

**EOS's Recommendations on RT's Fiscal Crisis**

**“Avoiding Both Bankruptcy and a Transit Death Spiral”**

**An Eye on Sacramento Report**

**March 14, 2015**

**EXECUTIVE SUMMARY**

**Eye on Sacramento opposes RT staff's proposed 20% hike in fares which, if imposed, which would make RT's fares the very highest transit fares in the nation, tied only with New York City**

**RT staff is proposed to the RT board what is fundamentally a false choice between huge fare hikes, which could trigger a transit death spiral, on the one hand, and doing nothing to address RT's very real financial crisis, which will lead to bankruptcy.**

**But there is a “third way” which RT staff has failed to identify, which is for RT to take immediate and focused action to reduce its growing operating costs without substantial cuts to RT service levels. It is this “third way” which is the focus of EOS's report, which identifies dozens of opportunities for RT to reduce its costs – so long as both the RT board and its management marshal the political will to take advantage of them. Any other road forward (record-setting rate hikes or doing nothing) would put RT on a glide path to likely disaster.**

**The report first identifies how RT found its way into its current financial mess: premature and reckless expansion of light rail lines and extensions which have saddled RT with \$4 million of annual debt payments and about \$7 million of additional annual operating costs, despite an early warning from the federal government that RT might not be able to afford to operate its light rail extension. A secondary cause has been RT's failure to gain control over its staffing decisions under in its labor contracts with its unions. Failure to control its compensation and benefit costs has also played a role.**

**EOS opposes the proposed fare hikes for several reasons:**

- **It's unfair to impose the burden of closing RT deficits solely on riders**
- **Hikes would risk a transit death spiral by further depressing ridership**

- Hikes would accelerate the trend of riders leaving RT to use Uber and Lyft
- Fares have increased well over inflation over every reasonable baseline
- RT fares are already above the median transit fare for the nation
- The full effect of falling gas prices may not have been fully realized
- RT board should not approve hikes until its new general manager is hired
- Most importantly, RT has options for closing deficits without hiking fares

EOS is proposing numerous ways in which RT can close its deficits by cutting costs without significant cuts to service levels:

- Aggressively explore options to outsource all RT functions
- Mothball the lightly used, one-stop Green Line to Township 9 for now
- Don't build the proposed streetcar which will saddle RT with \$5- 8 million in net annual operating costs, or about \$180 million in new costs over 30 years
- If the streetcar is built, insulate RT from cost liabilities by insisting that participating cities and property owners pick up the tab for operating it
- Stop using high-cost bond proceeds to finance its projects
- Secure reimbursement from Kings for RT's \$6 million cost of Downtown station rehabs, as well as commitment to cover maintenance/cleaning costs
- Take assertive action to control its labor costs by canceling recent pay hikes
- Eliminate very costly and inefficient work rules under RT's labor contracts so RT can use low-cost part-time workers and less costly work schedules
- Terminate its pricey management consulting contract with Doug Carter
- Engage an independent, outside law firm to negotiate RT's labor contracts
- Implement reforms of benefit plans to reduce costs and share risks
- Fix RT's chronic absenteeism by imposing real consequences for abuse
- Put RT's very high-cost contract with Paratransit, Inc. out to bid
- Drop special bus routes for city schools unless SCUSD reimburses RT's costs
- Suspend planning and environmental work on airport extension for now

Finally, EOS offers its longer term perspective on RT that includes calls for RT board governance changes that would put experienced business executives on the RT board instead of overextended elected officials, better coordination of bus and light rail service, collaboration with ride-sharing services like Uber and, once RT's finances are stabilized, examine options for expanding light rail to West Sacramento, realign Midtown light rail and extend light rail to both CSUS and American River College.