Why did Santa Cruz METRO undergo a Comprehensive Operational Analysis (COA) and a Service Reduction (Updated to reflect June 24, 2016 Board Actions)

- Santa Cruz METRO has been struggling with a fiscal structural deficit and insufficient Reserves to balance the budget in FY17:
  - **Operating Budget**
    - What is a structural deficit? A fiscal imbalance in which recurring expenses exceed recurring revenues.
    - For several years now, annual balanced budgets have been achieved by using non-recurring revenues (onetime money/Reserves) and non-traditional capital eligible State Transit Assistance (STA) and Federal Small Transit Intensive Cities (STIC) funds.
    - Prior to METRO having taken a number of expense reduction and revenue increasing steps, the preliminary FY17 budget would have require $6.3 in Reserves. METRO no longer had sufficient Reserves with which to balance the budget.
  - **Capital Budget**
    - On the capital side of the business, METRO estimates a need of $200 million in capital investments over the next ten years.
    - All capital eligible funds, such as STIC and STA, need to be redirected back to the capital program.
    - The Capital Program includes mission critical capital investments such as bus and paratransit vehicle replacements, bus mid-life overhauls, facilities, non-revenue vehicles, Information Technology (IT) updates/upgrades, customer facing capital investments, security projects and bus stop improvements.

- Major Contributing Factors to the Structural Deficit:
  - Too many consecutive years in which METRO has experienced an increase in the recurring costs of personnel, goods and services and in which the growth in recurring revenues have not kept pace.
    - Annual year-over-year operating expense growth significantly exceeding the annual Consumer Price Index (CPI) for the region: FY12 – FY15
    - Increasing costs associated with health benefits and retirement exceeding the year-over-year growth in revenues
    - Relatively flat ridership
    - Relatively flat sales tax growth
      - Sales Tax Decline (FY08 – FY10)
      - Marginal Sales Tax Growth since 2011

- If sales tax growth year-over-year had instead continued to grow at a modest 3% in the years following the 2008 economic downturn, METRO would have received $26 million more revenue over the period FY08 – FY14.
- As a result of the economic downturn, METRO had to subsidize its Operating Fund with $21.8 million in non-recurring revenue (Reserves) and capital eligible state and federal funds (STA & STIC) over this same period of time.

Uncontrollable outside forces contributing to the structural deficit

- 2008 Economic downturn - Prolonged Recession
- Sluggish economic recovery since 2011
  - Continued high rate of local unemployment
- State and federal transportation funds not keeping pace with the increasing cost of goods and services

o Unwillingness on the part of State and Federal elected officials to increase the gasoline and diesel fuel tax

- Federal gas tax has been unchanged since 1993 at 18.4 cents/gallon
- Federal diesel fuel tax has been unchanged since 1993 at 24.4 cents/gallon
- These federal gas and diesel taxes provide revenues to the federal Highway Trust Fund (HTF). 2.86 cents/per gallon from each of these two fuel taxes go to the Mass Transit Account. Federal bus transit funding comes from the Mass Transit Account.
- The State provides State Transit Assistance (STA) funds to METRO, which is derived from the State sales tax on diesel fuel
- In FY17, METRO's STA revenues declined by an estimated $750K because diesel fuel prices and consumption have declined
- METRO lost an additional $300K in STA as a result of the State Controller's Office abruptly changing the allocation methodology to include over another 100 agencies statewide as recipients, thereby sharing reduced funding among more entities
- Increasing STA will require that the State increase the rate of State sales tax on diesel fuel and dedicating the new revenues to the STA program
- So far, partisan politics and "special interests" have prevented such legislative attempts from moving forward

- What has Santa Cruz METRO done since 2015 to help mitigate the Structural Deficit?
  - Increase revenues and decrease operating costs by:
    - Realigned the paratransit service to mirror the fixed-route
    - Restructured paratransit fares and Highway 17 commuter express fares
    - Identified operating and overhead efficiencies (over $300K in FY16)
    - Aligned the FY15/16 revised (adopted June 2015) budget to the FY14 budget actual outcomes, plus uncontrollable increases in labor and fringe - resulted in approx. $1.08 million reduction versus the FY15/16 budget, initially adopted in June 2014
    - Reduced budgeted positions in FY16 by 4.5 FTEs versus FY15 approved budget
    - Held vacancies unfilled throughout FY16 and defunded several positions for FY17
    - All FY17 budget line items were carefully reviewed, comparing each line to the multi-year historical experience, and adjusted for required contractual increases and decreased line items where possible
    - Our employees and management have given up previously agreed upon Cost Of Living Adjustments (COLA) pay increases
    - Successfully acquired grants to replace diesel buss with electric buses which will not only reduce maintenance and fuel costs but will also eliminate greenhouse gas emissions.

- State-of-Good-Repair (SOGR)
  - In a basic sense, a system is in a SOGR when all maintenance is performed at scheduled intervals, all facilities are properly maintained (there is no deferred maintenance) and all vehicles receive mid-life overhauls on-time and are later replaced as scheduled.
  - Santa Cruz METRO <u>is not</u> in a SOGR; METRO has identified a need for $200 million in capital investments over the next ten years, and the backlog is growing due to the shortage of capital resources.

- METRO is overdue to replace much of its fixed-route bus fleet
  - METRO's average age of the fixed-route bus fleet is 12 years
  - The target average age of the fleet should be 6.5 years
  - Buses reach the end of their life between 12 – 15 years, or, 500,000 miles
  - METRO needs to replace 70 buses today at an estimated $38 million.

- Why not plan to continue to help offset some of the ~~$10.1 million "total"~~ operating structural deficit by continuing to use STIC and STA (non-traditional capital eligible funds) as operating revenue indefinitely?
  - STIC and STA should be used for capital programs
  - METRO is rapidly falling further and further behind in capital investments, particularly buses and paratransit vehicles
  - METRO needs about $20 million/year in capital eligible funds over the next ten years to address its unmet capital needs
  - Capital eligible revenue sources are increasingly more difficult to acquire as demand exceeds available funding
  - In most cases capital funding cannot be used for operating needs
  - In the past, and up until 2012, METRO benefitted by generous federal "earmarks"
    - Earmarks were designated funds from Congress outside of the normal appropriations process
    - Federal earmarks were a funding source of the past, and likely never to return
  - METRO was the recipient of significant state capital revenues that resulted from the 2006 California Proposition 1B, and funded many capital projects
    - Proposition 1B was a ten-year State bond program and the revenues have been exhausted and a new state capital bond program is nowhere in sight
  - The new state Cap and Trade program will provide limited funding relief to METRO's Capital Program due to the strict state restrictions placed on the use of these funds.
  - Redirecting STIC and STA back to the Capital Program will provide about $4.1 million/year for capital investments and help to begin reducing the $200 million unfunded capital backlog

- Financial Stabilization Plan - How do we resolve the structural deficit, replenish our Reserves, address the unfunded capital needs and establish a stable financial foundation?
  - Reduce operating expenses - Continue to identify operating and overhead efficiencies, so that the need to reduce actual bus service is minimized
  - Strive to bring the fixed-route cost per Revenue Service Hour and the paratransit Cost per Trip in better alignment with our peer transit properties, relative to whom, we have high labor costs
  - Implement the FY17 Fixed-Route service restructuring that will provide a level of bus service that matches the level of available recurring operating revenues

- Regularly collaborate with the Cabrillo College Student Senate to ensure METRO is providing the service the students need using the dollars generated by the new student transit pass fee
- Work with UCSC to see if the students will support an increase in transit and parking fees to support the level of service provided to UCSC and to help better address morning peak-hour demand
- Increase marketing efforts to attract more riders to the system
- Increase advertising and lease revenues
- Continue to strongly advocate at a State and Federal level for increased operating and capital grants

❖ Adding Value/New Initiatives

- Migrate cash and magnetic-stripe fare media customers to the Cruz Card to help expedite fare payment and facilitate better on-time performance
- Complete the Highway 1 feasibility study that will look at the feasibility of adding "bus on shoulder" to Highway 1
- Continue to seek grants to add electric buses to the METRO fleet
- Add more electric over-the-road coaches to the Highway 17 commuter service
- Identify funding for an automatic vehicle location (AVL) system that will provide stop-level on-time performance data and a customer facing Smartphone application for customers to use to determine when their next bus will arrive
- Acquire automatic passenger counting technology (APC) to improve quality of ridership data and reduce staffing costs to produce this data.

Frequently Asked Questions (FAQs)

- Q: Why not rationalize all bus routes by productivity and eliminate service starting with the worst performers?
  - A: The interpretation of productivity varies depending on how the route is classified. Productivity on a rural route is judged differently than it would be for an urban or commuter route. We would devastate rural routes if we focused our service reductions on only the lower productivity routes. Doing so would also damage the network connectivity and likely result in a severe reduction in geographic coverage. METRO has instead chosen a more surgical approach to service reductions by focusing on trip thinning, span of service, weekend service and the frequency of service.
- Q: I often see empty buses. Why is METRO running the service during the hours in which there is low ridership?

- A: This is a common question. Knowing a little more about the logic of the service may help to answer the question. Bus service in general is structured around the morning and evening peak weekday hours in which most customers are using the service to get to and from work or school (core business). Each peak hour typically has a peak direction. Therefore, if customers are riding the system to go north to work, the northerly commute buses will have more customers on the bus than the southerly commute during the same peak hours. Keep in mind that we don't run buses in one direction and park them. The northerly bus trip that delivers people to their work locations must then turn and service stops in the opposite direction where there are fewer riders during the same peak hours. The same occurs in the opposite direction during the evening peak hour commute home.

  During the mid-day, when there are fewer riders on the system, we provide service that often targets customers who need to get to the grocery store, doctor's appointment or the mall. During this "off-peak" part of the day, we tend to run fewer buses and we stretch the bus headways out to provide less frequent service.

  During the later evening off-peak hours, we tend to provide more of a lifeline level of service in which, similar to the mid-day off-peak hours, we run fewer buses and stretch the headways out to provide less frequent service.

  In summary, depending on the time of day, and the direction of travel, one might see either a bus with many customers aboard or a bus with fewer customers aboard.

- Q: Why run these big buses when there are fewer customers, and instead, why not purchase smaller vehicles that carry fewer customers?
  - A: This is a very common question. The answer is complicated and multifaceted. In part, our core business is to provide service for the peak AM and PM commutes, primarily people headed to and from work and schools. In the peak hours, driving one bus that carries 40 customers is more cost-efficient than driving two or three smaller vehicles carrying 15 people each (one bus driver versus the cost of two or three bus drivers).

    Sometimes the question is expanded to ask why we don't park the larger buses in the off-peak hours and drive less expensive smaller vehicles. The answer is that it is not cost-efficient to own two fleets of buses that would operate on the same routes during different times of the day. Not only would it be a challenge to store two fleets of buses

overnight, but the maintenance costs associated with two fleets of buses would be cost prohibitive.

Sometimes people will ask why we don't own smaller buses and run them only on routes that don't have high peak-hour requirements. The answer is that we run the service with an approach called "interlining." Interlining is a very efficient way to run bus service. A simple version of interlining goes like this. We run buses on a particular route with a higher frequency of service during the morning peak-hours, but after the peak-hours, we drop the service level on that route to less frequent service and move (interline) the extra buses to other routes where we maintain a higher frequency of service. If we ran smaller buses, they may work in areas with lower capacity peak-hour needs, but they may be capacity constrained when they are interlined over to another route later that morning. METRO is investigating certain routes that may work with smaller vehicles in the future.

In yet another observation, sometimes people will suggest that we just park buses in the off-peak hours when there is less demand. In fact, we do as much of this as makes good business sense, and that the Union collective bargaining agreement will allow. For example, if the bus route requires four buses in the peak-hours to provide ½ hour frequency of service, in the off-peak we might park two of the buses and reduce the frequency of service to one-hour. However, the Union collective bargaining agreement restricts METRO's use of this concept by constraining the use of split-shifts to ensure that not less than 60% of all weekday assignments must be "straight assignments." Straight assignments are assignments where the bus operator drives without parking the bus for eight or more hours straight. In contrast, a split-shift assignment is one where the bus operator drives for say four or more hours, parks the bus for between 3 - 5 hours, depending on the assignment, and then drives again for another four or more hours (never exceeding ten-hours of driving seat time). In this example, the bus operator does not receive pay for the 3 - 5 hours of break or split-time between driving events, <u>but does</u> receive an additional ½ time pay for all hours worked over a ten-hour spread. Spread-time is the total time from sign-on to sign-off, including the unpaid break/split-time between driving events.

These examples are provided in an effort to provide a small example of the many complexities of providing the service. Some of these complexities are directed in law, such as the ten-hour seat time rule, and some by the Union collective bargaining agreement.

Finally, the most immediate fiscal problem we are trying to solve is the operating budget. Bus purchases are paid for with capital dollars (explained in the next question). Regardless of whether we operate a large bus or a small bus, the bus requires a bus operator. Therefore, the labor costs of driving a smaller bus versus a larger bus are similar. In addition, smaller buses are not built to take the same beating as larger buses, and therefore result in higher maintenance costs. Maintenance costs impact the operating budget. Smaller buses, in comparison to larger buses, have a shorter life span, typically five-years versus twelve or more years for a larger bus.

Q: Why did METRO just spend millions of dollars on the new Judy K. Souza Operations facility on River Street when they knew they had a structural deficit?

- A: METRO is funded with a variety of sources. Some State and Federal funding sources and grants are restricted for capital use only and others are more flexible and can be used for capital or operating expenses. The new operation's building was programmed and funded in better times and is funded in-part with one-time sources that can only be used for capital expenses.

Q: <u>What is METRO doing to offset deficiencies in funding?</u>

- A: In addition to a 10% service reduction, METRO has a duty to regularly review all business functions in search of cost savings. Over the past two years, department managers have diligently reduced expenditures within their respective departments; our employees and management have forgone Cost Of Living Adjustments (COLA) increases for a few years; and, METRO defunded several vacant positions and is operating the business with fewer overhead personnel. Organizationally, METRO is a very lean and minimally staffed organization relative to our peers, with limited depth of staff resources (please review METRO's Organizational Chart at www.scmtd.com).
- METRO participated in a program available through the Association of Monterey Bay Area Governments (AMBAG) that provides a loan with which to modify various METRO facilities to energy efficiency lighting. This short-term loan is paid back through the savings in our utility bills, and once paid back, will result in ongoing lower utility expenses.
- Some vehicle maintenance that was historically contracted-out is being performed in-house at a savings.
- METRO continues to aggressively pursue State and Federal grant opportunities.

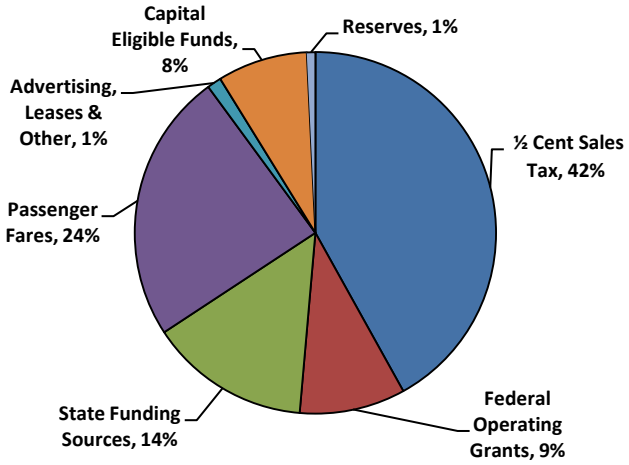
Q: What is METRO doing to grow ridership, and doesn't doing so conflict with service reductions?

- A: As mentioned earlier in this document, Metro conducted a "surgical" approach to reducing service. That surgical approach resulted in a restructuring of the system that attempted to minimize ridership losses.
- METRO will continue to offer discounts to seniors, disabled and youth and to offer to larger employers and schools the opportunity to take advantage of the bulk pass program.
- METRO will continue to participate in community events throughout the county, such as parades, the Santa Cruz County Fair and First Friday, to market the service and grow brand awareness.
- METRO will establish a marketing effort to attract new riders to routes that have the capacity to absorb more riders.

METRO Statistical Profile

- Service Snapshot (FY16)
  - Service area population – 250,000
  - Fixed-Route Service hours – 225,000
  - Annual passenger trips – 5.7 million
  - Fixed-Route Revenue Miles – 3.3 million
  - 108 buses (27 diesel and 81 CNG)
  - 43 paratransit vehicles (ParaCruz)
  - Fixed-Route Directional route miles – 479
  - Fixed-Route Number of bus stops – 935
  - Fixed-Route Number of routes - 35

- Operations Funding Snapshot (FY17 – Adopted Budget)



Key Performance Indicators (KPIs)

- Fixed-Route passengers per Revenue Service Hour (FY15) – 25.09
- Fixed-Route & Hwy 17 commuter service Cost per Revenue Service Hour (RSH)
  - FY15 - $175.78
  - FY14 - $175.74
  - FY13 – $165.39
  - FY12 – $161.34
  - FY11 – $146.72
  - FY10 – $139.07

  Note: Cost based on Actual not Budget

- Fixed-Route Farebox Recovery Ratio
  - 23.04% - Indicates how much of the fixed-route operating costs are covered by passenger fares
  - Also, indicates the amount of non-passenger revenue (subsidy) needed to cover operating costs = 76.96%

- Paratransit Cost per Trip - $56.93/trip
  - *NOTE: Paratransit efficiency measure is Cost per Trip, unlike fixed-route, which is measured as cost per Revenue Service Hour (RSH)*
- Paratransit Farebox Recovery Ratio
  - 3.34% - Indicates how much of the paratransit operating costs are covered by passenger fares