

THIS PRINT COVERS CALENDAR ITEM NO. : 10.4

**SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY**

DIVISION: Finance and Information Technology

BRIEF DESCRIPTION:

Approving the SFMTA Strategic Plan Actions that address the Metropolitan Transportation Commission Transit Sustainability Project (TSP) goals.

SUMMARY:

- In 2010, in response to major transit service cuts and fare increases region wide, the MTC launched its Transit Sustainability Project (TSP) to help identify ways for transit operators to increase ridership while achieving long-term financial and service stability.
- The TSP is focused on the goals of improving transit's financial condition, improving service for the customer, and attracting new riders to the system. Recommendations included a set of financially-related performance targets for the SFMTA and the six other large transit operators in the Bay Area, which call for a 5% reduction in the operating cost per service hour, cost per passenger and/or cost per passenger mile by Fiscal Year 2016-2017 and no growth above inflation thereafter.
- Strategies to meet these unit cost reduction targets must take into account the age, condition and ridership of the Muni transit system and be balanced with meeting customer and ridership targets as well, which will require new investments and funding.
- Staff is requesting approval of the proposed SFMTA Strategic Plan Actions, to meet the Metropolitan Transportation Commission (MTC) Transit Sustainability Project (TSP) goals, which includes the relevant strategic action items from the Board adopted FY 2013-2018 Strategic Plan, to achieve the performance targets identified by the MTC for the Bay Area region's seven largest transit operators. That action items selected were based on a holistic approach towards improving service and achieving financial stability and is consistent with the goals of the TSP.

ENCLOSURES:

1. SFMTAB Resolution
2. Strategic Plan Actions that support the TSP

APPROVALS:

DATE

DIRECTOR _____

3/12/13

SECRETARY _____

3/12/13

ASSIGNED SFMTAB CALENDAR DATE: March 19, 2013

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PURPOSE

Approving the SFMTA Strategic Plan Actions that address the Metropolitan Transportation Commission Transit Sustainability Project (TSP) goals.

GOAL

This item will meet all four goals and objectives of the SFMTA Strategic Plan:

Goal 1: Create a safer transportation experience for everyone.

Goal 2. Make transit, walking, bicycling, taxi, ridesharing, and carsharing the preferred means of travel.

Goal 3. Improve the environment and quality of life in San Francisco.

Goal 4. Create a workplace that delivers outstanding service.

DESCRIPTION

MTC Transit Sustainability Project (TSP)

In response to major transit service cuts and fare increases throughout the Bay Area region and a large structural deficit, MTC launched its Transit Sustainability Project (TSP)¹ in 2010 to help identify ways for transit operators to increase ridership while achieving long-term financial and service stability. *Transportation 2035*, MTC's most recently adopted Regional Transportation Plan, identified regionwide transit capital and operating budget shortfalls of \$17 billion and \$8 billion, respectively, over the next 25 years. In conjunction with the TSP effort, MTC had hoped to propose a revenue measure for voter approval to increase transit funding in 2012; however, this part of the TSP program was not pursued at the time.

The TSP is focused on three goals (1) Improve financial condition, (2) Improve service for the customer, and (3) Attract new riders to the system. The specific parameters of each of these three goals are detailed further in this report.

On May 23, 2012, the MTC approved the TSP recommendations. Included in these recommendations was the monitoring of the seven largest transit agencies in the Bay Area in relation to meeting a set of financially-related performance targets. Specifically, the target is a 5% reduction by FY 2016-2017 and no growth beyond the Consumer Price Index (CPI) thereafter in at least one of the following areas: cost per service hour, cost per passenger and cost per passenger mile. The base year is the highest cost between FY 2007-2008 and FY 2010-2011.

¹ Note: MTC's Transit Sustainability Project (TSP) is distinct and unrelated to the Transportation Sustainability Program (also abbreviated TSP), a joint effort between the Planning Department, the San Francisco County Transportation Authority, and the Office of Economic and Workforce Development to modify the transportation-related fee structure and approval process for new development in San Francisco.

This calendar item is in response to the MTC's requirement that the SFMTA, along with the six other largest transit operators in the region, adopt a strategic plan to meet the performance target in at least one of the metrics listed above.

Financial Performance Targets

In late 2011 and early 2012, MTC staff met with the region's largest transit operators to discuss potential performance targets for each of the TSP three main goals (improving transit's financial condition, improving service for the customer, and attracting new riders to the system). For the financial target, MTC staff initially had proposed that transit agencies focus on one metric – the operating cost per hour – and reducing it by 10 percent over a five year period.

The SFMTA and other transit providers expressed concerns about this approach. Specifically, SFMTA staff raised the following points:

- A transit agency's performance cannot be judged on a single metric. Commonly-reported performance metrics sometimes work against each other. Moreover, the proposed financial metric was weighed more heavily towards saving money as opposed to serving customers. For this reason, transit agencies should report multiple metrics with the recognition that their performance may "improve" on some but not on others.
- Given the rapid escalation of operating costs in previous years largely driven by pensions, health care, contractual wage increases and fuel costs, simply holding operating costs at or below the rate of inflation would be a realistic goal rather than an arbitrary cut in operating expenses. Therefore, SFMTA staff did not agree to any reduction in inflation-adjusted costs but instead proposed keeping expenses in line with inflation.
- Sometimes transit agencies must make a "less efficient" or "less productive" choice to improve service quality or availability, which may increase operating costs. For example, a transit system may need to
 - Invest in maintenance support to improve reliability which does not add service per se, but increases unit operating costs.
 - Add an extra bus to improve on-time performance or address overcrowding, which increases costs per passenger or costs per passenger mile but improves service to the customer.

After receiving this feedback, the MTC modified its financial performance metrics to include not only cost per service hour, but also cost per passenger and cost per passenger mile. MTC is setting a 5% reduction target for the unit costs of at least one of these three measures by FY 2016-2017 and no growth beyond CPI thereafter. The base year is the highest cost between FY 2007-2008 and FY 2010-2011. During this period, SFMTA's highest cost year during this time period was FY 2009-10.

To achieve the target requires lowering costs in relation to revenue vehicle hours, passenger miles and/or passengers. Costs can still increase but not as quickly as the increase in vehicle hours, passenger miles or passengers. The following table indicates that in order to meet a 5 percent inflation-adjusted this target, the SFMTA would have to limit the cost per vehicle hour to \$183.13 in current dollars (\$202.61 in future dollars assuming 2.5% inflation), the cost per passenger mile

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to \$1.24 in current dollars (\$1.38 in future dollars), and/or the cost per passenger to \$2.90 in current dollars (\$2.83 in future dollars).

Based on FY 2011-2012 data, the SFMTA is holding growth in the cost per passenger and cost per passenger mile below inflation. The cost per hour is approximately 4 percent above baseline levels. While the SFMTA will strive to meet the 5% reduction target for all three performance metrics (only one of which is required), the system will require even more operating dollars to retain the current level of service and maintain vehicles and facilities.

Table: Financially-Related Performance Measures, FY 2007/08 to FY 2010/11 and TSP Target

Performance Indicator	FY 2007/08	FY 2008/09	FY 2009/10 Base Year	FY 2010/11	FY 2016/17 Target ²	FY 2011/12 (most recent year)
Bay Area CPI	219.5	223.6	226.3	230.0	-	241.2
Cost/Vehicle Hour	\$154.72	\$170.19	\$175.61	\$185.65	\$202.61	\$201.90
Cost/Vehicle Hour (CPI) ¹	\$183.63	\$187.22	\$194.68	\$192.76	\$183.13	\$201.90
Cost/Passenger Mile	\$1.22	\$1.19	\$1.28	\$1.28	\$1.38	\$1.31
Cost/Passenger Mile (CPI) ¹	\$1.31	\$1.27	\$1.34	\$1.31	\$1.24	\$1.31
Cost/Passenger	\$2.41	\$2.45	\$2.69	\$2.71	\$2.90	\$2.76
Cost/Passenger (CPI) ¹	\$2.60	\$2.61	\$2.83	\$2.76	\$2.62	\$2.76

Note: All data exclude cable cars because of the cable car system’s unique operating characteristics and inherent operating costs not associated with other transit modes.

¹ Current dollars

² Assumes 5% inflation-adjusted reduction in unit costs over the base year

Some of the more promising strategies to make the system more effective are purchasing newer fleet thereby reducing maintenance costs, ensuring maintenance of vehicles are timely, altering schedules to reflect service needs and managing existing resources.

Additionally, the following list contains examples of some issues that will affect the extent to which the agency can reduce unit costs.

- State of Good Repair – The SFMTA has large State of Good Repair needs, which translate into higher operating costs due to older equipment and facilities. Relative to most of the Bay Area, San Francisco has some of the oldest transit infrastructure still in use. The SFMTA just celebrated its 100th anniversary, and some parts of the rail network date back even earlier than Muni’s inception in 1912. The backlog is estimated at \$2.2 billion, with a required investment of \$510 million per year to eliminate the backlog within 20 years. The SFMTA is partnering with the City on various revenue measures to raise capital funds, but many improvements and their beneficial impacts on the operating budget will not be realized before MTC’s FY 2016/17 performance target time frame.

- Fleet – The relatively old age of Muni’s fleet compared to the rest of the Bay Area and the nation also impacts operating costs. Per the Federal Transit Administration (FTA), the effective life of a motor coach is 12 years and of a trolley coach is 15 years regardless of ridership loads or topography. Of the major Bay Area transit providers, Muni operates on some of the steepest hills in the region and has the heaviest boardings by far. However, due to regional transportation policies that distribute transit capital funds, Muni motor and trolley coaches are funded for replacement at the same frequency as the more suburban-oriented systems, and have historically been replaced every 14 and 17 years, respectively.
- Maintenance – The SFMTA is increasing maintenance activities to help reduce mechanical breakdowns and system reliability. In the two-year budget approved last year by the Board that took effect July 1, 2012, the SFMTA increased funding for bus maintenance, rail maintenance and maintenance-of-way activities by \$11 million in FY 2012/13 and \$22 million in FY 2013/14 as compared to FY 2011/12.
- Vehicle Capacity – Increasing ridership can lower unit costs if there is sufficient capacity on vehicles to absorb new customers. However, the Muni rail system is already at capacity at certain times of the day and, with nearly 70 passengers per hour currently, Muni buses are already the most crowded in the nation along with New York City. Increasing ridership in the future – an objective of MTC’s TSP and SFMTA’s own Strategic Plan – will necessitate increased service and increased costs.
- Labor Contracts – Employee wages and benefits are a major driver of operating costs. Changes to labor contracts between now and FY 2016/17 are unknown at this time and will have a significant impact on the extent to which the SFMTA will be able to achieve these targets.

Proposed Transit Sustainability Project Strategic Plan Actions

The MTC has established multiple objectives for the Transit Sustainability Project including the following:

- Improve financial condition – Contain costs and cover a greater percentage of operating and capital costs with a growing share of passenger fare revenues; secure more reliable streams of public funding.
- Improve service for the customer – Upgrade the system so that it functions as an accessible, user-friendly and coordinated network for transit riders, regardless of mode, location or jurisdiction.
- Attract new riders to the system – Accommodate new riders in an era of emission reduction goals, and support ridership growth through companion land use and pricing policies.

Meeting the 5% unit cost reduction financial performance target falls under the first of the three main TSP objectives; the other two relate to improving customer service and attracting new ridership. The desire to achieve unit cost reduction targets must be balanced with meeting customer and ridership targets as well, which will require new investments and funding.

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In 2011, the SFMTA organization underwent an internal process to determine the best ways to achieve goals similar to the ones articulated in the Transit Sustainability Project. Staff developed the strategic goals through a process led by the SFMTA Executive Team, with input from SFMTA staff and external stakeholders to determine the most important areas to focus the agency's future efforts. From the initial surveys with the general public and a "strengths, weakness, opportunities, and threats" (SWOT) analysis, five key themes consistently emerged as needing the most attention. These were: (a) Customer service (for all modes); (b) Communications (internal and external); (c) Transportation network improvements (all modes); (d) Financial sustainability (operating and capital); and (e) Organization development (human resources).

These key themes evolved into the four overarching goals for the FY 2013-2018 Strategic Plan, which is shaping how the Agency focuses its attention, resources, and staff. The four goals are (1) Create a safer transportation experience for everyone, (2) Make transit, walking, bicycling, taxi, ridesharing and carsharing the preferred means of travel, (3) Improve the environment and quality of life in San Francisco, and (4) Create a workplace that delivers outstanding service. The SFMTA Board approved this Strategic Plan on January 3, 2012. The attachment includes specific actions to achieve MTC's performance targets, which mirror those that the SFMTA has already established for its Strategic Plan. To be consistent with the MTC's TSP, each specific action item is associated with one or more objectives of the TSP (improve financial condition, improve service for the customer or attract new riders to the system).

ALTERNATIVES CONSIDERED

The primary alternative would be not to approve the proposed TSP Strategic Plan. Since SFMTA's own Strategic Plan has already been approved and is in the implementation process, it is unlikely that SFMTA initiatives would be affected by this decision. However, MTC could elect to withhold some future funding from the SFMTA without a plan to achieve the TSP performance goals.

FUNDING IMPACT

Implementation of the proposed TSP Strategic Plan, like the SFMTA's own Strategic Plan, is contingent upon available operating and capital resources. It is possible that the MTC could withhold future operating and capital funds if the SFMTA were unable to meet the financial performance targets.

OTHER APPROVALS RECEIVED OR STILL REQUIRED

The City Attorney's Office has reviewed the item.

RECOMMENDATION

Staff recommends that the SFMTA Board of Directors approve the SFMTA Strategic Plan Actions that address the Metropolitan Transportation Commission Transit Sustainability Project (TSP) goals.

SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY
BOARD OF DIRECTORS

RESOLUTION No. _____

WHEREAS, In response to major transit service cuts and fare increases throughout the Bay Area region and a large structural deficit, the Metropolitan Transportation Commission (MTC) launched its Transit Sustainability Project (TSP) in 2010 to help identify ways for transit operators to increase ridership while achieving long-term financial and service stability; and,

WHEREAS, The TSP is focused on the three goals of improving transit's financial condition, improving service for the customer, and attracting new riders to the system; and,

WHEREAS, The TSP recommendations approved by the MTC in May 2012 included a set of financially-related performance targets for the SFMTA and the six other large transit operators in the Bay Area, which call for a 5% reduction in the operating cost per service hour, cost per passenger and/or cost per passenger mile by Fiscal Year 2016-2017 and no growth above inflation thereafter; and,

WHEREAS, The SFMTA is working to contain costs through various measures; and,

WHEREAS, The SFMTA acknowledges that the desire to achieve unit cost reduction targets must take into account the age, condition and ridership of the Muni transit system and be balanced with meeting customer and ridership targets as well, which will require new investments and funding; and,

WHEREAS, In January 2012, the SFMTA Board approved the FY 2013-2018 SFMTA Strategic Plan that takes a holistic approach towards improving service and achieving financial stability consistent with the goals of the TSP; now, therefore, be it

RESOLVED, That the SFMTA Board of Directors approves the SFMTA Strategic Plan Actions that address the Metropolitan Transportation Commission Transit Sustainability Project goals.

I certify that the foregoing resolution was adopted by the San Francisco Municipal Transportation Agency Board of Directors at its meeting of March 19, 2013.

Secretary to the Board of Directors
San Francisco Municipal Transportation Agency