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TO: BOARD OF DIRECTORS

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SUBJECT: BUS OPERATIONS COST PER HOUR

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### ISSUE

On June 16, 1999, the Board directed MTA staff to develop aggressive bus operations cost reduction strategies and prepare an implementation plan to lower the current projected FY'00 cost per revenue bus service hour of \$105.54 to at least \$102 in FY'00 and \$90 by the end of FY'01. This status report shows staff's progress in implementing the Board's directive.

### DISCUSSION

Staff presented the initial results of their efforts to identify cost reduction strategies to the Board at the November 17<sup>th</sup> and 18<sup>th</sup> Committee meetings. This included the results of a consultant review of our peer operating agencies, based on National Transit Database (NTD), data and concluded that: (1) the MTA's bus operating cost per RSH during fiscal years 1996-1998 exceeded the peer average by about 7%, (including Purchased Transportation), (2) this cost differential was attributed to materials and supplies, high worker's compensation benefits and the increasing cost of services, including MTA security, (3) the MTA's alternative fuel fleet policy contributed to higher costs, and (4) MTA should continue to reduce general and administrative costs.

Staff revised its hourly cost projection for FY00 based on the results of actual savings identified during the first quarter budget review. The review determined that the MTA had reduced costs per hour from a \$105.54 to \$103.77 this fiscal year. The Board was informed that staff had developed a set of work out teams to review specific cost areas and seek additional reductions in the current fiscal year and identify other cost reductions strategies that might be attained through the collective bargaining process.

The work out teams are focusing on the following:

1. Transportation services involving scheduling, operators, assignments, etc.
2. Maintenance costs including parts, labor allocation to operating entities, training, etc.
3. General and administrative expenses, including overhead and fringe benefit allocations.
4. Regional programs maintained and funded by the MTA benefiting multiple operators (e. g. transit centers, security, etc.).
5. Worker's compensation cost control.

The teams have met and generated a series of potential cost saving proposals. Some of the proposals require changes to current procedures and could affect labor negotiations. The proposals related to labor agreements are being evaluated and have been forwarded to the Labor Relations department for inclusion in the MTA's base proposals for collective bargaining.

The transportation and maintenance teams are researching cost savings ideas that include: increased interlining (one bus serves more than one route), procuring natural gas fuel and/or electricity on the open market, reducing the bus fleet spare ratio, parts inventory reduction, and schedule tightening (the amount of layover time scheduled). Staff is also investigating the introduction of "articulated" coaches, which may reduce costs or provide more capacity per bus than a standard 40' coach, using information developed for the Rapid Bus Project and Westside Restructuring Study.

The other three teams, led by OMB, are reviewing general and administrative costs including, the allocation of fringe benefits, overhead costs, and worker's compensation costs. They have identified some costs in the FY'00 Budget that are not consistent with current accounting practices used to report Enterprise Fund Expenses. They have also identified costs that can be funded from resources other than operating funds. These changes, in addition to reductions in general and administrative expenses, will reduce cost per hour and make cost reporting more consistent with NTD reporting criteria.

MTA's Stops and Zones and Facilities Maintenance departments perform maintenance work at facilities that are used by other regional operators. A portion of the costs for the maintenance of transit stations, transitways and other facilities are therefore attributable to other regional operators. These costs are being identified and in future reports may be excluded from MTA's cost per hour calculations. A separate method of accounting for and funding these cost is being implemented by OMB. Prior to making these adjustments, MTA staff have committed to review the changes with the Transportation Advisory Committee, as well as, our Municipal Operating Partners.

Worker's Compensation costs and benefits are a major concern to the agency. Our insurance policy with Traveler's Insurance Company is subject to a retroactive premium adjustment, based on incurred losses. The incurred losses for the first year of the policy indicate a need to accrue, in the third quarter of Fiscal Year 2000, an additional worker's compensation expense of \$4.7 million. Risk Management, Safety, and Operations staffs are reviewing and developing methods to reduce the agency's incurred losses.

As we reported in the previous Board Report, staff expects to be able to meet or exceed the \$102.00 cost per hour target set as part of Director Fasana's motion that was accepted by the Board. As this report is being written, the agency is reviewing and analyzing its 2<sup>nd</sup> Quarter financial results. All savings identified as a result of the 2<sup>nd</sup> quarter Budget review will be incorporated into the Fiscal Year 2000 Forecast and the revised forecast will be presented at the March Board Meeting. Preliminary indications are that the actual bus operating cost this year will be close to \$102 per hour.

#### NEXT STEPS

The agency is now conducting an analysis of 2<sup>nd</sup> Quarter budget performance. Upon completion of this review and analysis, an updated cost per hour performance report will be prepared. The updated analysis will be transmitted to the Board in March. The work out teams will continue to pursue additional cost saving measures.