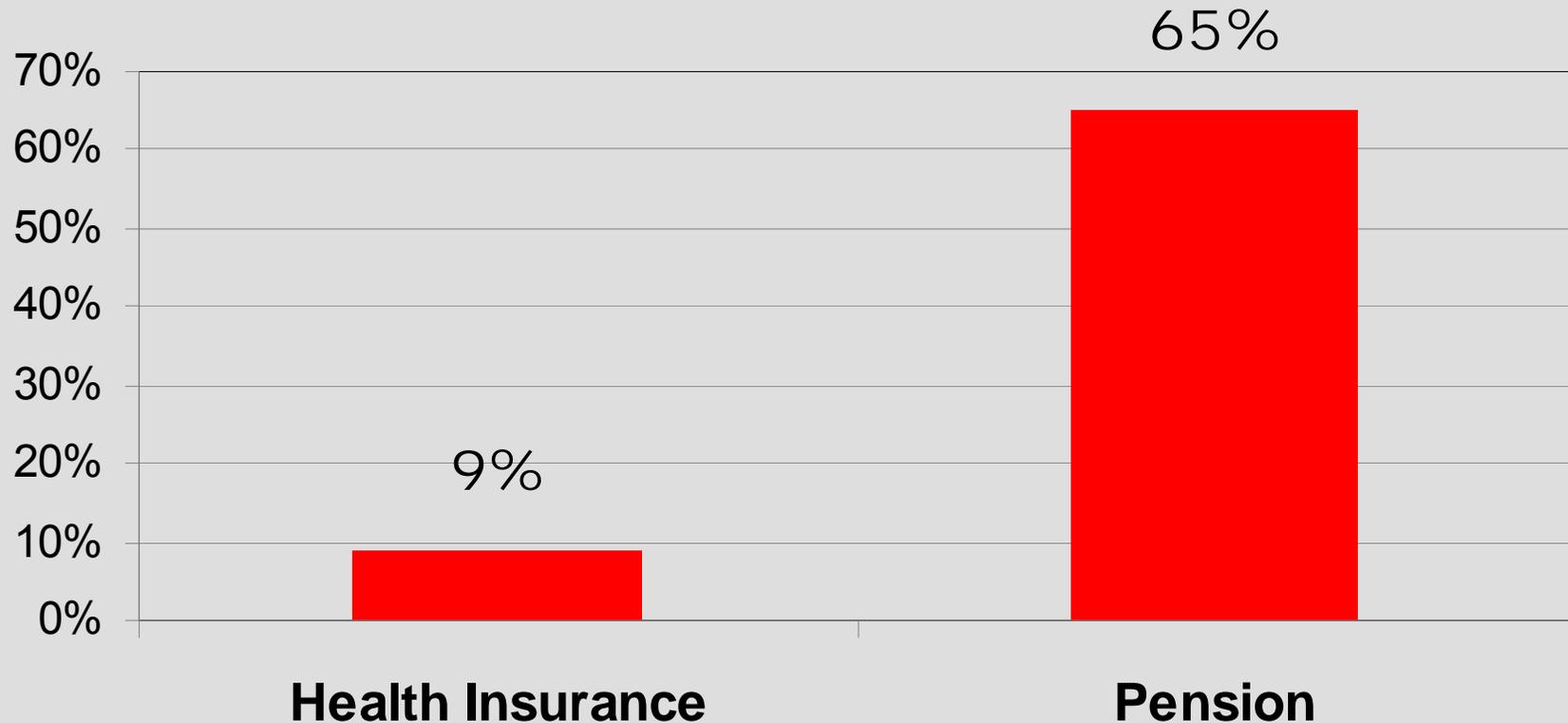
*Of fringe, health insurance and pension costs are about 76% — with \$301 million for health insurance and \$157 million for pension*

## 2008 Fringe Costs



# Health Insurance and Pension Growth

**% Growth Between 2002 - 2007**  
(adjusted for inflation)



Source: Data received from agencies. Does not include Caltrain or Golden Gate due to lack of available data.

# What is the trend in total fringe cost per employee?

**Pension and medical liability accounting varies significantly across agencies, making comparisons difficult.**

Operator	Fringe Cost per Employee After Adjusting for Inflation (2008)			
	1997	2008	1997-2008	Avg. Annual
SFMTA	\$33,288	\$49,503	48.7%	3.7%
BART	\$33,190	\$62,470	88.2%	5.9%
AC Transit	\$30,330	\$53,801	77.4%	5.3%
Santa Clara VTA	\$34,682	\$57,941	67.1%	4.8%
SamTrans	\$19,028	\$34,679	82.3%	5.6%
Golden Gate	\$33,736	\$45,888	36.0%	2.8%
<b>TOTAL</b>	<b>\$184,254</b>	<b>\$304,283</b>	<b>65.1%</b>	<b>4.7%</b>

*Note: this includes total operator and non-operator fringe benefits divided by total employees. It does not include cable car, ferries, or paratransit. 2000 work hours per FTE.*

Source: National Transit Database



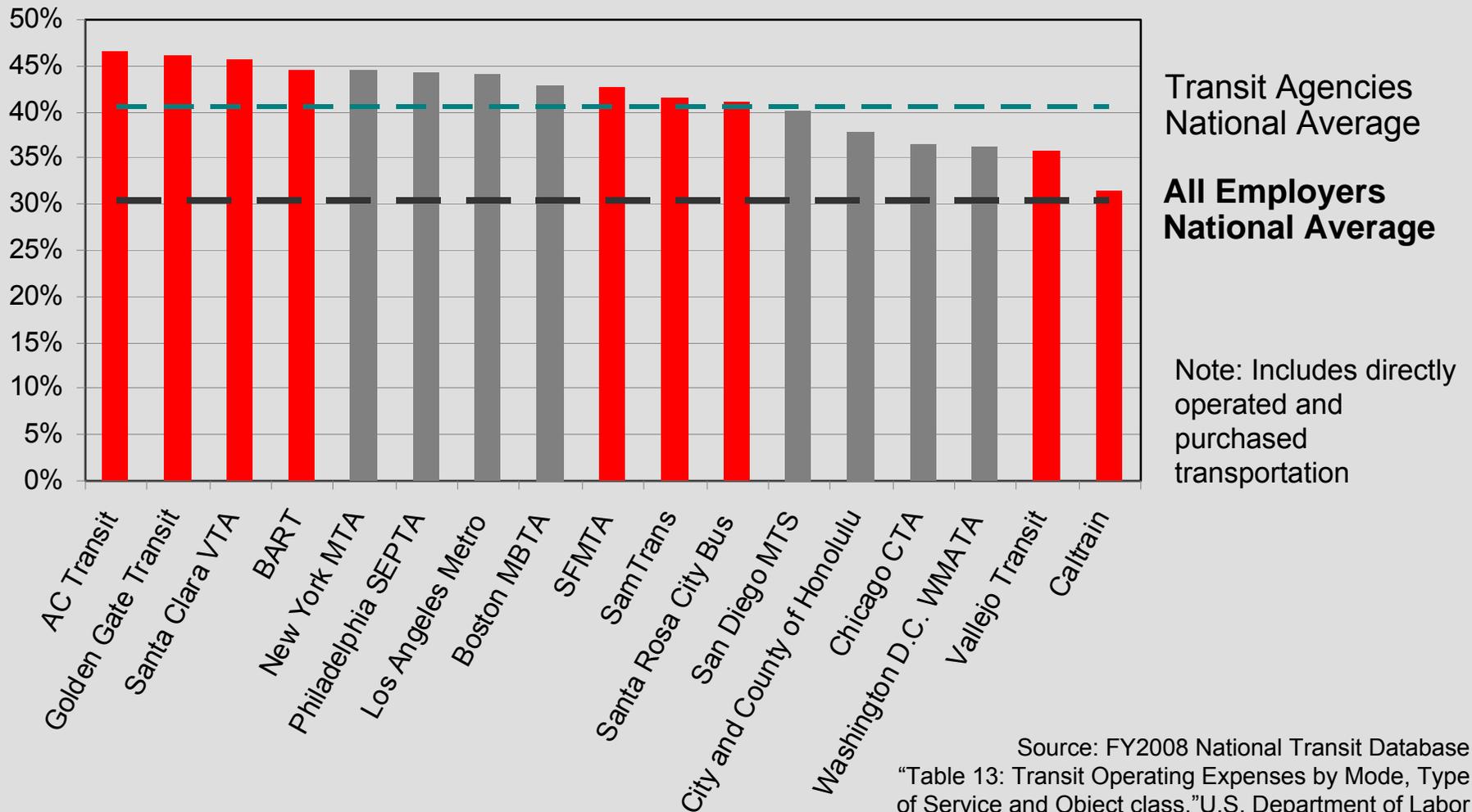
# Retirement Plans (Operators only)

Agency	Minimum Age & Service – Normal Retirement	Benefit Formula	Percentage of Pension Cost Paid by Employer
<b>AC Transit</b>	Age 65 & 8 years	2.5% of high 3 years	100%
<b>BART</b>	Age 55 & 5 years	2% of high year at 55, sliding scale based on age	100%
<b>Golden Gate</b>	Age 65 & 1 year	2.55% of high year	~90%
<b>Samtrans</b>	Age 55 & 5 years	2% of high 3 years	100%
<b>SFMTA (City retirement plan)</b>	Age 62 & 0 years	2.3% of high year up to 75%; annual CPI	100%
<b>Santa Clara VTA</b>	Age 55 & 15 years Age 65 & 10 years	2.0% of high 3 years 2.4% of high 3 years	100%

*Note: Need to evaluate other employee categories*

# 2008 Employee Benefits Costs as % of Total Compensation

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



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)



## Fringe Benefits – Observations

- Agencies experiencing large increases and fluctuations in health care and pension costs
- Issue impacting all public sector and future uncertain
- Options for cost containment are limited and being considered by many agencies:
  - Increase employee contributions
  - Restructure benefit program
  - Two-tiered pension system
- **Recommendation:**
  - Identify potential savings if cost containment strategies adopted for fringe benefits
  - Forecast cost savings under various scenarios
  - Support work at the agency level on fringe benefits reform

# Operating Cost Drivers Summary

Cost Drivers	Finding	Next Step
<b>Wages – operators</b>	Base wage rates appear in line with peers.	No further base wage analysis. See Work Rules.
<b>Wages – non operators</b>	Some questions remain	Evaluate wage growth and FTE growth compared to service provided.
<b>Fringe Benefits – pensions and health care</b>	<ul style="list-style-type: none"> <li>▪ Real growth nearly 5% per year</li> <li>▪ Significant issue short &amp; long term.</li> </ul>	Highlight potential savings from best practices.
<b>Work Rules – overtime, premium pay, etc.</b>	Partial information collected to date.	<ul style="list-style-type: none"> <li>▪ Complete initial cost driver assessment</li> <li>▪ Conduct further analysis as part of service and institutional.</li> </ul>
<b>Service Changes – service increases/cuts</b>		
<b>Staffing Levels – workforce allocation</b>		

# What is a sustainable transit system?

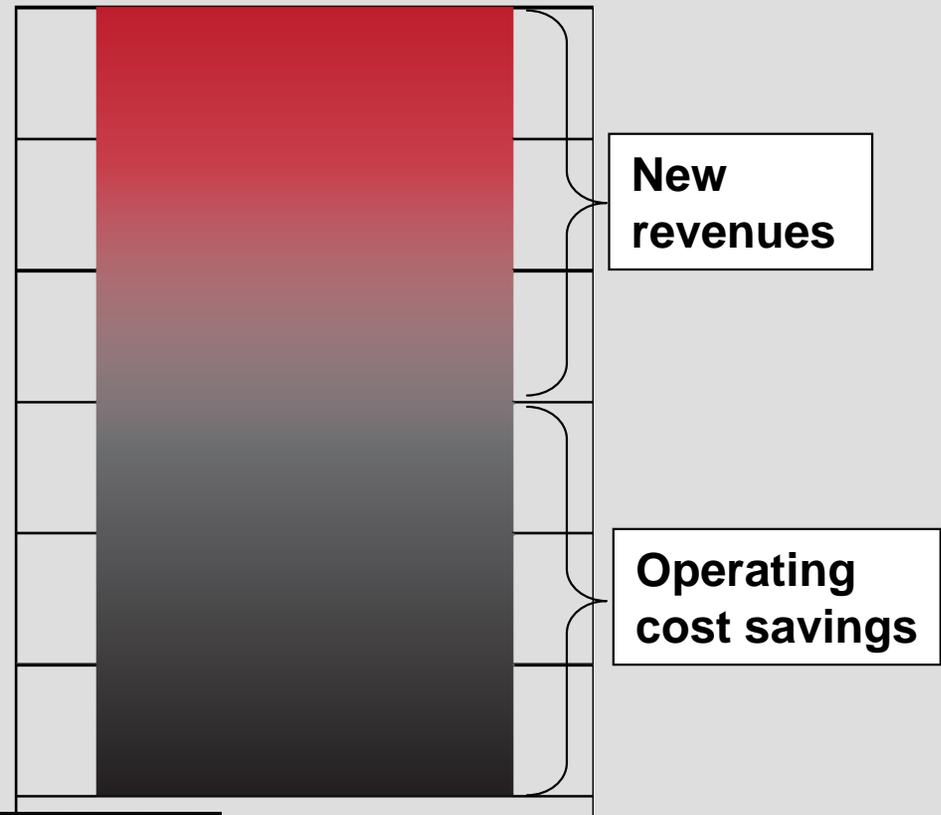
## Financial Focus

- **Financial:** A system that can cover its operating and capital costs with a growing share of passenger fare revenues as well as reliable streams of public funding.

**FY 2012 Snapshot\*:**  
**~\$200m operating deficit**

### Potential Target:

- Up to 10% cost savings
- Up to 10% new revenues



\*Based on recent agency press releases and board items.

# Financial Analysis Next Steps

- **Additional cost driver analysis**
  - Work rules
  - Service changes (including relationship with capital investment)
  - Staffing levels
- **Forecasts of near-term operating cost deficit scenarios**
- **Initial estimates of potential cost savings from fringe benefit cost containment**



# Additional Next Steps

- **Financial:**

- Identify cost containment strategies and quantify potential savings
- Begin revenue and pricing analysis

- **Service:**

- **Regional** – regional evaluation using the Transit Competitiveness Index and development of system objectives and performance metrics
- **Subregional** – more detailed service analysis in the Inner East Bay and the Peninsula
- **ADA paratransit** – assessment of policies and service delivery throughout the region
- Continued coordination with Sustainable Communities Strategy

# 3. Project Visioning

# Overcoming Challenges – Survey Feedback

- **Of 15 challenges for transit today, the top 5 responses include (in priority order):**
  1. Unpredictable revenues result in unstable service and fares
  2. Multiple operators results in a fractured decision-making process and works against a cohesive regional transit network
  3. Land uses and other external factors confound transit's effectiveness
  4. Inefficient work rules inflate cost of delivering service
  5. Transit service is not price or time competitive with the auto alternative

**Next Meeting:  
November 15<sup>th</sup>  
1-3pm  
MTC Auditorium**