

Putting The T On A Clear Path To High Performance

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Testimony on the Draft MBTA Strategic Plan

Thank you, Chairman Aiello and members of the Fiscal and Management Control Board (FMCB), for the opportunity to share my thoughts on the MBTA's draft strategic plan. This document is critical to building on the impressive progress that has already been made toward fixing the T.

Much has been accomplished in the past 20 months. The draft strategic plan, however, correctly notes that the MBTA is still nowhere near where the riding public needs it to be. Pioneer Institute believes that getting there will require maintaining the same kind of discipline and urgency that the Control Board has made possible, but over a longer and more explicitly defined period.

I am grateful for the opportunity to provide practical suggestions to improve the current draft. As noted in testimony submitted in October, I believe **the draft plan is still too diffuse in its goals**. We believe increasing ridership should be the organizing principle of the entire plan. Safety, customer service, a diverse customer base, transparency, honesty and the other priorities outlined in the draft plan could be communicated more effectively under the umbrella of a single, overarching goal. Doing so would ensure that every person at the T, top management, the capital procurement team, drivers, conductors and maintenance workers will understand the vision behind the plan; it's much harder to do so with 10 priorities, each with subsidiary components.

Increasing ridership will require that you achieve each of the 10 stated goals; otherwise it will prove impossible to attract more riders. And, of course, increasing ridership will increase revenue, yield greater environmental benefits, and reduce ever-growing congestion on our roadways.

Focusing on this single measurable goal as an organizing principle would also frame this draft plan in a way that is clearer and less prone to unrealistic aspirations. For example, while I would love the T to be a "globally-premier" transit system, in the context of a 5- or 10-year strategic plan, that is not possible. Let's be frank — and set realistic goals and use realistic language. "Significantly improved" would attract new riders. I'd love it if, over five years, the T's performance put it in the top two or three systems in the U.S. Achieve that and in the next strategic plan we can aim for "globally premier."

Additionally, **the draft plan needs a clear start and end date.** For much of the plan, that is not clear.

1. *The draft plan does not set a clear enough schedule and series of actions, including a budget, to address key management issues such as the capital procurement bottleneck and IT deficiencies. This is especially important because we believe that it is critical to provide market-rate compensation for high-level management positions, if we are to attract and retain the type of talent needed to continue to execute this turnaround. This plan must also provide those managers with a road map that will allow them to execute and be held accountable to implement the reforms it includes.*
2. While there is some clarity around the schedule for certain improvements that will accommodate more riders, such as modernizing signal systems to reduce headways and double Red Line capacity, *the plan should provide more specificity for other critical maintenance upgrades.*

One of the goals in the draft plan that comes with a specific target date is *elimination of the MBTA's maintenance backlog in 15 years.* As an aside, I admit that I was surprised to learn that the current \$7.3 billion figure doesn't include commuter rail. I will comment more on this below, when discussing the need for continued discipline in limiting new rail line expansions.

The control board's term must be extended through 2020. This is critical if the progress that has been made is to continue and result in permanent improvements.

The MBTA's Pacheco Law exemption must be extended beyond 2018. Outsourcing will not fix all, or even a majority of what ails the T, but having the option is a must for several reasons. Through the leadership of the FMCB, the MBTA has taken effective advantage of the legislature's temporary Pacheco Law waiver, resulting in 65 percent savings in money room operations, 40 percent savings in warehouse operations, 70 percent savings in call center operations, and 80 percent savings in the RIDE pilot program.

Extending the exemption will allow the Authority to continue to achieve significant savings, while improving productivity and service quality. In the coming year, for example, the MBTA should follow through on its proposal to outsource a sizeable portion of its bus maintenance services. The FMCB's Innovation Proposal Bids revealed that private bus maintenance companies are offering maintenance contracts 50 percent less per bus revenue hour than the MBTA. Pioneer estimated in **June 2013, September 2015,** and March 2017 that the MBTA could save between \$40 and \$50 million annually by running all of its bus maintenance operation as efficiently as its peer public transit agencies do. According to the National Transit Database, in 2015 the MBTA's maintenance cost per bus mile traveled was the most expensive in the nation, 65.6 percent higher than average. Its total labor salaries per bus mile traveled was highest in the nation, 60.8 percent higher than

average. Its bus maintenance labor hours per bus mile traveled was second highest in the nation, 33.8 percent above average. The MBTA should also solicit bids for its heavy maintenance work on Red and Orange Line subway vehicles, another area of great potential savings.

And as we saw with the Carmen's Union agreement that was reached in December 2016, the exemption provides all-important leverage in contract negotiations. If the leverage from the exemption goes away, much of management's power to improve service with a sense of urgency goes away as well. Aside from savings it will derive due to actual outsourcing of contracts, the MBTA will have saved an additional \$217.9 million as a direct result of leverage provided by the Pacheco Law suspension during its negotiations with the Local 589, including \$106.8 million in reduced wage growth, \$93.8 million in operator wage progression, and \$33.2 million in work rule reform.

Pension Reform

Pioneer Institute reported in **December 2016** that over the last 10 years, the MBTA pension system's unfunded obligations have surged from \$49 million to more than \$1 billion, of which the MBTA is responsible to pay at least 75 percent. In addition, the MBTA's annual contribution to the pension system has risen from \$38 million to \$92.7 million over the same period. This burgeoning growth has occurred in large part because the MBTA's annual contribution rate has virtually tripled from 6.2 percent of payroll in 2003 to an estimated 18.1 percent in 2017, exclusive of the MBTA's required Social Security contributions, while the MBTA employees' contribution has increased over the same period from 4 percent to only 6.46 percent as of July 1, 2016.

The MBTA should take the following actions to address the financial crisis attributable to the MBTA Retirement Fund:

1. Seek a legislative cap on employer contributions to the MBTA Retirement Board of 18.5 percent;
2. Hire its own actuary and auditor to conduct an independent review; and
3. Seek legislative authority to transfer MBTA employees to the state retirement system.

Once these reforms are implemented, perhaps in the next strategic plan we can begin developing approaches to address the T's \$2 billion unfunded OPEB obligation.

Continued discipline to rein in rail line expansion

The progress in righting MBTA finances through operational reforms, internal revenue generation, outsourcing, and right-sizing the workforce has been hard won. Still, investments must be made now to upgrade existing routes and services. At

this critical moment, moving forward with new rail line expansions beyond the commitment made to construct the Green Line Extension, which comes with the benefit of substantial federal funding, will threaten the progress that has and can be achieved.

We believe the South Coast Rail Line and the Gillette expansions are unwise in the extreme.

Both projects have weak ridership projections and, thus far, anemic private and no federal financial participation. As noted previously, the MBTA must continue to prioritize projects that serve the highest number of new riders. Moreover, expansions must come with private and federal participation that covers up-front capital investment and also ongoing operational and maintenance costs.

Continued discipline in focusing on existing core services is also needed because of significant demographic changes that will impact transportation and the broader economy. With ridesharing companies proliferating and expanding their customer base(s), and with growth in the number of workers choosing to become independent contractors likely to continue and accelerate in the coming decades, we must work to anticipate substantial changes in travel demand. These changes may be as transformational as any experienced in the last century.

Capturing all possible revenues: Fare Collection

The MBTA's financial crisis is due in part to its chronic inability to collect fares from all riding customers, especially from those on the commuter rail, Green Line, and trolley systems. The T has estimated that this problem is responsible for up to \$42 million per year in lost revenue. This is because these transit modes rely on conductors and/or drivers to collect fares, due to lack of a gated entry and exit system. The MBTA should institute reforms on the commuter rail system for fare collection gates at North Station, South Station, and Back Bay Station, the most frequently accessed points of entry and exit in the system, and to devise improved collection methodologies on the Green Line and trolley systems. In doing so, it will need to ensure that the customer experience isn't diminished.

Financing that can help transform the T

Pioneer has long discussed the need to prioritize reform before revenue. That said, we noted in our February 2015 Public Statement, which called for the creation of this Control Board, that the T needs the state or a separate authority to provide annual debt service relief on the order of \$200 million. We believe the time has come to start that revenue conversation, even as we press for additional reforms.

Currently, the Metropolitan Highway System receives \$125

million annually from the state's Transportation Fund, with \$100 million dedicated to debt service payments related to Big Dig debt that was originally issued by the now-defunct Massachusetts Turnpike Authority and \$25 million to maintain Big Dig assets operated by MassDOT.

Given the value of enhanced access to Logan Airport and Massport-owned parcels in South Boston that was provided by the Big Dig, we believe Massport should increase the portion of Big Dig-related debt for which it is responsible. Specifically, the port authority, rather than the commonwealth, should shoulder a portion of the \$125 million annual payment.

There are many parallels to this arrangement in other states. In addition, the so-called "grandfather provision" of the 1982 [Airport and Airway Improvement Act](#) grants exceptions to restrictions on airport revenue diversion to a handful of airports, including Logan. These airport 'sponsors' are permitted to use airport revenue for purposes unrelated to air travel by virtue of unique conditions, such as debt obligations or legislation governing financing of non-airport related initiatives enacted before 1982. Grandfathered airports may include port authorities or state transportation department facilities and operations in addition to airports; e.g., management of tunnels, bridges, real estate development and maritime activities. Because of this provision, Massport is one of the few public bodies managing an airport that is able to use airport revenue for projects such as developing the Seaport District and improving the commercial viability of Boston Harbor through capital improvement of Conley Terminal and other projects. This provision also applies to initiatives that produce a net loss for airport sponsors (projects that do not recoup sufficient revenue to meet their expenses).

Pioneer believes that an independent traffic study should be performed annually to determine the percentage of vehicles using Big Dig assets to travel to and from Logan. Massport should be responsible to reimburse the Transportation Fund its ratable percentage of debt service and maintenance costs, net of toll revenue attributable to Logan traffic. Massport funding should be dedicated solely to making additional principal payments on the MBTA's debt associated with Big Dig mitigation projects.

The policy goals of this action are to:

1. Place the MBTA on a firmer financial footing; and
2. Reduce MBTA debt to a level where, longer term, the MBTA can be subsumed by MassDOT without triggering state-required debt service limitations.

Conclusion

We are deeply grateful for all the work that you have done as a Board. We fully understand that you have done this on a volunteer basis. Your commitment to public service and to a

high-performing MBTA, which is truly a jewel and with effort could be a catalyst for further economic growth and opportunity, is appreciated by all.

We hope that, to date, Pioneer has proven to be a productive partner and, indeed, prod in this process. Our goal is clear — we want a public transit agency capable of delivering a high-quality experience so that it attracts even more riders and drives greater prosperity in the region. With these comments, we hope to have provided similarly constructive and practical recommendations.