



Transit Sustainability Project

Project Steering Committee
December 3, 2010



Today's Agenda

1. Follow-Up Work on Cost Drivers
 - Cost Drivers per Hour of Service
 - Non-Operator Wages
 - Fringe Benefits
2. New Cost Driver Analysis
 - Work Rules
 - Staffing levels
 - Service changes (speed and capital investment)
3. Operating Cost Projections and Cost Containment Strategies
4. Next Steps



1. Follow-Up Work on Cost Drivers

Region's Potential Cost Drivers

Operator
Wages

Other
Wages

Fringe
Benefits

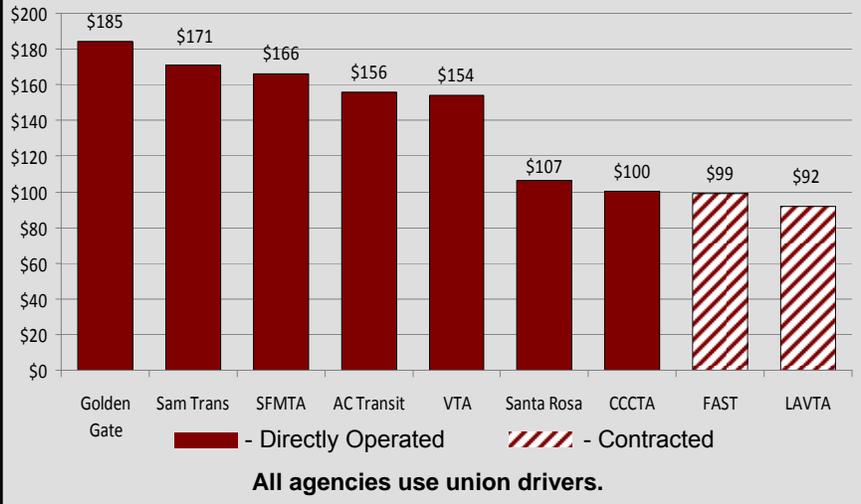
Work
Rules

Service
Changes

Staffing
Levels

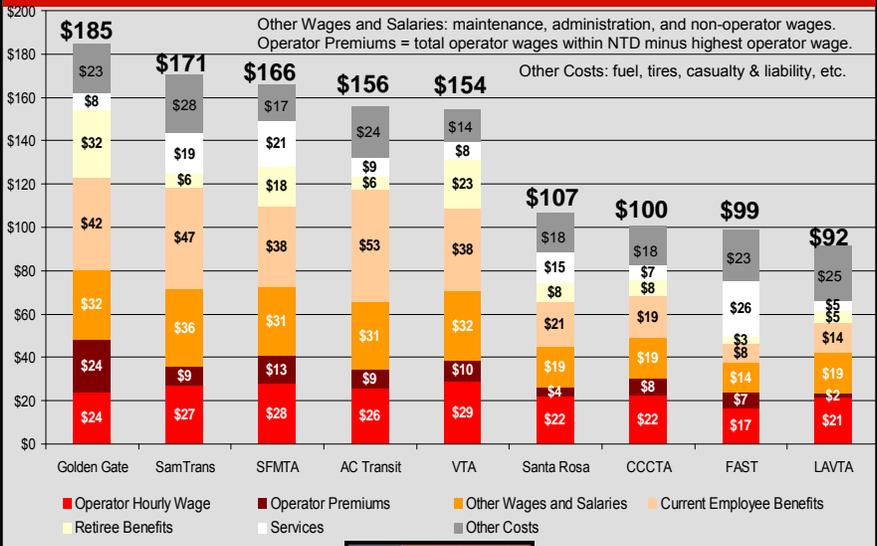
- Focus on “Big 7” operators, which account for 93% of operating costs and 96% of passengers in the region.

Bay Area Fixed-Route Bus Operators Comparison of Cost per Vehicle Service Hour (FY2009)



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

FY2009 Operating Costs: Cost per Vehicle Service Hour



Sources: NTD; Active/retired figures directly from large agencies, estimates for others; Dash Reports; and TDA audits



Key Cost Drivers: Cost per Vehicle Service Hour

Findings

- Significantly higher cost per hour for large operators (\$154 to \$185) than small/medium operators (\$92 to \$107) → evaluate impact of business model on cost structure and consider best practices
- Operator hourly wages similar across agencies → no further analysis of operator hourly wage
- Other wages and salaries and premium time roughly twice as much for large operators than small/medium operators → analyze work rules and staffing levels, particularly for larger “legacy” systems
- Fringe benefits as much as two to three times higher for large operators than small/medium operators → cost containment strategies identified later in presentation



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Non-Operator Wages

- NTD data issues have made analysis of non-operator wage growth difficult, so information was collected directly from agencies.
 - Multiple categories of employees included in non-operator wages
 - Inconsistent categorization amongst operators
- Input from “Big 7” CFOs indicates that increases in non-operator wages have been consistent with or less than operator increases.
- Additional information of wage levels would require in-depth, operator-specific analysis.

Non-Operator Wages (per CFOs)	Non-Operator Cost Containment Strategies in Place
Wage increases in line with or less than operators' wage increases	Layoffs/Attrition (AC Transit, Caltrain, Golden Gate, SamTrans, SFMTA)
	Furloughs (Caltrain, SamTrans, SFMTA, VTA)
	Wage/hiring freezes (SFMTA, BART, Caltrain, Golden Gate, SamTrans, VTA)
	Early Retirement (SFMTA, AC Transit)



Source: Agency Financial Departments

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Non-Operator Wages Summary

Findings

- Non-operator wage growth in line with wage growth for operators, which was lower than growth in Regional and State wage indices for “all occupations”

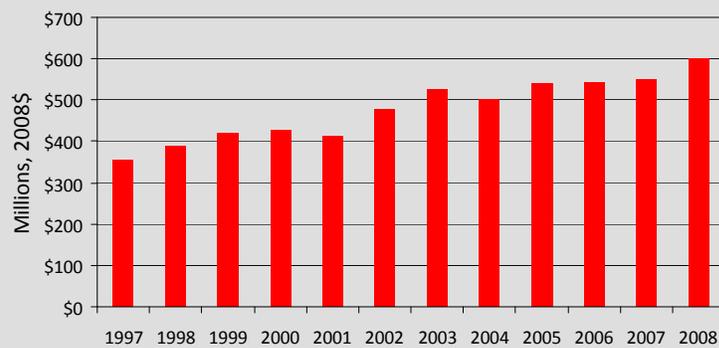
Recommended next steps for non-operator wages

- Consider number of non-operator staff relative to service output as part of staffing levels analysis
- No further analysis of wage levels



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Review of Fringe Cost Trends



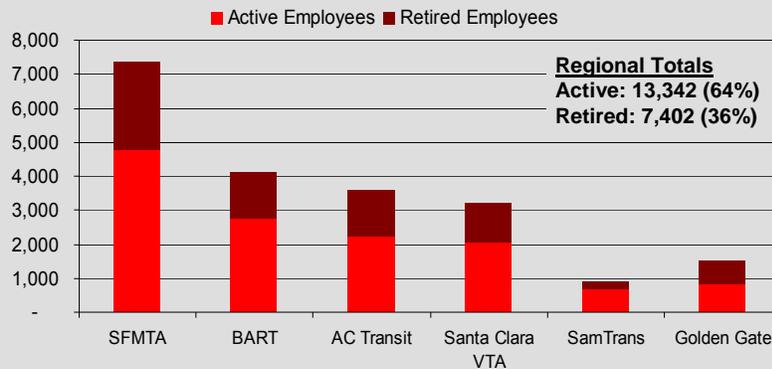
- The “Big 7’s” total fringe costs have increased from \$355 million in 1997 to \$601 million from 1997 to 2008.
- Increase of 69% after adjusting for inflation.



“Big 7” operators;
Source: National Transit Database

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2008 Active and Retiree Employee Counts



- Retired employees comprise 36% of 5 of the "Big 7" transit agencies' total employees.
- National trends show that life expectancies will increase and, combined with early retirements, the number of retirees will continue to grow.

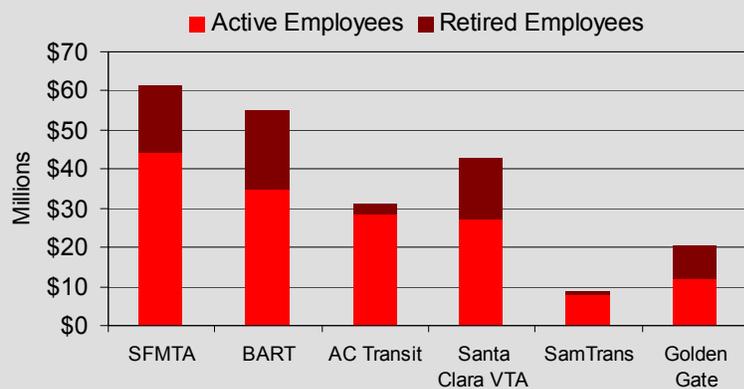
Note: SFMTA figures are from November 2010.



Source: Agency Financial Departments

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2008 Health Insurance Costs: Active and Retired Employees



- Retiree health insurance costs can represent a significant percentage of Agency health insurance costs – from 28% to 41% for SFMTA, BART, VTA and Golden Gate

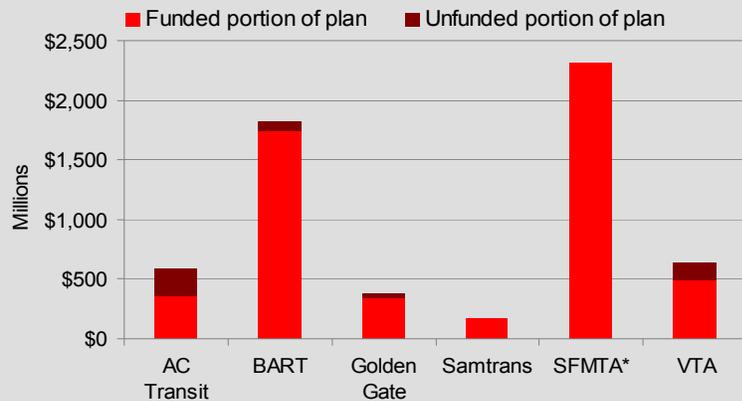
Note: Golden Gate costs are from FY 08/09.



Source: Agency Financial Departments

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Region's Pension Outlook (as of 2007-2009)



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

Note: Numbers do not reflect full impact of recent economic downturn.

** SFMTA employees are members of the City and County of San Francisco pension plan. SFMTA's pension costs were estimated based on a per employee basis (14% of the overall plan costs).*

Source: Agency CAFRs



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Observations: Pensions

- Pension funding appears to be in relatively good shape
- However, some unfunded liability remains
 - Government Finance Officers Association recommends
 - aim for 100% pension funding, and
 - pay the full pension "annual required contribution" each year
- Lower projected returns would increase unfunded pension liability
 - Projections assume pension plans achieve roughly 8% rates of return on their investments (established by plan administrators, e.g. CalPERS)
 - CalPERS is evaluating whether to reduce its projected rate of return in the future



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OPEB Background

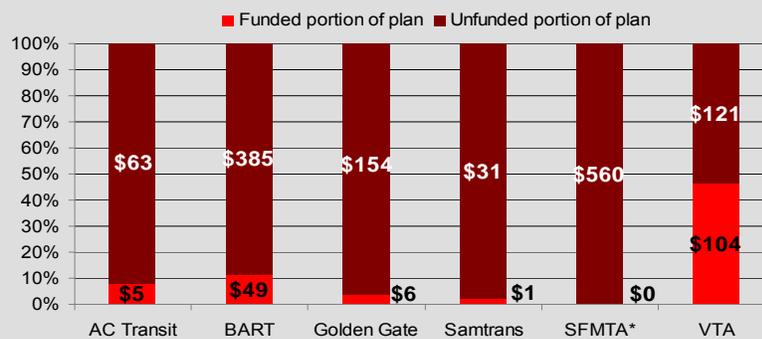
- Other Post-Employment Benefits (OPEB) is an accounting concept created by the Governmental Accounting Standards Board (GASB) designed to address expenses that entities may or may not be legally bound to pay.
- Generally includes
 - Medical benefits to retirees and surviving spouses
 - Retiree life insurance
 - Survivor dental and vision benefits
 - Medical benefits to survivors of active employees
- Additional OPEB may include retiree life insurance premiums and the survivors dental and vision benefits



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Region's Other Post-Employment Benefits (OPEB) Outlook (as of 2008)

(in \$ millions)



- The region's OPEB costs are mostly unfunded – with outstanding costs totaling over \$1.32 billion.

* SFMTA employees are members of the City and County of San Francisco pension and health plans. SFMTA's OPEB's costs were estimated based on a per employee basis (14% of the overall plan costs).



Source: Agency CAFRs

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Annual OPEB Contributions

Agency	OPEB Annual Required Contribution (in million \$s)	2009 Actual OPEB Contribution (in million \$s)	% of ARC paid in 2009
AC Transit	\$4.0	\$6.3	156%
BART	\$42.8	\$37.7	88%
Golden Gate	\$13.9	\$13.9	100%
SamTrans	\$3.4	\$1.9	55%
SFMTA*	\$57.3	\$18.9	33%
VTA	\$15.4	\$15.9	104%
TOTAL	\$136.8	\$94.6	69%

- “Annual Required Contribution” is the amount calculated by an actuary that would cover that year’s “normal costs” (cost of future benefits earned in that year) + amortize the unfunded liability over 30 years.
- For the most recent year, agencies made about 2/3 of required contribution.

Source: Agency FY 2009 CAFRs.



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Observations: OPEB

- Agencies are addressing their OPEB unfunded liabilities, but OPEB represents a substantial burden on operating budgets for foreseeable future
 - BART, Golden Gate, Samtrans, AC Transit, and VTA have established OPEB Trusts, and will fund their unfunded liabilities over 30 years, in accordance with governmental accounting board guidance.*
 - A national issue that affects government agencies and private entities: U.S. states face an estimated \$1 Trillion unfunded liability for pensions & OPEB combined (Pew Center on the States)

*Note: The City and County of San Francisco set up a trust; finalizing legal OPEB trust status.



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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)	<ul style="list-style-type: none"> 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)	<ul style="list-style-type: none"> \$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)	<ul style="list-style-type: none"> Every 5% of costs shifted to employees yields \$1.2m in savings
Agency limits its share of premium costs to Employee + 1 Dependent for active employees (VTA proposal)	<ul style="list-style-type: none"> \$6m in savings per year
Pension	
Create new pension tier for new hires (AC Transit proposal)	<ul style="list-style-type: none"> \$7m (only produces significant savings after 30-years)



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Wage and Fringe Benefits: State Efforts

- State budget called for \$1.5 billion in cuts to employee compensation
- SEIU Local 1000, the largest public employee union in California with 95,000 members, just agreed to a new contract with the State:
 - Reduces pay 4.6% for 12 months, in exchange for a one-time allocation of 12 unpaid days off
 - Increases current employee pension contributions by 3%; introduces reduced pensions for new employees
 - Ends three-day per month furloughs
 - 3% salary increase for everyone who has been on the top step for 12 months
- Saves approximately \$385 million annually (or \$4,000 per employee)
- Other state unions have agreed to increases in pension contributions of 4% or 5%



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Sample Fringe Cost Control Strategies: Estimated Near-Term Annual Savings if Applied To Region

Category	Cost Control Strategy	Order of Magnitude Regional Annual Cost Savings
All Fringe Costs	Implement State model with savings per employee of \$4,000	▪ Roughly \$50 million
Sub-Category	Cost Control Strategy	Order of Magnitude Annual Cost Savings
Health Insurance	Agency pays a capped % of health insurance costs for active employees (based on a VTA proposal)	▪ Every 5% of costs shifted to employees results in \$13 million in regional savings
Health Insurance	Agency limits its share of premium costs to "Employee + 1 Dependent" for active employees (based on a VTA proposal)	▪ \$66 million

Note: Many of these strategies have short-term cost savings implications; however, long-term savings may be higher.



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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
 - Issue is not unique to transit agencies
 - Potential near-term annual savings: \$50 to \$80 million if achieve regional savings similar to recent state and local agency reform efforts
- Recommended next steps for fringe benefits
 - Develop regional principles supporting cost containment strategies
 - Consider cost containment targets or performance metrics for the region



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2. New Cost Driver Analysis

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 Areas	Examples of issues covered by work rules
Service design and assignment	layover, interlining, division service sharing, special service
Crew scheduling	spread, daily guarantee, use of part-timers, run requirements (4-10s, splits, straights), report and travel time
Daily service delivery	extraboard management, absenteeism
Business model	in-house versus outsourced service delivery

Work Rules Assessments

- Transit agencies have conducted assessments of work rules and identified potential savings that could result from specific changes
- Many work rules are inter-related and must be looked at comprehensively

Area	Examples Of Issues Evaluated	Potential Annual Savings as % of Operating Budget*
Service design and assignment	Layover allocation, spread premiums, part-time driver limits, weekly guarantee, break and travel time optimization, division consolidation.	~1% to 2%
Crew scheduling		
Daily service delivery	Reducing absenteeism and extraboard 3%	~1%
Business model	Outsourcing of specific routes/services	2% to 7%
Multiple areas	Overtime rate, break rules, eliminating pay for time spent on union business	~3%

*Based on agencies that completed recent analysis of work rule changes.



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Work Rules Summary

- Findings
 - Work rules can have significant impacts on the cost of delivering service
 - Premium pay data suggests further analysis could produce options for lowering operating costs
 - Potential annual savings: approximately \$100 million if achieve regional savings of 5% of operating costs similar to recent agency reform efforts
- Recommended next steps for work rules
 - Conduct agency specific analysis of key work rule areas to determine potential operating cost savings and impact on service delivery
 - Present more detailed work rules analysis in January



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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: Administrative Costs

Administrative Cost Comparison (\$ 2008)

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%
BART	\$82,671	1,940	115,228	\$42.6	0.72	17.3%
SamTrans	\$29,750	653	15,207	\$45.6	1.96	30.7%
VTA	\$24,500	1,498	43,839	\$16.4	0.56	9.6%
AC Transit	\$57,326	1,870	65,194	\$30.7	0.88	20.2%
SFMTA	\$120,334	3,016	212,620	\$39.9	0.57	26.0%
GGBHTD	\$12,094	345	7,421	\$35.1	1.63	19.5%

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 mixed compared to peers
 - Similar relative to hours of service (service efficiency)
 - Worse relative to passengers carried (service effectiveness)
 - Potential savings: roughly \$90 million if Bay Area agencies reduced percentage of operating budget dedicated to admin from 19.9 percent to 14.3 percent of total operating costs, in line with the peer average.
- Recommended next steps for staffing levels
 - Analyze further as part of institutional analysis



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Service Changes: Change in Operating Speeds (1997 to 2008)

- Agency staff have suggested that changes in operating speeds have been a factor in increased operating costs
- Bus operators struggle
 - Speeds for the largest 5 operators decreased 7 percent
 - Average operating cost per hour of service increased 23 percent
- Issues impacting bus speed
 - Congestion on local street network
 - Lack of coordinated or priority signal timing
 - Bus stop spacing and location inefficiencies
 - Slow boarding for crowded buses



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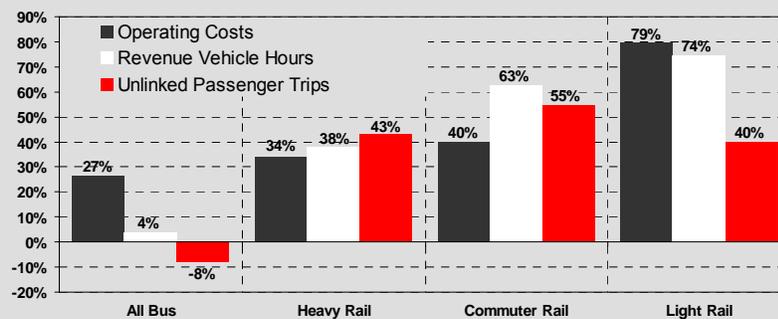
Service Changes: Change in Operating Speeds (1997 to 2008)

- SFMTA has identified increasing operating speed as a strategy to reduce operating costs
- The TEP study conducted by the SFMTA estimated that for every mile per hour the Muni systemwide speed is increased, Muni could realize approximately 10% in cost savings.
- Strategies to speed service include: signal priority treatments, enforcement of parking/bus lane restrictions, faster boarding, etc.
- Caltrain success from restructuring service
 - Average speed increased over 9 percent
 - Average operating cost per hour of service decreased 14 percent
 - Supported by significant capital investment



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Service Changes: Percent Change in Cost and Performance Indicators (1997 to 2008)



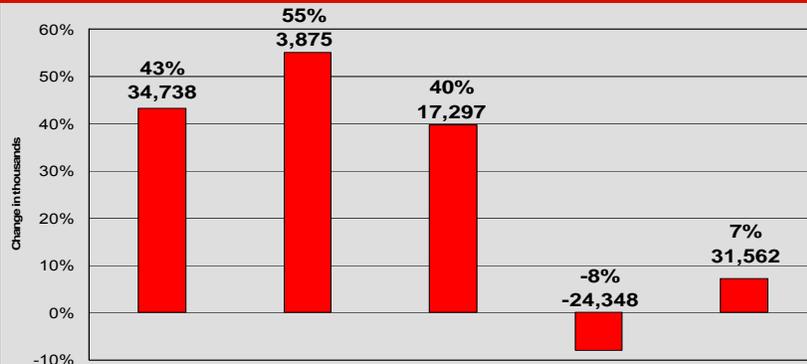
- Work to date focused on operating costs
- Discussion at last meeting of impact of capital investments on operating performance metrics
- Requested staff return with information on capital investments

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



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Capital Investment: Change in Passengers (1997-2008)



	Heavy Rail	Commuter Rail	Light Rail	Bus	Regional
Total Capital Expenditure	\$3.3 B	\$0.9 B	\$2.2 B	\$1.7 B	\$8.2 B
Capital per Passenger	\$2.88	\$9.15	\$3.62	\$0.47	\$1.49

Note: Does not amortize capital over life of investment.



Big 7 only.
Source: National Transit Database

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Service Changes: Speed and Capital Summary

- Findings
 - Capital spending per passenger trip significantly higher for heavy and commuter rail; both experienced passenger increases
 - Moderate investment in bus system did not yield positive outcomes
- Recommended next steps for service changes
 - Consider investment strategies as part of service analysis
 - Test innovative investments in the bus system that could yield increased speed and ridership and decrease cost



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3. Operating Cost Projections and Cost Containment Strategies



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10 Year Operating Deficit Estimates

- Estimated Range of Region's Annual Operating Deficit: \$100 million to \$380 million
- Assumptions:
 - Low range: operator-provided deficit estimates
 - High range:
 - operator provided base-year cost data
 - growth at 11-year historical average rate
 - MTC estimates of available revenue
 - Maintains 2011 service levels



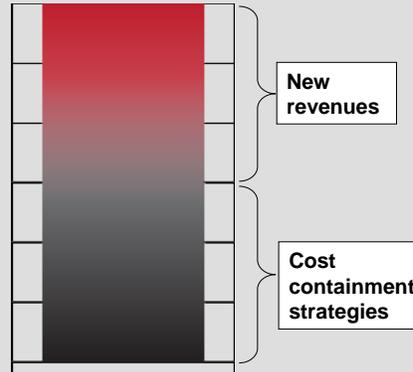
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Cost Containment Strategies

Estimated Annual Deficit
\$100 million to \$380 million

**Potential Regional Savings if
Cost Containment Strategies
Were Applied Regionally**

- Fringe Benefits: \$50 - \$80m
- Work Rules: \$100m
- Admin Staff Costs: \$90m
- Total** \$240 - 270m



4. Next Steps

Next Steps

January 21st Project Steering Committee meeting topics:

- Cost Analysis Wrap Up
 - Detailed work rules analysis
 - Recommend cost containment strategies
 - Recommend financial principles and savings targets
- Service Analysis
 - Service analysis approach
 - Initial overview of existing system and policies