



MAY 10, 2000

Metropolitan
Transportation
Authority

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TO: BOARD OF DIRECTORS

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SUBJECT: BUS OPERATIONS COST PER HOUR

ISSUE

On June 16, 1999, the Board directed the MTA staff to develop aggressive bus operating cost reduction strategies to lower the FY'00 adopted budget cost per revenue service hour of \$105.54 to at least \$102 in FY'00 (a \$25 million reduction) and \$90 (a \$109 million reduction) by the end of FY'01. At the May 8, 2000 budget workshop, Director Fasana asked the question about progress reaching the target of \$90 per hour given the proposed budget FY'01 hourly cost of \$98.75.

DISCUSSION

Several progress reports have been presented to the Board over the past nine months. The results of a consultant review of our peer operating agencies 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) added costs for the MTA's alternative fuel fleet policy, and (4) higher administrative staffing and fringe benefit costs.

Based on the areas indicated by our consultants, MTA sought to target its cost reduction efforts through the use of Management Action Plans and quarterly budget reviews. Through these strategic management mechanisms, staff reduced the FY'00 actual cost per hour from \$105.54 to an anticipated year end cost per hour of less than \$102.00.

For FY'01, bus service hours are projected to increase by 3% or 214,000 hours and cost inflation is projected to increase by 2.7%. The projected year to year cost reduction presented in the proposed budget absorbs **both** the increased level of service and the anticipated cost inflation, while at the same time delivering a budgeted cost reduction of **6.4%** or **\$6.79** per revenue service hour for FY'01.

Staff will continue to develop additional cost reduction measures throughout FY'01. The \$90 per hour goal will be pursued, but in all likelihood, will not be achieved without severe changes. To achieve a \$90 bus cost per service hour by the end of FY'01, substantial changes would need to occur in several areas including the following:

1. Labor Agreements
2. Amount of Purchased Transportation
3. Alternate Fuel Policy
4. Workers Compensation Injury Rate and Cost Reductions
5. Transit Security Cost Reduction
6. Flexibility to Utilize Managed Competition

Labor negotiations are currently on-going. The Board has been briefed on key elements of the labor agreements, including changes in work rules, staffing options (e.g. full vs. part time), worker's compensation, and safety.

Worker's Compensation is a major cost driver and is both being addressed through an inter-departmental workout team and as a priority issue in labor negotiations this year. This element of our cost structure accounts for an estimated \$6.06 in the bus cost per hour structure for FY'01.

Transit security is another significant element of MTA's operating cost/hour. Great strides have been made in making our system one of the safest to use day and night. The combined efforts of the LAPD, LASD, and MTA security forces have certainly paid off in controlling crime, fare evasion, and to some extent vandalism. However, this level of enhanced safety comes with a price. As displayed at the budget workshop, the total security budget is estimated to be \$63.8 million for next year. Bus Operations absorbs an amount equivalent to \$4.50 in its cost per hour structure.

Many of the proposed actions involve working cooperatively with our Union partners to change work rules and provide management more flexibility in the use and direction of its workforce. In particular, the expanded use of service contracting (purchased transportation), implementation of the 3-tier bus service system concept, reduction of worker's compensation injuries, and safety improvements will require substantial efforts at collective bargaining. Staff will also continue to explore other cost reduction measures, which are aimed at reducing the FY'01 actual expenditures compared to the budgeted amounts. These include purchasing electricity and natural gas at discounted rates, monitoring and managing parts consumption and repair, controlling revenue service hour changes, and avoiding other unplanned/unbudgeted expenses.

NEXT STEPS

Ideas and programs that link to cost reductions are being presented to our labor partners as part of the on-going collective bargaining process. Transit Operations will be leading a cross-functional team which has a goal to reduce bus operating costs by about 4% per year, less inflation. Periodic progress reports will be made to the Board in the context of agency quarterly reviews.