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TO: MBTA Fiscal and Management Control Board

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Executive Summary

In the nearly two years since it was created, the MBTA Fiscal and Management Control Board (FMCB) has taken a series of actions with MBTA management to comply with the legislative mandate that the Authority balance its operating budget.

The FMCB and MBTA management have focused on four areas:

1. Internal Cost Control
2. Own-Source Revenue Generation
3. Capital Delivery
4. Customer Experience

The MBTA has improved its fiscal situation primarily through the first two areas of focus. These steps, which range from controlling overtime expense to outsourcing non-core functions such as cash processing, helped reduce the FY2016 operating deficit by half from \$170 million to \$86 million.

Despite this progress, the MBTA still faces a considerable operating deficit in FY2018 driven by operating costs and revenue headwinds, including lower sales tax receipts and a legislative cap on fare increases. The MBTA must therefore continue to further control costs and increase own-source revenues from real estate and advertising. As part of its ongoing efforts, the MBTA must also be prepared to examine its core transit operations. In FY2016, MBTA operating costs totaled just over \$1 billion, excluding debt service and contracted services such as The RIDE and commuter rail. About one-third of that total (\$330 million) is attributable to bus maintenance and bus operations.

To help set a blueprint to improve service while controlling costs, MBTA management retained this firm to assess the MBTA's current operating model and compare it to that of other transit agencies, with supporting analytics from McKinsey & Company. The review focused on whether alternative operating models, including performance-based contracts with private sector partners, could deliver higher levels of customer satisfaction at a lower cost. The main purpose of this effort was to establish baseline metrics for both cost and performance against which to measure and improve internal operations and procedures. As this report notes, some of the benefits from contracting can potentially be achieved

through internal reforms, especially by improving productivity across the workforce and establishing competitive pay structures that better reflect market rates.

A clear example of a successful internal reform is MBTA management's contract negotiations with its largest union, Boston Carmen's Local 589. The key elements of this milestone agreement were driven in large part by work rule changes, productivity improvements, and potential savings from alternative operating models identified by this research effort.

While the Local 589 agreement achieves \$22 million in annual savings over the next ten years, it does not capture much of the potential improvements to the MBTA's core operating productivity and cost base, particularly in bus maintenance. As MBTA management continues to focus on ways to achieve savings in core operations, whether through further internal reforms, outsourcing, or a combination of the two, we recommend the following priority actions to the FMCB in FY2018:

- **Release RFI for MBTA bus maintenance activities:**
The recent agreement with Local 589 to protect 2.4 million revenue hours of bus operator work does not apply to bus maintenance activities. This assessment identified \$30 million to \$40 million in potential annual savings across bus maintenance. Achieving savings of this magnitude is a top priority. Releasing an RFI for bus maintenance as soon as possible will enable the MBTA to determine the total potential savings through outsourcing this function to industry.
- **Release RFP for in-station Customer Service support:**
This RFP would evaluate potential alternatives to improve and enhance MBTA customer support functions currently performed by Customer Service Agents. Potential annual savings of up to \$11 million could be put to better uses, including further upgrades to the MBTA's delivery of high-quality customer service.
- **Establish policy to contract out all expansions of bus service**
While the Local 589 agreement stipulates that existing bus service will continue to be provided by Local 589 members, it excludes new or future expansions of service. MBTA management should provide all potential expansions of service through performance-based contracts. We believe that contracted service can be provided 30 percent to 40 percent less expensively than MBTA delivered service, with similar or better on-time performance and other service levels.
- **Expand use of contractors to provide service when regular bus service is diverted due to capital project delivery (bus diversions):**
The MBTA should begin to incorporate provisions for privately contracted bus service as part of a capital project award; alternatively, the MBTA should contract directly with private operators to support the capital program.

- **Develop and release RFP to support Red and Orange Line life cycle maintenance (new fleets):** This study identifies significant productivity improvements and cost savings from outsourcing life cycle maintenance for component and/or full vehicle overhaul of Red and Orange Line vehicles. Actively exploring ways to deliver some or all of the identified life cycle could yield annual savings of up to \$14 million.

The full potential value of these changes total an additional \$65 million in annual savings and would result in improved reliability and overall customer experience. Any potential outsourcing will adhere to the terms of the recent Local 589 agreement. The FMCB should pursue all of the above options in FY2018 as it seeks to comply with the legislative mandate to balance the MBTA's operating budget.