

Transition to Private Contracting for Bus Operations and Fleet and Facility Maintenance

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2011 Annual Meeting & EXPO



North County Transit District Key Facts

- Annual operating budget of \$85 million
- Multimodal operator providing approximately 11.4 million trips annually
- 1,020-square-mile service area with a population of 842,000
- Co-owner of railway that hosts BNSF, AMTRAK and Metrolink

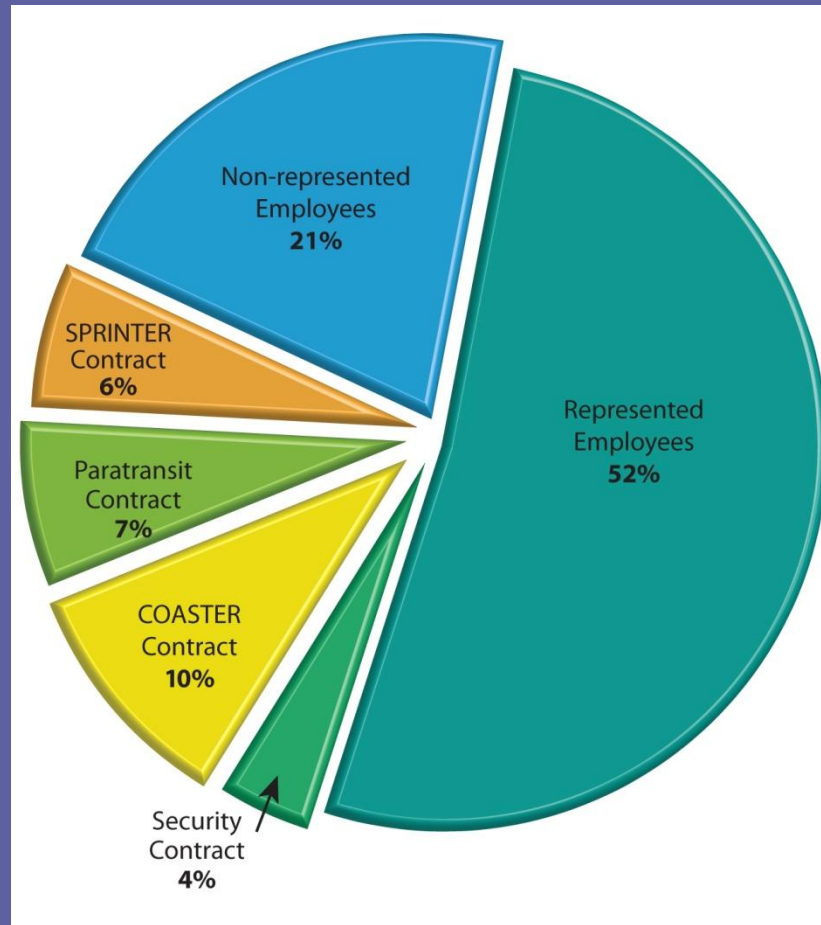


Fiscal Year 2010 Organizational Business Model

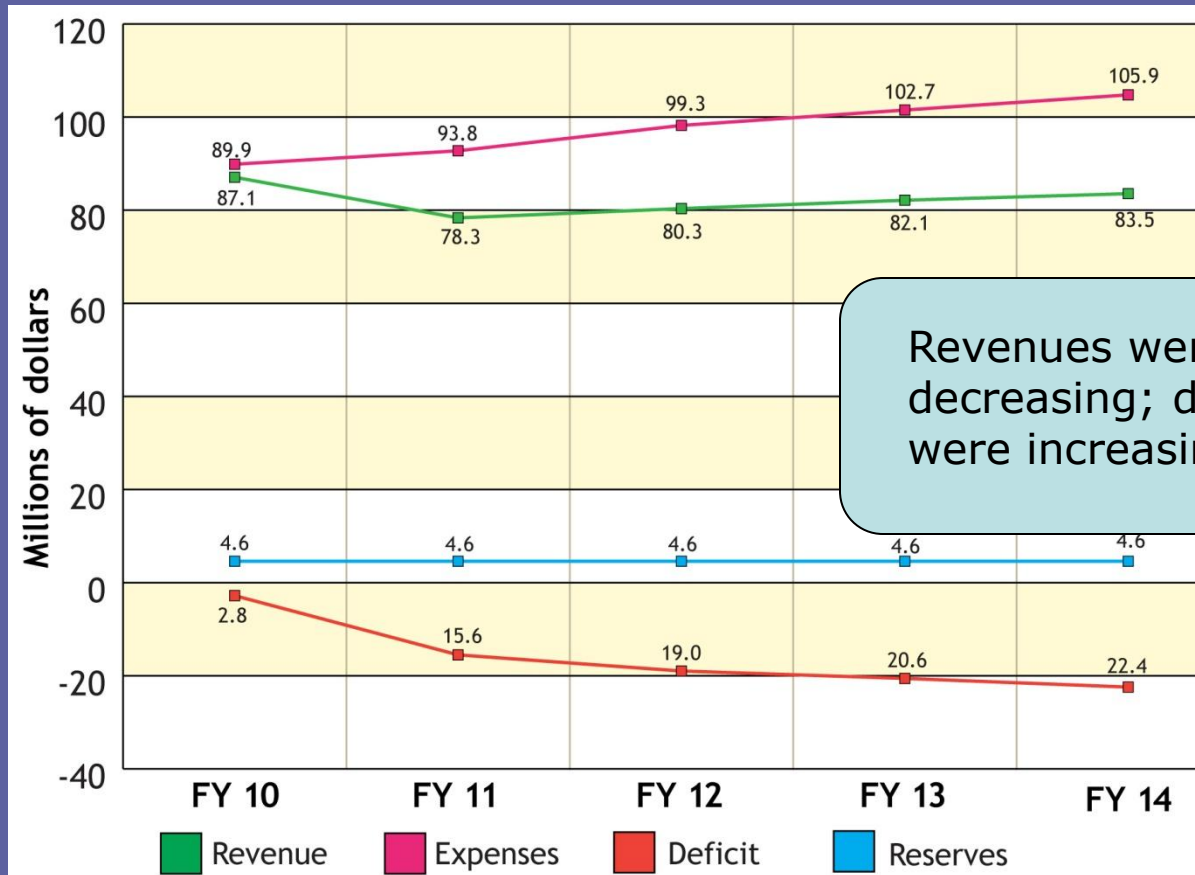
- **720 total employees**
 - **523 direct employees**
 - 373 employees were represented by labor unions
 - These employees performed bus operations and fleet & facility maintenance
 - 150 employees non-represented
 - **197 contracted employees**
 - Contracts with private sector for SPRINTER, COASTER, LIFT and security services



Fiscal Year 2010 Organizational Business Model



Fiscal Year 2010 Budget Outlook



Alternatives Analysis to Address Budget

- **Contract and legal analysis**

- Federal law: Are there any restrictions since NCTD receives federal grants?
 - Section 13c of the Federal Transit Act provides protections for transit employees (represented and non-represented)
 - Section 13c is triggered if a project being funded by the federal government is causing negative impacts to employee groups (i.e., job reductions, changes to collective bargaining agreements, loss of representation, etc.)
- Collective Bargaining Agreement (CBA)
 - What does CBA allow or prohibit
- State law
 - Does NCTD's enabling legislation allow or prohibit contracting?
 - Are there prohibitions or limitations imposed by state law?



Alternatives Analysis to Address Budget

- **Financial alternatives analysis**
 - Independent operating and capital budget cost analysis
 - Revenue enhancement alternatives were reviewed
 - Increase ridership and/or raise fares
 - Increase taxpayer subsidies
 - Real estate development/sale
 - Cost reduction alternatives were reviewed
 - Status quo bus operations
 - Partial contracting
 - Full contracting



Alternatives Analysis

Contract & Legal Review Conclusions

- **Review of federal law**
 - Legal conclusion was that Section 13c provisions did not apply
- **Review of collective bargaining agreement**
 - No restrictions on contracting
 - Allows NCTD to assign agreement to another employer
- **Review of state law**
 - Stipulates that an agency receiving state funds may not enter into any contract that prohibits contracting services
 - NCTD's enabling legislation does not provide limits on contracting



Alternatives Analysis

Contract & Legal Review Conclusions

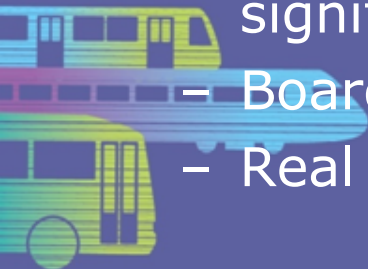
- **Agreement reached with Union**
 - Recognition of Union
 - Hiring preference and respect of existing seniority for employees
 - Requirement that private providers provide specific (or base) minimum salary and benefits



Alternatives Analysis

Financial Conclusions

- **Maintaining status quo operations, including significant wage and benefit reductions of up to 30% across the board, were not feasible or sustainable for the long term**
 - Job market analysis concluded that NCTD would not be competitive for certain positions
 - Bus operator salaries could be reduced; skilled mechanic salaries could not
- **Revenue enhancement options were limited due to economy**
 - Ridership already negatively impacted; ability to raise fares significantly limited
 - Board does not have authority to increase taxpayer subsidies
 - Real estate transactions don't happen quickly



Alternatives Analysis Financial Conclusions

- **Full outsourcing was the best alternative when compared with other options**
 - Allowed NCTD to preserve largest amount of service to customers, 15 to 23% more than in-house option
 - Allowed NCTD to maintain largest number of jobs
 - Most sustainable alternative and supports future service expansion at a lower cost per unit for taxpayers
 - Allowed NCTD to reduce administrative staffing costs to help reduce deficit
- **Based on results of the contract, legal and financial analysis, NCTD initiated a procurement that resulted in a contract award to First Transit**



Core Terms of Agreement between NCTD and First Transit

- **NCTD responsibilities:**
 - Contract management and contractor oversight
 - Providing and replacing revenue vehicles and major capital maintenance equipment
 - Fuel costs
 - Providing facilities
 - Developing service/route schedules
 - Marketing and customer service



Core Terms of Agreement between NCTD and First Transit

- **NCTD is at risk for:**
 - Contract costs
 - Service levels drive cost
 - Payment is based on cost-per-mile with rates for big bus and small bus
 - Reputation/Public Perception
 - Performance of contract reflects/impacts perception of NCTD



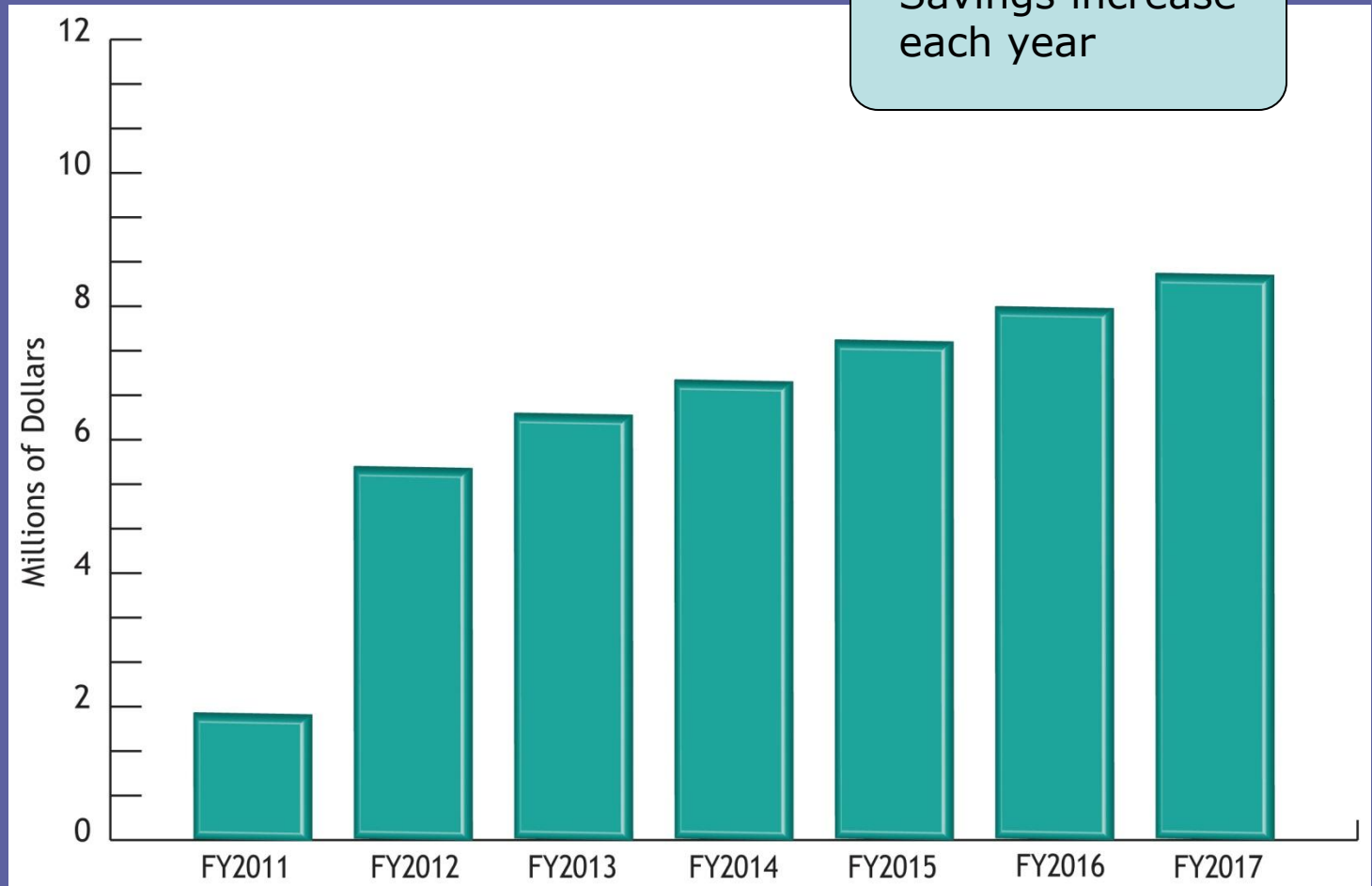
Core Terms of Agreement between NCTD and First Transit

- **Contractor is at risk for:**
 - Budget for service delivery
 - Contractor required to negotiate agreement with Union
 - Cost escalation for wages, benefits, materials and services
 - Accidents – claims processing
 - Labor negotiations



2009 Estimated Total Savings First Transit Contract Base Term of 7 Years

Savings increase
each year



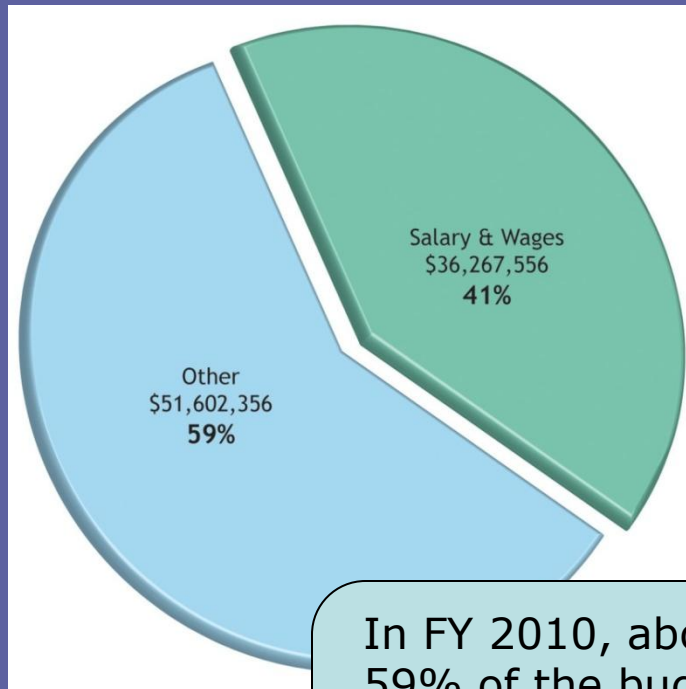
2009 Actual Cost Comparison Full 10 Year Agreement

Cost Item	NCTD	First Transit
Labor	\$201.3m	\$135.8m
Materials	\$17m	\$14.7m
Other direct/indirect costs	\$9.2m	\$15.9m
Overhead	\$0	\$4.1m
Profit	\$0	\$7.1m
NCTD administrative staff (Non-operations)	\$	\$
Total costs over contract term	\$227.6m	\$178.0m
Total cost savings	--	\$70m



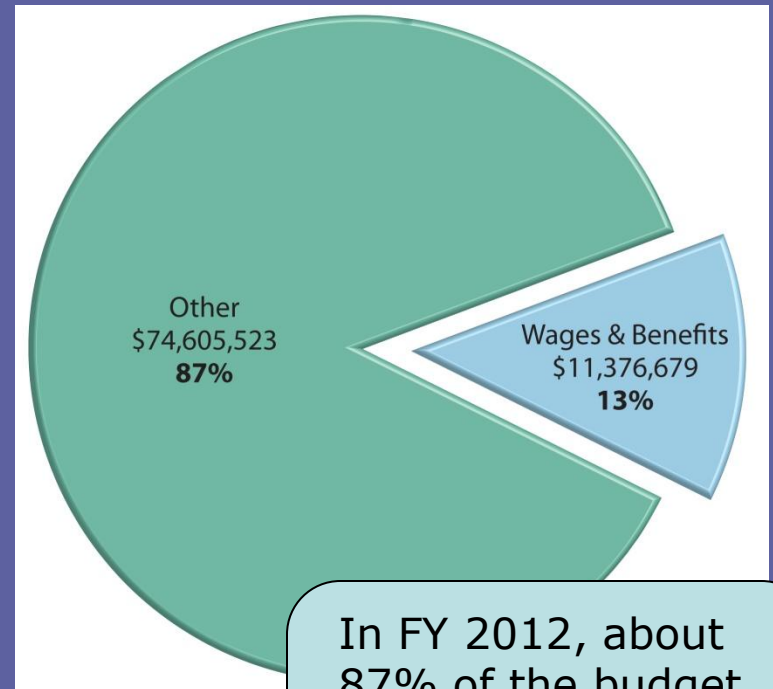
Organizational Impact Contracting Budget Comparison

FY 2010 Operating Budget: \$87,869,912



In FY 2010, about 59% of the budget to the private sector, 41% to public sector NCTD employees

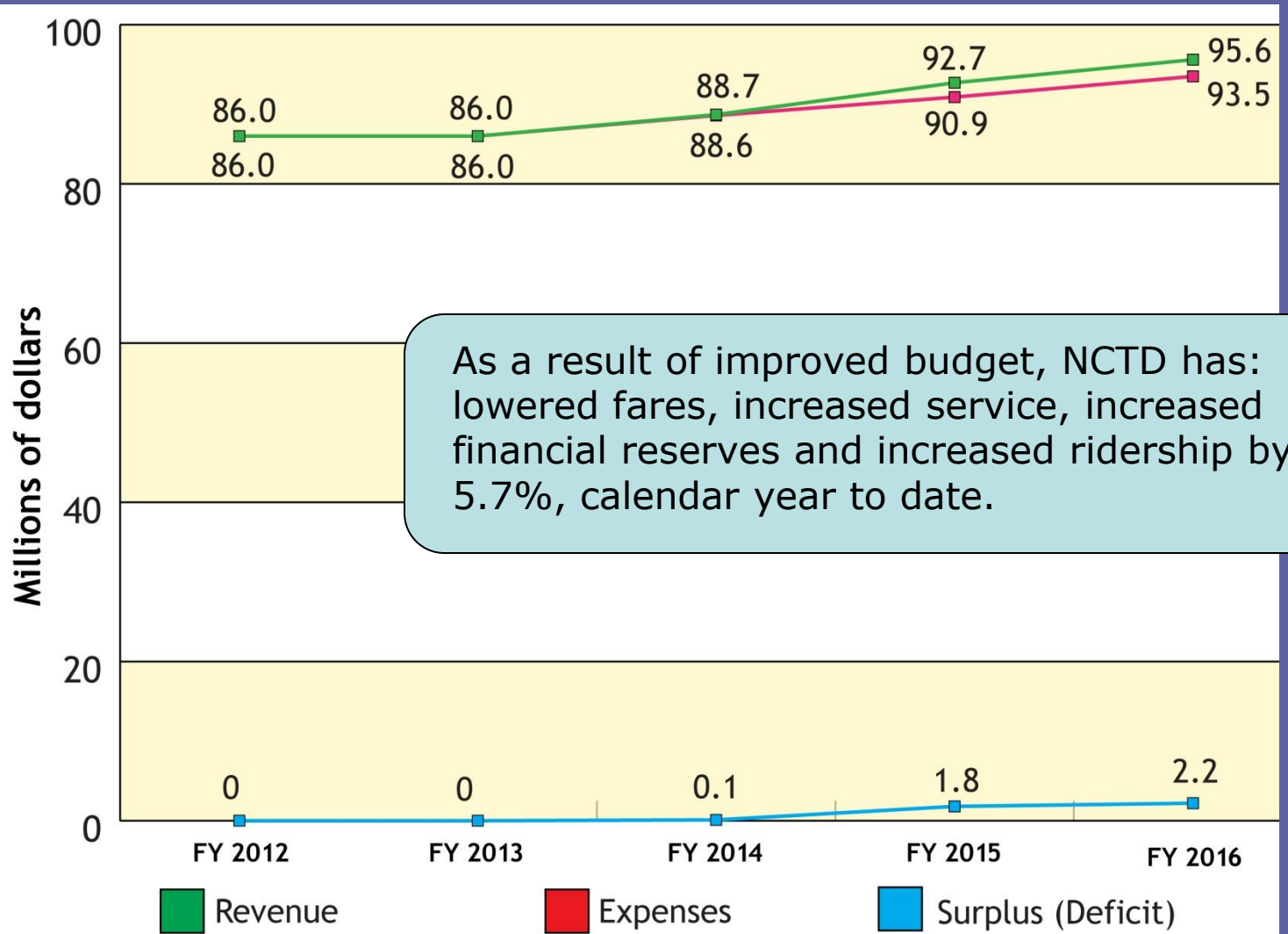
FY 2012 Operating Budget: \$85,982,202



In FY 2012, about 87% of the budget to the private sector, 13% to public sector NCTD employees



Organizational Impact of Contracting



Key Considerations: Operating Contract Agreement with Private Sector

- **Nothing is FREE!**

- Private contractor provides service levels, employee wages and benefits, and other services commensurate with the funding provided by taxpayer dollars
- Private contractor manages risk/cost uncertainty by increasing costs

- **Everyone has to BENEFIT**

- Private contractor is entitled to profit for doing a good job
- Employees deserve reasonable wages and benefits
- Customers expect improved service quality and increased service levels



Key Considerations: Operating Contract Agreement with Private Sector

- **Private Operations is not for every situation**
 - Careful analysis is required before advancing a proposal



Observations?

