RT on the Rocks

Fight over fare hikes splits transit board

By Craig Powell
Inside City Hall

To get a sense of how broke Regional Transit is, consider this analogy. Let's say you're part of a Sacramento family. You have a fairly well-off, middle-class lifestyle, but in the last couple of years you've really splurged, buying yourself a big, new Mercedes and a big, pricey cabin up at Lake Tahoe, all financed to the hilt. Meanwhile, the small business you run, RT Clothing, has never regained the boatload of customers you lost when you decided to jack up your prices by 20 percent in the middle of the last recession (oops), leaving you with a flat income for years. Fortunately, your wife, a retiree who collects both a military pension from the federal government and a healthy state government pension, has been collecting cost-of-living increases for years. She brings home close to 80 percent of the family income these days, bless her. Together, you have a family income of close to $150,000 per year.

The charming new home you bought 30 years ago in Light Rail Estates is showing serious signs of age and, let's be honest, neglect. Your roof is shot, the paint's badly peeling, you may need a new furnace and your backyard pool has algae stains and a rather unpleasant odor. Lately, some of the sketchier kids in your neighborhood have been jumping over the fence when you're not home, swimming in your pool, hanging around for hours on end and leaving their trash everywhere. It's gotten so bad that many of your longtime friends no longer accept invitations to your summer pool parties. You've spotted some of them going into Bob and Nancy Uber's backyard down the street. The Ubers put in a nice, new pool last year and they let their friends drop in to swim whenever they want.

Things are going so-so until one day you decide to open up your bank and credit card statements for the first time in six months. You're stunned (*stunned*!) to see all of the savings you thought you were socking away each month have somehow evaporated. Not only that, you owe a whopping $18,000 on your Visa bill. (How did *that* happen?) In a panic, you check the balance in your checking account and your heart sinks further. You have just $3,000 in cash and, at the rate your family burns money, it will be long gone in three months' time.

What do you do? Do you raise your prices 20 percent again on the (remaining) customers of RT Clothing (since it worked out so well for you when you raised prices 20 percent last time), or do you and your wife have a heart-to-heart talk and start seriously cutting back on your family's expenses and upscale lifestyle?

And that, folks, is pretty much the sad and increasingly tragic story of RT. Just add three zeros to all of the numbers.

RT began impoverishing itself by issuing $87 million in revenue bonds in 2012 to help pay for the extension of light rail from Meadowview to Consumes Community College. (The rest of the $250 million cost of the project was funded with federal grants.) The rushed and highly political decision to build the extension, completed just last summer, foisted $10 million of new costs on RT each year ($4 million in bond payments and a further $6 million in operating costs). It's a cost that RT cannot afford.

RT made a similar but less costly error (at $45 million) in prematurely constructing the first 1.1 mile of a proposed light rail line (dubbed the Green Line) to Sacramento International Airport. Frankly, I don't know too many people who'd have the patience to take a light rail train from downtown to the airport that makes 13 stops along the way, as envisioned by RT. The estimated cost of completing the Green Line to the airport is a cool $1 billion. No one has a clue how to finance it.

How is RT using the 1.1-mile initial segment of the Green Line? (RT staffers actually call it the "minimum operable segment," a refreshingly forthright description, don't you think?) The line runs from downtown to Richards Boulevard (now dubbed Township 9) and back, capturing just 300 riders a day at an annual cost of nearly $1 million.

Eye on Sacramento (the civic watchdog group that I head) has estimated that it would be cheaper for RT to pay its current Green Line passengers to take Uber or Yellow Cab to make the trip. With RT financially on the rocks, the Green Line minimum operable segment should probably be mothballed until population density in the area justifies its operation or the developers active in Township 9, whose projects benefit from the line, agree to pick up RT's costs of operating it.

State law requires that RT collect at least 24 percent of its total operating budget from passenger fares. The rest of its costs are subsidized by federal and state governments and a slice of the local half-percent transportation sales taxes (Measure A). But RT has struggled to comply with this "fare box ratio" requirement because its ridership has fallen so much. In 2008 and then again in 2009, RT approved back-to-back 25-cent fare hikes, raising the fare from $2 to $2.50. The 25 percent overall fare hike, along with cuts to RT service levels, caused ridership to plunge, and it's never recovered. In January, RT staff started pressing the RT board to approve another 50-cent fare hike.

RT is starting to lose some customers to innovative ride-sharing services like Uber and Lyft, which offer highly responsive, on-demand customer service for pretty modest prices.

Meanwhile, the quality of RT's light rail and bus service has been deteriorating, drawing passenger complaints about dirty, odorous vehicles, scary and intimidating passengers, misconduct and chronic fare jumping on light rail. Two recent murders on light rail trains have added to the public's negative view of light rail.

Meanwhile, the owners of the Kings and prominent members of the downtown business community, supported by county supervisor Phil Serna, have been leaning very hard on RT management to clean up its trains and refurbish its downtown stations before the fall opening of the Golden 1 Center, when an uncertain number of Kings fans will try out light rail for the first time. Instead of RT's paying for such work out of its almost nonexistent cash reserves or its nonexistent positive cash flow or, God forbid, pressing the billionaire owners of the Kings to bear some major portion of the work's cost, RT responded by borrowing $6.2 million (by drawing down bond proceeds) to upgrade and generally spruce up its downtown stations and make other cosmetic improvements. It was, once again, an RT decision to rush into a project without thinking through the financial consequences of its decision.

Does it make any sense for RT to borrow money and incur interest costs to fix up stations for arena patrons at a time when it is experiencing chronic budget deficits and seeking to close them with major fare hikes on its riders? Is it fair to its many low-income riders? Shouldn't the owners of the Kings, whose NBA franchise has doubled in value to $1 billion since they bought the team, be compelled to pony up to pay for such improvements, particularly since they'll financially benefit from the work?

In June, the RT board approved a budget that projected that RT would enjoy a surplus this year. Seven months later, RT management announced that it is now facing a $2.7 million deficit this year and needed an immediate 20 percent fare hike, from $2.50 to $3, or it would run out of cash within a year. (RT has been dipping into its reserves to cover budget deficits for the past two years.) A month later, RT management announced that it had also overestimated the funds it would collect from the state this year, adding another $1 million to its current budget deficit.

How could RT go from a projected surplus to a deficit in just seven months? RT management offered no explanation for the apparent dramatic reversal in RT's finances, despite numerous public calls for it to do so. It's not yet clear whether RT is actually experiencing a serious reversal this year or whether the budget approved in July was shot full of rosy scenarios that withered as actual results started pouring in.

A fare increase to $3 would make RT's fare the highest in the nation, tied only with high-cost New York City. By what logic could relatively low-cost Sacramento possibly end up with the highest transit fare in the nation? No one on the RT board bothered to ask that question (at least not publicly), and no one on the RT management team bothered to answer it.

In any event, the proposal to hike fares by 20 percent on July 1 met with strong resistance from both RT board members and the public at a Jan. 25 board meeting. In response, staff tweaked the proposal. It still asked for a 20 percent rate hike but broken into two steps: a 10 percent hike on July 1 and another 10 percent hike in July 2017. At the RT board meeting on March 14, an overflow crowd of RT customers and representatives of several groups spent hours imploring the RT board not to impose any fare hike. They pointed out that a hike would fall most heavily on RT's many low-income and fixed-income customers who are dependent on RT for their mobility. Their effort had no observable impact on the board.

In an 8-3 split, the RT board approved a 10 percent fare hike effective July 1 but rejected staff's proposal for an additional 10 percent hike in 2017. It also scaled back proposed hikes in the prices of passes and fares for students and the disabled. County supervisors Phil Serna and Don Nottoli opposed the fare hike, while all four of the Sacramento councilmembers on the board (Steve Hansen, Jeff Harris, RT chair Jay Schenirer and Rick Jennings) voted to approve the hike.

Eye on Sacramento presented the RT board with a report prepared by Professor Emeritus Greg Thompson of Florida State University, a transit expert who chairs EOS's transportation committee. The EOS report warned of the risk that a major fare hike would raise little money (given how fares contribute relatively little to RT's total budget) but would further depress RT's already anemic ridership and risk pushing RT into a transit death spiral, where fare hikes lead to ridership declines and service cuts, which, in turn, lead to further fare hikes and so on.

The EOS report urged RT to focus like a laser beam on cutting costs. It identified more than a dozen ways RT could reduce costs, including outsourcing RT functions, eliminating union work rules that drive up costs, canceling proposed raises, hiring an outside law firm to negotiate union contracts, mothballing the one-stop Green Line for now, halting plans to build a circulating streetcar downtown that would load an estimated $5 million to $8 million in new costs on RT each year (an estimated $180 million over 30 years), and halting planning work on the Green Line to the airport for now.

The report also urged the local governments that have representatives on the RT board to start appointing to the board business professionals who have experience in overseeing large organizations instead of elected officials, who are too often overextended by serving on as many as a dozen boards and commissions.

Meanwhile, Hansen, who also chairs the Sacramento Transportation Authority, has been pressing to have STA place a measure on the November ballot that would ask voters countywide to approve a doubling of the Measure A half-percent transportation sales tax, a portion of which would be allocated to RT.

Such a measure would face long odds. First, county voters tend to be much more conservative and far less receptive to the notion of doubling a tax than more liberal voters in the city of Sacramento. Second, the local economy is still quite weak. Real median household income in Sacramento County dropped 12 percent between 2007 and 2013, which can't help but dampen voter appetite for doubling the tax. Third, an increase in the transportation sales tax rate would be a "special tax" requiring two-thirds-majority approval rather than a simple majority. Finally, voters will likely have little interest in doubling the subsidy they pay to RT if the RT board and management fail to respond to its current crisis with a real commitment to cutting its operating costs and adopting badly needed governance reforms.

To read EOS's report, "Avoiding Both Bankruptcy and a Transit Death Spiral," go to eyeonsacramento.org.

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