EOS's Recommendations on RT's Fiscal Crisis

"Avoiding <u>Both</u> Bankruptcy and a Transit Death Spiral"

March 14, 2015

An Eye on Sacramento Report

> "If fares increase even further… fewer people will opt to ride Metro. Lower ridership in turn will inevitably translate into further service cuts, fare increases and even lower ridership. Regrettably, we believe that the staff budget proposal threatens to create a **death spiral**. ---- Letter from Montgomery County Council members Roger Berliner, Nancy Floreen and Tom Hucker in regarding Washington's MetroRail, February 24, 2015, *WTOP News Service*

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EYE ON SACRAMENTO

KEEPING WATCH ON LOCAL GOVERNMENT FOR SACRAMENTO'S FUTURE

To: RT Board of Directors and Residents of Sacramento

In its work as a local government watchdog, Eye on Sacramento is highly selective in the matters it chooses to review or investigate. We tend to focus on civic matters which are of high public importance, but which are not receiving adequate scrutiny by media, government or concerned citizens. We try to fill such vacuums by shedding light on what are often dimly lit corners of local government. We are strong believers in the sage advice of Justice Louis D. Brandeis who asserted that "sunlight is said to be the best of disinfectants."

This is EOS's first report on matters involving RT. Consequently, we've been on a steep learning curve as we've sought to rapidly familiarize ourselves with RT's finances, operations and issues so that we can make a meaningful and, hopefully, valuable contribution to the public debate over the unprecedented fare hikes being proposed by RT staff. However, we still have much to learn about RT.

We have been greatly aided in this effort by Professor Greg L. Thompson, who chairs EOS's Transportation Committee and is retired from the faculty of the Department of Urban and Regional Planning at Florida State University. Professor Thompson is a nationally recognized expert in transit issues and currently chairs the Committee on Light Rail Transit of the Transportation Research Board. Professor Thompson is the principal author of our EOS report.

RT is at a critical crossroads and the actions the RT board takes in response to RT's current existential financial crisis will determine whether RT: (a) lands in bankruptcy court in just a few short months; (b) triggers a transit death spiral; or (c) takes the very tough, but absolutely essential, actions that it must immediately take to stabilize its failing finances and steer a course clear of the rocky shoals of bankruptcy, on the one hand, and a transit death spiral, on the other.

We thank you for your consideration of our findings and recommendations. If you wish to discuss any of these matters, please do not hesitate to contract Professor Thompson or me.

Sincerely,

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March 14, 2016

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RT's FISCAL MESS: A CRISIS OF ITS OWN CREATION

The Crisis is Very Real

RT is a vital transit agency with an annual general fund budget of $148 million, but has operating reserves of just $3.1 million, which is not enough to fund its operating costs for even seven days. With approximately $18 million owing on its bank line of credit, RT has an atrocious 1:6 current account ratio. On a current account basis, RT is clearly insolvent. Its credit rating has been lowered by both of its rating agencies. Its line of credit bank has tightened the terms of its credit and is requiring closer monitoring of RT's financials.

Due to recent dips in actual sales tax and other tax revenues, RT now expects that its annual deficits will range from $2.4 to $5.0 million in each of the next five years, for a total 5-year cumulative deficit of $19.6 million. It has used operating reserves to close deficits in each of the last two years.

The Crisis is a Result of RT's Strategic Errors and Lack of Budget Discipline

RT is experiencing an existential financial crisis for one primary reason: it has recklessly and prematurely rushed to build new and extended light rail lines while clearly lacking the resources to cover the higher operating costs such projects have caused. RT spent $43.9 million to build a one mile line from Downtown to the underdeveloped Township 9 neighborhood (dubbed the Green Line). Its single rather grandiose station on Richards Blvd. generates an average of just 300 boardings per day, while RT's costs for operating the underused line are well over $500,000 per year.

But the biggest driver of RT costs has been its woeful decision to rush the construction of an extension of its Blue Line from Meadowview to Consumnes Community College at a cost of $250 million. Instead of having the patience to wait for the receipt of an anticipated $66 million state grant from the Transit Congestion Relief Program (TCRP), RT elected to issue $87 million of high interest revenue bonds in 2012 in order to finance its $66 million contribution to the construction of the Blue Line extension. RT is now stuck paying $4 million in annual interest cost to service the bonds, a cost it cannot afford. Additionally, the new extension is costing RT $5.7 million in additional annual operating expenses. The premature extension is costing RT's general fund, in total, over $10 million each year.

The Federal Transit Administration (FTA), the federal agency that administers grants to local transit agencies, hesitated before approving federal funding for the Blue Line extension, issuing the following prescient warning:

> "*The burden of additional debt service on RT's current operating projections is a serious consideration in evaluating RT's financial capacity*."

No one listened to FTA's warnings then or later. In response to the warning, RT rejiggered its financial projections and FTA funding of the Blue Line expansion was approved.

In addition, RT has failed to control rising labor costs which have been rising at three times the rate of inflation in recent years. It is handing out 4% annual raises at a time when it is insolvent. It has run up $6 million in costly debt to fund the refurbishment of Downtown light rail stations to improve the experience of arena customers, but it failed to insist upon a contribution from the owners of the Kings for such costs. It has entered into a variety of unfavorable deals with local partners, including local schools districts and Paratransit, Inc. It has failed to gain control of its chronic absenteeism among bus operators. And it is paying a tremendous price for its failure to secure staffing flexibility at the bargaining table with its unions.

THE FARE INCREASE PROPOSAL

RT staff is recommending to its board a 20 percent fare increase, phased in over 12 months, to cover an apparently recently-discovered budget shortfall. The proposal would, once fully implemented, increase the basic one-way fare from its current level of $2.50 to $3.00, tying Sacramento's fare with the most expensive one-way fare in the nation. The price of other RT fare instruments also would increase, some by more than 20 percent.

Staff first proposed the fare hike at the RT Board meeting of January 25, 2016. The RT Budget, which the Board adopted just six months earlier, did not reveal an impending financial crisis (Sacramento Regional Transit District, *Fiscal Year 2016 Budget,* approved by the Board June 22, 2015). In outlining budget highlights last June, RT general manager Mike Wiley did not mention fare increases. However, buried in the budget are more modest assumptions of fare increases of 8% every other year beginning in FY2017 (*Budget*, p. 53).

WHY EOS OPPOSES A TWO-PHASE 20 PERCENT FARE INCREASE

EOS opposes the proposed 20 percent fare increase, phased in over 12 months, because:

<u>The Public is Being Misled as to the Root Causes of the RT's Financial Crisis</u>. In its report prepared for the March 14, 2016 meeting of the RT board, staff falsely cites reductions in expected sales tax revenue, flat ridership numbers and inflationary increases in operating costs as the root causes of RT's financial crisis. That is not true. We show in this report that RT's reckless use of fare revenue bonds, RT's premature construction and opening of the Consumnes River College extension to the Blue line, the premature construction of the Green Line to Richards Blvd., RT's failure to control escalating labor costs and RT's looming financial responsibility for the operation of the proposed downtown circulator streetcar are the *real* reasons for the crisis.

The financial crisis that the fare increase is supposed to address has been masked from the public until the past 45 days, suggesting a need for a thorough investigation of RT's financial management, budgeting and reporting practices. EOS challenges RT management to explain to its riders, the taxpaying public and the RT board why the substantial budget shortfall was not revealed to the board and the public as recently as June and what is actually causing it.

<u>RT Refuses to Be Candid as to the Purpose and Need for the Fare Increase</u>. Is it designed to be a funding source for a system-wide overhaul? Or is it a no-choice, last resort bailout of a bankrupt agency? RT's management, and perhaps, the RT board, seems to think they can

present it as both. There can be no broad public support for such a drastic measure so long as the rationale remains concealed and/or confused.

It's Unfair to Impose the Burden of Closing the Deficit Solely on Riders. The proposed fare hikes would unfairly and illegitimately impose the entire burden of closing RT's budget deficit on the shoulders of its riders, rather on those parties who have either benefitted from RT's failure to maintain fiscal discipline or who bear some responsibility for RT's strategic errors that have been the principal cause of RT's current financial plight.

Included in these later categories are members of RT's management, RT unions who are benefitting from recent and future committed pay hikes that RT quite obviously cannot afford, as well as certain developers, contractors, boosters and elected officials who have egged RT on to run up major costs and major debts to prematurely construct both the Consumer River extension of the Blue Line and the Green Line to Richards Blvd. in Township 9. The same forces are currently seeking to unfairly burden RT with 100% of the costs (of up to $8 million per year) to operate the proposed circulator streetcar in Downtown, portions of Midtown Sacramento and in West Sacramento.

Fare Hikes Would Further Depress Ridership. The fare hike would *accelerate* RT's already rapidly falling patronage of both buses and trains. After years of growth, RT's bus and rail patronage abruptly turned downward in 2009-2010 as a consequence of the recession, major fare increases in both 2008 and 2009, and service cutbacks. Bus and train patronage stabilized at a lower level after 2010, but train patronage began to decline further in 2014, and bus patronage began declining shortly thereafter.

Further Decline in Ridership Would Risk a Transit Death Spiral. The proposed fare increase would worsen the on-going decline in ridership and risk putting RT into a transit death spiral. Generally, when fares are increased by one percent, patronage almost immediately declines by 0.33 percent. That means that, on top of the declining patronage trend already underway, patronage loss would accelerate by another 6.6 percent from the 20% hike in fares. In the longer term, the losses would likely be still greater.

Experience from various parts of the world indicates that as passengers have time to adjust their lives to fare increases, more and more of them desert the system. After a year or so, the decline of 6.6 percent is likely to grow to a 10 percent decline or greater. Such substantial patronage losses would provoke service cuts and further fare increases, and the further fare increases would provoke still more hemorrhaging of passengers from the system. (ref R Balcombe, et al. *The Demand for Public Transport: A Practical Guide*. TRL Report 593. London 2003). Such a negative feedback loop is known as a transit death spiral.

Major Fare Hikes Will Accelerate Trend of Riders Leaving RT to Use Uber/Lyft. Uber and Lyft offer a networked and dynamically responsive alternative to public transit. No doubt some of the riders who have left the RT system switched to Uber/Lyft for their transportation needs. The proposed fare hike will only exacerbate such trend.

Uber has seized upon the possibilities of expanding its business with "UberPool," "Smart Routes" and "Suggested Pickup Points," as well as its "Perpetual Trip" plans, which would take its UberPool car-pooling service to its logical conclusion, an unbroken chain of rides (*The Uber End Game*, August 25, 2015, *TheAwl.com*). These rapidly evolving tech and ride-sharing innovations will likely become a major competitive threat to traditional public transit. In fact, they already are. While we are delighted that the City of Sacramento is taking steps to join this tech revolution (by seeking federal funding for initiatives that explore ride-sharing options, driverless cars, etc.), the more nimble tech companies have a major built-in advantage over slower-acting public transit districts like RT. By substantially raising the price of an RT fare relative to that of an Uber fare, the proposed 20% fare hike will only accelerate the out migration of RT customers to Uber and similar services, further driving down RT patronage.

RT Fares Have Increased Well in Excess of Inflation Over Every Reasonable Baseline. Compared to a baseline of $1.50 in 2000, RT fares already have increased 66 percent over the past fifteen years. An increase to $3.00 would bring the increase to 100 percent. Over the same period the CPI has increased only 38 percent.

RT Fares Are Already Above the Median Transit Fare for the Nation. It is impossible for transit service to succeed in Sacramento until it is priced competitively, particularly given growing competition from ride-sharing services. Overpricing of the system is the most certain way to assure continued frustration in meeting congestion mitigation and air quality goals. Efforts to reduce fare evasion are similarly destined for disappointment as the price of a ticket continues to climb.

Full Effect of Falling Gas Prices on Ridership May Not Be Fully Realized. Gas prices have fallen sharply over the past year and a half, which means that ridership loss in the future could be more severe than the "rule of thumb" forecasts in the staff report suggest, particularly with reports of near record new car sales and record low auto financing rates.

RT Board Should Not Approve Fare Hikes Until New General Manager is Hired. The RT board will be looking to its new general manager for leadership in how to right RT's listing fiscal ship. To give its new general manager the broadest possible range of options to deal with the crisis, the RT board should not launch a major fare hike before he or she is hired.

RT Has Other Options for Closing Budget Deficits Without Hiking Fares. Staff would have the RT board and the public believe that RT faces a stark choice between raising its fares to the highest fares in the nation and going bankrupt. That is a completely false conclusion. Set forth below are a full range of options that the RT board can pursue to rapidly and significantly reduce its operating costs to close the budget deficits for next year and future years.

EOS's RECOMMENDED ACTIONS: CUTTING COSTS IN LIEU OF RAISING FARES

RT is proposing a $4 million fare increase to cover a recently revealed shortfall in its operating budget that was not predicted in the budget that its board adopted in June 2016. We challenge the RT board and the RT staff to thoroughly examine each of the following actions:

Mothball the Green Line Unless Township 9 Developers Pay Its Operating Costs. During RT's 2008-10 financial crisis, management eliminated train service after 9:00 p.m. on weekdays and reduced frequency all day on Saturdays and Sundays from a train every 15 minutes to one every 30 minutes. Although RT did restore the weekday evening service, the weekend frequency was never restored.

Instead, in 2009 little more than a month after RT's fare increase to $2.50 and the elimination of transfer slips, RT inexplicably broke ground on the Green Line, which opened in June 2012. At a distance of only 1.1 miles, with only one new station in the underdeveloped Richards Blvd. area, the Green Line carries an embarrassing 300 passengers per day, fewer than even most bus routes. (Source: *Green Line Fact Sheet*) Green Line service should be mothballed until such time as significant development occurs in the Richards Blvd./Township 9 area, or the line is extended much further north to areas of Natomas that may generate respectable patronage. If landowners and developers in the Richards Blvd./Township 9 area believe the Green Line is necessary for the development of their property, they should pay for the Green Line's operation out of their pockets, not RT's.

Downtown Streetcar Project Would Make RT's Budget Deficit Far Worse. As bad as RT's financial condition is today, it will be made unbearable if the Downtown circulator streetcar is approved and built, and its operation is foisted upon RT. The streetcar's annual operating deficit is forecasted by streetcar proponents to be around $4 million, but in Appendix 1 of this report we estimate that the expense will be much higher.

Assuming a streetcar runs every 15 minutes, 7 days per week, for 15 hours of service each day, we calculate that the average annual operating cost of the streetcar would be $6.3 million, assuming the cost of running a streetcar for one hour is comparable to running an RT light rail car for one hour (which is $230). If the cost of running a streetcar in Sacramento turns out to be as high as in Portland, the expense for Sacramento will be much higher. In 2012, the cost for running a streetcar in Portland was $323 per hour. If the cost in Sacramento turns out to be similar to that, the annual operating cost of the streetcar would be $8.8 million.

Estimates of Likely Streetcar Operating Deficit Net of Revenues. Of course there will be streetcar passengers, whom we assume would pay $1.00 fares. The Portland streetcar, which serves much more employment centers, residents, and university students than will the Sacramento streetcar, carried 12,000 passengers per day in 2012. All other modern circulator streetcars carried far fewer passengers in 2012. The Memphis streetcar, for example, carried about 3,000, the Little Rock streetcar about 400, the Tampa streetcar about 800, and the Seattle South Lake Union streetcar about 2,600. If the Sacramento streetcar carried as many passengers as Portland, and charged a dollar for each of them, it would gross about $3.6 million, leaving an annual deficit of between $2.7 and $5.2 million depending upon the unit cost to run a streetcar one mile. In the more likely scenario of the Sacramento streetcar attracting about 2,600 daily passengers, like the South Lake Union streetcar in Seattle, it would gross about $950,000 per year, leaving an annual net deficit of between $5.3 and $7.8 million. If RT is asked to assume this deficit on top of the unfunded deficit of $5.7 million that it already is facing next year, RT will have to undertake much more drastic measures than it is anticipating now.

Streetcar Operating Costs Would Require Over 40 Percent Fare Increase to Cover. Unless other savings are found, this huge deficit *would force a fare increase in excess of 40 percent*, which all RT riders (many, if not most, of whom are low-income) would have to pay. This burden upon RT riders to pay for what amounts to an amusement park ride for wealthy downtown interests and visiting tourists, is unconscionable. RT must not assume the operating cost liability for the proposed Downtown streetcar.

RT Board Must Insist on a Cost-Sharing Agreement on Streetcar Costs. Before agreeing to participate in the streetcar project, the RT board should insist that a binding cost-sharing agreement be entered into by the cities of Sacramento and West Sacramento, Yolo and Sacramento counties and the property owners in West Sacramento and Sacramento who stand to benefit from the $170 million project, an agreement which would reimburse RT for 100% of the costs it incurs in operating the streetcar project. If the streetcar's operating costs end up being $6.0 million annually (not quite mid-point between our $5.3 to $7.8 million projected cost range), RT will avoid liability for $180 million in total operating costs over the next 30 years by requiring such a cost-sharing agreement be in place before it participates.

This is to say nothing of the impacts a low-speed streetcar operating on shared track in downtown Sacramento might have on reliability of RT light rail operations.

RT board members and Sacramento councilmembers Steve Hansen and Jeff Harris, who also serve as Sacramento's representatives on the Streetcar Project Steering Committee, should pledge that the Committee will not finalize a grant agreement with the FTA for financing the construction of the streetcar project without first securing a cost-sharing agreement that immunizes RT from 100% of the operating and maintenance costs of the streetcar and also affirming that the Committee will not seek to have a third party operate streetcars on RT's existing track and system.

Misuse of Costly Bond Proceeds. RT has adopted the highly questionable practice of using RT's 2012 Fare Revenue Bond proceeds to expedite funding of capital projects instead of funding such projects out of operating cash flow, using reserve funds or securing state or federal grants for such work. In 2012, RT issued 30-year Fare Revenue Bonds with a face amount of $87 million and used a substantial portion of the net proceeds to finance a $66 million local match to a federal grant to construct an extension of the existing Blue Line to Consumnes River College. The interest cost to RT of this bond is approximately $4 million per year, with an aggregate cost of almost $16 million over the past four years. [1]

Misusing Bond Proceeds to Refurbish Downtown Light Rail Stations for Arena. In October 2015, RT reported that $6.2 million of the Fare Revenue Bond proceeds would be used to fund improvements to Downtown light rail stations (to spruce them up before the Golden 1 Center opens this fall), which prompted many justifiable complaints by riders and advocates that RT is catering to the owners of the Kings and the downtown business community at the expense of everyday riders and taxpayers.

[1] The RT Budget for FY2016, adopted in June 2015, summarizes the fare revenue bond issue on p. 114.

Insist That Kings' Owners Pay Costs of Refurbishing Downtown Light Rail Stations. Given that the owners of the Kings have already received over $300 million in subsidies from city taxpayers to build the Golden 1 Center, it is unconscionable that the owners are not being required by RT to foot the bill for the lion's share of the cost of refurbishing Downtown light rail stations to make the experience of riding light rail to events at the Center a more enjoyable one for patrons. We are aware that most of the contracts for the station refurbishing have likely already be issued, but we urge the RT board to explore RT's legal options for suspending work on all such contracts until the Kings owners contractual commit to reimbursing RT for the bulk of the $6.2 million (plus interest), as well as undertaking the costs of maintaining and cleaning such stations in the future.

It strikes us as shameful to drain $6 million out of RT through further borrowings, at a time when RT is functionally insolvent, to refurbish Downtown light rail stations for the primary benefit of the billionaire owners of the Kings. While the franchise value of the Kings has doubled to $1 billion since the current owners bought the club, transit-dependent Sacramento residents are facing the prospect of 20% RT fare hikes, which would make them the highest transit fares in the nation. Side note: while the Kings owners have an unrealized $500 million profit on their investment in the Kings, the median household real income of Sacramento families has dropped 12 percent from 2007 through 2013, according to U.S. Census Data.

Suspend Use of Bond Proceeds for Other Projects. RT must stop using costly bond proceeds for additional projects. RT cannot afford to run up further debt and incur further interest costs that it has no demonstrable means of repaying without sacrificing service levels for RT patrons. The RT board should adopt a clear schedule for the retirement of all bonded debt as soon as practicable, so that interest payments can be eliminated as an ongoing expense. The board should pledge that any and all proceeds RT may receive from the long-anticipated, but long-delayed, California Transit Congestion Relief Program (TCRP) will be used exclusively to retire RT bond debt.

Aggressively Explore Outsourcing of RT Functions. RT management, with the full support by the RT board, should intensely evaluate all options for outsourcing every RT function. There can be no sacred cows in a deep-seated financial crisis. The RT general manager should provide detailed reports on all of management's outsourcing initiatives at every RT board meeting.

RT Must Take Action to Control Its Labor Costs. In its staff report prepared for the RT board's March 14th meeting, RT management claims that it is powerless to manage its wages and benefits. Power Point slide 11 in the agenda packet is titled, "Examples of Costs Beyond RT's control." The first example noted is, "Increases in wage and benefit costs due to collective bargaining agreements." EOS concludes that RT management needs to do much, much better in controlling its labor costs.

Eliminate Inefficient and Costly Work Rules from RT's Union Contracts. It is vital that RT management stands firm in insisting on the elimination of the most costly and inefficient work rules in its union contracts. For example, RT management must have the flexibility to hire part-time workers to deal with surges in ridership during the morning and afternoon commutes and during special events, as well as options to shift to longer four-day work weeks. RT reports that dropping such work rules would allow it to save from $12 to $19 million annually in operating costs. *This is the single best opportunity RT has to substantially reduce its operating costs.* Members of the RT board must stand resolutely behind RT management in pressing for this reform.

If RT's bargaining units are unwilling to liberalize work rules and cancel pays raises made when RT was insolvent, RT will need to seriously evaluate the option of filing a Chapter 9 bankruptcy proceeding to maintain operations, forestall creditors and free itself from the onerous provisions of its labor contracts.

<u>Terminate Consulting Agreement With Doug Carter</u>. The RT Board hired transit consultant Doug Carter in April 2015 to examine cost-cutting measures and has paid Mr. Carter approximately $375,000 to date to render strategic financial advice, with little to show for it. A review of his reports and presentations reveals a baffling faith in the belief that a fare increase will be relatively painless for RT's ridership. EOS recommends that RT's first step toward reducing costs be a prompt end to Mr. Carter's consulting agreement.

<u>Engage Outside Labor Law Firm to Negotiate Labor Contracts</u>. Rather than bringing in more management consultants, EOS recommends that RT hire an experienced, reputable outside law firm to professionally and independently negotiate RT's labor contracts with it bargaining units, a practice followed by many comparably-sized transit agencies (Philadelphia, New Orleans, BART). Experienced labor law lawyers have the background, expertise and, equally as important, the independence and distance from RT's unions to more effectively and assertively negotiate terms favorable to RT, its riders and the taxpaying public. In-house union contract negotiators employed by RT have inherent conflicts of interest as the terms they negotiate with RT unions have a way of becoming the baseline for negotiations for the negotiator himself or the negotiator's own bargaining unit.

<u>RT Labor Costs Have Been Growing at 3 Times Rate of Inflation</u>. While RT management claims that it has been holding its operating costs to less than inflation, staff salaries and wages actually have been growing at about three times the rate of inflation between FY 2011 and FY 2016. Between FY 2011 and FY 2016, RT administrative staff salaries and benefits increased about 4.0% per year compounded; wages and benefits for bus drivers and light rail operators increased about 3.5% per year compounded. During this time, the CPI increased about 1.3% per year compounded. We suspect that most of the RT staff expense increases have been for fringe benefits.

Salaries, wages, and benefits have grown much faster than the CPI, but unit operating costs have grown at about the same rate as the CPI. How is this possible? EOS concludes that other elements that make up unit costs have been declining, giving RT management cover for its steady increases in salaries, wages, and benefits. For example, diesel fuel, CNG, and electric power are elements of unit costs, and the prices of these commodities have declined, in some cases dramatically. Maintenance and supplies expenses for buses, trains, and rights of way also enter into units costs. EOS suspects that RT management has been skimping in these areas so as massage RT unit cost numbers and obscure from public view major increases in its labor costs.

Secure Concessions on Wage Hikes Under Current Labor Contracts. Given RT's on-going financial difficulties, we challenge RT management to hold to zero growth in compensation, including fringe benefits, for a period of two years, followed by growth not to exceed the CPI. Meeting such a challenge will require RT management to reopen current RT labor contracts to rescind last year's 4% wage hike and cancel this year's upcoming 4% hike.

Rein in Costs of Pensions and Health Care Plans. We have not had the opportunity to review RT's pension, post-retirement health care benefits or health care benefits for current employees. RT management should move aggressively to shift new hires to 401(k)-type benefit plans (instead of defined benefit plans), require employees to make full contributions of the normal costs of their pension benefits, reduce RT's costs and risks under health care plans for current employees by shifting to more moderate benefit formulas, while eliminating or substantially reducing benefits under retirement health care plans. Management should lead the way by instituting these reforms upon themselves.

Fix RT's Absenteeism Problem and Restore Bus Reliability. While train on-time performance remains high (98%) in the 12 months ending in November 2015, bus on-time performance declined to only 71 percent, a result of absenteeism. RT should establish strong financial disincentives to absenteeism via renegotiation of its labor contract with the operators' union, ATU, to restore bus reliability.

Put Paratransit Contract Out for Competitive Bidding. The RT Board should immediately put RT's paratransit contract out for competitive bid. RT's failure to rebid its paratransit service on a regular basis is a violation of the most basic tenets of efficient management and may explain why RT's cost for paratransit services is an eye-popping $40.53 per ride.

Drop Special Bus Routes to SCUSD Schools. RT should discontinue the special bus routes to Sacramento City Unified School District schools unless the school district steps forward to fund the costs of such bus service.

Drop Connect Card Program. RT should discontinue its involvement with the tangled Connect Card project, which appears to have been rendered obsolete by smart phones before it was ever completed.

Suspend Work on Extension of Light Rail to Airport. RT should acknowledge that without passage in November 2016 of a ½% sales tax hike being contemplated by the Sacramento Transportation Authority for placement on the November 2016 ballot, the airport light rail extension project is as good as dead. In the meantime, RT should suspend all planning and environmental work on the contemplated $1 billion project.

10 PERCENT FARE HIKE AS TEMPORARY, EMERGENCY MEASURE

Approving a 10 Percent Fare Hike as an *Emergency Measure*. We understand that some RT board members may perceive a need (misguidedly, in our view) to raise fares by 10 percent now as a matter of RT "survival." Any such fare increase approved by the RT's board should be acknowledged for what it would truly be: an *emergency measure*. Accordingly, any fare increase approved by RT's board should be officially designated as *temporary*, to be reversed *at the earliest opportunity*. Moreover, following approval of any such emergency measure, RT must immediately embark upon a serious and sustained program to right its fiscal shape, prioritized over all other projects, which should include a careful review of each of EOS's suggestions for reining in RT's operating costs, as summarized above.

Caveat: Temporary Hikes Are Rarely Temporary. RT board members must be aware of the natural proclivity of those in financial distress to ease off on their efforts to reduce costs once the immediate pressure to do so is relieved by a "temporary" increase in income. Temporary fare hikes, like "temporary taxes," almost invariably turn into permanent hikes. (You need look no further than Sacramento mayor Kevin Johnson's recent call in his State of the City address for city voters to renew Sacramento's ½ percent Measure U "temporary" sales tax hike). If the RT board approves a "temporary" fare hike, but fails to maintain a single-minded focus and unwavering commitment to reduce costs, then the RT board will be right back in the same boat next year, facing the same dire financial straits, and the time "purchased" by a temporary fare hike with have been for naught. Meanwhile, ridership will have fallen a further 3 percent, and perhaps as much as 5 percent, as a consequence of the "temporary" fare hike.

EOS'S LONGER TERM PERSPECTIVE ON RT

Local Governments Should Appoint Seasoned Executives, Not Politicians to the Board. The governance of RT's board should be reformed to reduce the number of overextended elected officials and appoint, in their place, professional board members with the time, background and expertise in effectively managing large business organizations. It is functionally impossible for a local elected official who typically serves on as many as a dozen boards and commissions, in addition to his or her own jurisdiction's governing body, to have the time or bandwidth to provide responsible oversight over RT management. Appointing professional directors will also help depoliticize decisions of the RT board.

RT's Management May Be "Top Heavy." RT has for many years appeared to EOS and other observers to be a "top-heavy" organization. Although the upper management ranks have recently experience some departures and vacancies, RT need to take an unflinching look at which management positions are really vital at all levels of the administrative apparatus.

Better Coordination of Light Rail and Bus Service. RT should reconfigure bus routes and runs to better coordinate RT bus service with light rail service. Tickets and passes should allow free transferring between buses and trains.

Collaborations With Ride-Sharing Services. RT management should work with ride-sharing services to make major employment centers located at the outer ends of some of the light rail lines accessible to RT riders. An examination of rush hour traffic on US 50, for example, suggests that there are as many inner city residents working in jobs located in the east as there are suburban residents working in the city center.

Autonomous Vehicles Initiative. EOS is pleased that the City of Sacramento is exploring the utility of operating fleets of autonomous vehicles in conjunction with RT light rail stations to facilitate access to and egress from light rail stations. RT should cooperate fully, even to the extent of converting itself into a brokerage of travel from origins to destinations.

Last Resort: Drop Low-Ridership Bus and Rail Service. If all of the above fails, RT should curtail low-ridership rail and bus service. Cutting bus service should be a last resort, as it would likely worsen RT's already declining ridership, but curtailing low ridership bus service would reduce patronage far less than a 20 percent fare increase. (See Staff Report for RT Board Meeting, 11 January 2016, Agenda Item 8).

Fare Setting Policy. Although EOS may agree in principle with the policy put forward by Doug Carter for smaller, more regular fare increases, EOS observes that after "emergency" back-to-back 25-cent fare increases in 2008 and 2009, RT's fares are currently way ahead of where they should be (i.e., compared to the cost to drive and park). Fares in San Francisco and Oakland are $.25 to $.50 cheaper than Sacramento. Once the current crisis abates, RT owes it to its riders to either repeal past fare increases or to at least institute a moratorium on fare increases. RT should *eventually* begin indexing its fares to inflation, but only *after* the fares have first been normalized.

Restore Transit Basics Before Considering Any Transit Expansions. RT should be working with the Sacramento Transportation Authority to ensure that before one dime of new sales tax revenues is spent on system expansion, that the existing system is made useable for everyday riders. Instead of expanding already unproductive service, the fares should first be relaxed to reasonable levels, within the bounds of a reasonable farebox recovery ratio. Then, before expanding transit into new areas, the existing lines need adequate levels of service and better reliability. Only after basic needs have been met should expansion (such as light rail to the airport or construction of a new garage at Mather) be considered. The streetcar should be treated as a luxury and should be last in line for funding. Not one dime of RT's operating budget should be devoted to the streetcar.

Credibility of RT's Representations to Federal Transit Administration. The Blue Line extension to Consumnes River College opened in August 2015, adding about $5.5 million annually to RT's operating expenses, as reflected in RT's FY 2016 budget.[2] This extension has been in planning and under construction for a couple of decades and should not be contributing to the existential crisis now gripping RT. EOS notes, however, that the Federal Transit Administration (FTA), in its administration of federal capital funds used in financing the extension, was concerned about RT's financial capacity to operate the extension after completion.

The FTA did not provide the capital grant until RT provided detailed assurances that it had the capacity to pay the operating costs of the extended line. The swiftness with which the current

[2] RT's FY2016 Budget shows that the extension requires 23,855 additional revenue car hours of service, an increase of 10.9%. In FY 2013 the average expense of running a light rail car for one hour was $230. Multiplying one by the other yields an added operating expense of $5,486,650 per year. The total operating budget for RT is shown to increase by $9.7 million between FY 2015 and FY 2016. See pages 33-36.

jumbo fare increase proposal has been brought forward for debate - a mere six months after the opening of the Blue Line extension – casts doubt on the credibility of RT's affirmations and assurances to FTA about RT's capacity to cover the costs of operating the extension. If funds that RT had earmarked for operating the extension have been used for other purposes, they should be returned to support the extension.

In short, given the deepening fiscal hole RT finds itself in today, were the assurances RT gave to FTA merely overly optimistic or were they outright misleading? The matter should be investigated to protect RT's credibility with federal grant-making authorities and other capital providers.

Future Improvements to Light Rail Service. Once RT's perilous finances have been stabilized, RT should look at the option of extending light rail to West Sacramento, and making relatively minor changes in alignment to serve Midtown instead of building an entirely separate circulator streetcar system. RT should also look at making relatively minor modifications to the existing line in order to directly serve Cal State University, Sacramento, and to potentially extend light rail from Watt & I-80 to American River College.

CONCLUSION

Our purpose in publishing this report is to make it clear that the RT board does not face a Hobson's choice between risking bankruptcy by doing nothing or risking a transit death spiral by approving unprecedented, highest-in-the-nation 20 percent increases in fares. There is a third way as we've summarized in our report: making a strong, sustained and comprehensive commitment to reducing RT spending so as to bring its operating costs in line with its revenues. It is not an easy path, but it is the only path that will assure RT's survival and recovery as the pivotal provider of transit services in Sacramento County.

Appendix 1

Estimation of Annual Operating Expenses for Sacramento Downtown Circulator Streetcar Based on the Operating Expense per hour for a Light Rail Car in Sacramento and Assumed Headway for Streetcar of 15 minutes from 0700 to 2200, 7 days per week

DOWNTOWN-RIVERFRONT STREETCAR PROJECT

The proposed 3.5-mile starter route would bring trolley cars back to downtown Sacramento.

The Sacramento Bee

Note: The 3.5 mile distance is along the line from West Sac Civic Center to 19th Street; the round trip distance is 7.0 miles. The calculations are based on every car running between West Sac and 19th Street. If cars alternate in West Sac between the two branches, the operating expense would be about the same, but each branch would have service every 30 minutes.

Service and Cars Required to be in Operation:

15 minute headway 7 days per week, 0700 to 2200 (15 hours per day)

Time to make the round trip is dependent upon the speed of the streetcar, including layover time at each end of the line. In Portland this speed is 5.7 mph; for the Seattle-Lake Union streetcar the speed is 5.3 mph. To be optimistic, I use 6.0 mph for the Sacramento streetcar:

Time to make round trip = 7.0 miles / 6 mph = 1.17 hours. This includes layover time in W. Sac.

Streetcars in service = time for round-trip divided by headway = 1.17 hours/.25 hours = 4.7 cars; round up to 5 cars.

Annual Car Hours

If 5 cars are needed to provide 15 minute headways that is 75 rev car hours/day x 365 days = 27,375 car hours/yr.

Annual Operating Expenses Estimation

Costs are based on operating and maintenance expenses for running a streetcar one mile, multiplied by the annual number of hours for the streetcar service (27,375).
Sacramento light rail operating expenses per revenue car hour in FY2015: $230; Portland streetcar expense per revenue car hour in 2012 was $323; South Lake Union (Seattle) streetcar expense per revenue car hour in 2012 was $238. To be optimistic, I use the Sacramento light rail figure of $230.
Sacramento annual operating expense: $230 per car hour x 27,375 annual car hours = **$6,296,250** per year if 5 cars are required for 15-minute headway. This could be as high as **$8,842,125** if the cost of running a streetcar for one hour in Sacramento will be as high as it is in Portland.

To save operating expenses, the streetcar operator will be tempted to increase headways to 20 minutes so that 4 cars can provide service. This would result in 40 minute service on each branch is West Sac.

Portland and Seattle streetcar figures are from, Jeffrey Brown, Hilary Nixon, and Enrique Ramos. *The Purpose, Function, and Performance of Streetcar Transit in the Modern U.S. City: A Multiple Case Study Investigation.* Santa Clara, CA. Mineta Transportation Institute: MTI Report 12-39, February 2015.

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