

REVISED



MEMORANDUM

Public Works Department

Date: June 4, 2015

To: Tempe City Council

From: Shelly Seyler, Deputy Public Works Director – Transportation (350-8854)
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Thru: Don Bessler, Public Works Director (350-8205)

Subject: Bus Unification Update and Recommendation

PURPOSE

The purpose of this memo is to provide information regarding the Bus Unification Scout Program performance and recommendations concerning the provision of transit service for Tempe.

BACKGROUND

The purpose for the Bus Unification Scout Program was to take the initial step to create a regionalized transit system that would effectively serve the East Valley while allowing Tempe to maintain control of local service and programs. Unification would also value capture through increased operational efficiency for Tempe and other East Valley cities including Scottsdale, Mesa, Chandler and Gilbert, by streamlining operations and management through a centralized-regional authority.

In 2013, the RPTA issued a Request for Proposals (RFP) for East Valley transit service, requesting qualified firms to submit price and service proposals. The proposals were to reflect the cost to operate RPTA and Tempe to continue to operate separately from their respective operation facilities. A separate proposal was to offer a price reflecting a consolidated service operating from shared facilities under a single service contract.

Three firms' submitted proposals resulting in an award of a contract to First Transit Inc. for unified services operated from both the Mesa and Tempe facilities. Through RPTA an award was made for an initial three-year period with an option for a seven-year extension. The award

to First Transit was not based solely on price. Other factors considered which were reflected in the scoring included:

- Comprehensive Integrated Operations Plan
- Management Team/Firm Experience
- Continuous Improvement
- Employee Development, Recruitment, Training, Retention
- Responsiveness to RFP
- Financial Strength

Table 1 shows the evaluation scores based on the above criteria as well as the initial three-year (Scout Program) price proposals.

Table 1: Scout Program Proposal Scores and Initial Bid Prices

Proposer	Proposal Score	Initial Bid	BAFO
First Transit	2067.3	\$ 151,556,349	\$ 150,885,082
Veolia	1838.4	\$ 170,216,638	\$ 168,768,947
National Express	1283.5	\$ 177,108,753	n/a*

* Not within competitive range

Concurrent with RPTA’s award to First Transit for bus service, Tempe and the RPTA entered into a three-year Intergovernmental Agreement (IGA) for the Tempe Bus Operations Scout Program. The Scout Program is in effect through June 2016. The unification premise was that upon the completion the first two years of the Scout Program, Tempe would have sufficiently evaluated the results of the Scout Program and recommend whether Tempe should enter into a seven-year IGA for the continuation of transit service through the RPTA or return to Tempe directly managed bus service (Tempe only).

The effectiveness of the Scout Program was to be evaluated using performance criteria established by Tempe and the RPTA and on a financial analysis of the cost of service to Tempe and the region.

As a basis for the cost analysis, Tempe elected to evaluate the cost of service to Tempe under the unified contract, compared to the cost proposed under the Tempe only proposal. The factors anticipated to generate cost savings were the economies of scale to be gained by the contractor, streamlined contractor management team and efficient utilization of facilities allowing for a decrease in non-revenue miles. Another often referenced financial consideration is the savings generated to the larger region. In addition to cost, service quality and local control were items that the Scout Program was intended to address and will be discussed below.

PROGRAM EVALUATION

Service Quality

The Scout Program agreement with RPTA identifies five performance criteria that are used to evaluate service quality of bus service provided through the RPTA.

In previous performance updates, performance results were conveyed using a letter score (A, B, C, D, and F). Although letter scores can be indicative of certain performance levels, its simplicity may not accurately convey the range of performance within an established benchmark standard.

During the initial two years of the Scout Program, Tempe and RPTA staff have found that although the performance indicators are appropriate as industry standards for evaluation, the standards and computation methods need to be reasonably established and consistent with national and regional standards as well as local standards that were in place prior to the Scout Program. This includes on-time performance, maintenance and accident related performance indicators.

One performance category that has revealed lower ratings and is actively being addressed by RPTA is customer complaints. This performance indicator includes a broad range of categories that include on-time performance, policy issues, service standards, routing, service schedules, safety, security, passenger amenities, etc. Fortunately, most complaints can be immediately addressed. Customer complaints are investigated as thoroughly as possible, and a response is provided as soon as possible or within 10 days. Complaints concerning any type of alleged discrimination are investigated following a federally mandated seven step process and are reported to the Federal Transit Administration.

When customers provide comments concerning existing routes or the need for new ones, their comments are reviewed and evaluated to determine if they may be consistent with other requests. In Tempe, any comments or complaints concerning Tempe routes are reviewed by Tempe staff. Route changes occur based on community need, interest and on available funding. The process to change a route is a well-defined regional procedure and requires public input, public hearing(s) and analysis to ensure conformity to federal regulations. As Tempe transit service is federally funded, these specific processes are required to be followed.

Table 2 provides the cumulative (22 month) contractor performance data. It should be noted that these reflect performance throughout the East Valley, and not Tempe specifically. Based on cumulative results, On-Time Performance (92.8%) is the only criteria that falls below the benchmark standard of 93.0-93.7%. If unification were to continue, staff would recommend requiring data collection so that Tempe may more closely monitor service quality in Tempe as compared to the East Valley. This speaks to the issue of local control by its own virtue.

Table 2: Scout Program Cumulative Results (22 Months)

<i>Tempe Scout Program - Cumulative (FY14 - FY15) Regional Performance Results</i>				
Regional Performance Criteria	22 Month Cumulative Results	Performance	Best Practice Benchmarks	Tempe Benchmarks
On-Time Performance	92.8%	Below	82% - 94%	90%
Preventable Accidents per 100,000 Miles	0.47	Exceptional	0.75	0.75
Complaints per 100,000 Boardings	34.25	Benchmark	38-50	15
Mechanical Failures per 100,000 Miles	6.3	Above	15	9
On-Time Preventive Maintenance Inspections	96%	Exceptional	80%	94%

Both the RPTA and First Transit are committed to identifying causes for below standard performance and taking corrective actions to rectify performance that has such a direct impact to service quality and passenger satisfaction. A contractual element allows the RPTA to sanction First Transit for sub-par performance in a number of areas. For FY 2015, the RPTA has assessed First Transit over \$342,000 in penalties. First Transit also has the opportunity to be awarded incentives for performance that is above the established measures. During the current fiscal year, First Transit has been awarded approximately \$165,000 resulting in an estimated net performance assessment of \$177,000. The current RPTA/First Transit contract does not penalize for an organized labor work stoppage (strike), although pursuing the inclusion of a service continuity requirement has been directed by the City Council as a new provision; again, this requirement demonstrates the ability of Tempe to retain a level of local control at the policy level. Staff will explore the opportunity of adding language intended to address service continuity and will return with the cost implications for such an action. Performance assessments or penalties are deducted from direct operational costs charged to Tempe and other East Valley jurisdictions, thus reducing operating costs.

Tempe staff will continue working with RPTA to address overall transit service performance and attempt to ensure all performance categories are measured accurately with meaningful and achievable standards. RPTA plans to continue with appropriate assessments, auditing complaints and conducting field checks to improve the customer experience.

Financial Status

As previously presented, the financial benefit of unification was analyzed based on contract rates proposed by First Transit. This analysis was conducted using the prevailing market conditions. First Transit had submitted three proposals including Tempe’s existing contract service, RPTA’s existing contract service and contract rates for combined/unified service. For example, if Tempe had decided to maintain status quo and continue to operate bus service separately, that decision would have been compared to the unified scenario in terms of costs, which would be a reasonable method to analyze actual benefit of the decision. Table 3 exemplifies the difference between unified proposal costs and Tempe only proposal costs.

Table 3: Unified vs Tempe Only

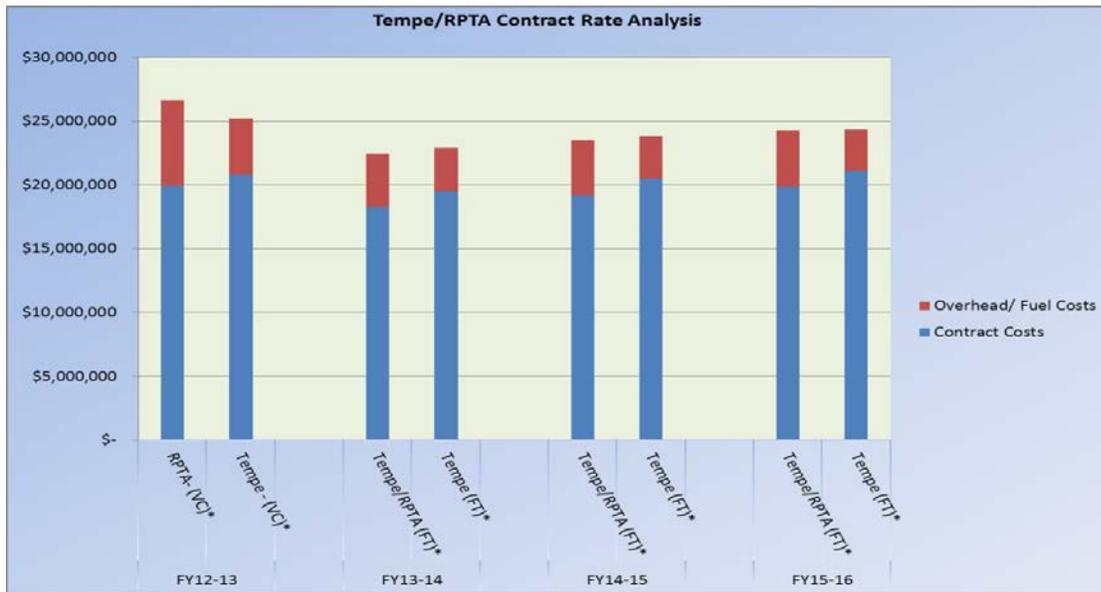
	Vendor	FY 14 Unified (Tempe Portion)	FY 14 Tempe Only	
As proposed	First Transit	\$ 23,223,188	\$ 25,103,600	anticipated, the price and resulting

cost per revenue mile (standard unit) to operate the combined (unified) East Valley service was more advantageous financially than operating the Tempe service and RPTA service as separate contracts, benefitting Tempe and other East Valley cities.

In an effort to receive the most beneficial price for the East Valley service, the RFP sought to award a contract for a total ten-year period (three-year base with a seven-year option). Practically, a long-term contract provides less risk to proposing firms allowing for long-term amortization of investment, cost efficient operations and continuity of revenue. For the agency, a long-term contract allows for a firm fixed cost for the term of the contract, avoidance of re-procurement costs and a long-term relationship with a contracted service provider. Shorter term contracts usually result in higher costs for both the agency and service provider. Since service providers in the valley are supported by organized labor, longer term contracts also allow for stability and the negotiation of longer term agreements.

Table 4 below demonstrates the initial cost savings realized through unification. Tempe bus service costs for FY 2014 were substantially less than the previous fiscal period, and remain lower throughout the Scout Program. Overall costs increase annually as would be expected as contractual and administrative costs increase. The value of unification is the overall lower cost as compared to a smaller less efficient stand- alone program structure.

Table 4: Tempe Bus Operations Gross Contract Rate Analysis



* (VC) Veolia Contract

* (FT) First Transit Contract

* FY13-14 Tempe Transit converts Orbit fleet to CNG (\$.26 rate reduction)

Capital Recovery

The realization of cost recovery for Tempe's investment in the East Valley Bus Operations and Maintenance facility (EVBOM) and the bus fleet is also a benefit of unification. As the depreciation of the facilities and fleet are charged to other cities, Tempe is credited a portion of depreciation not directly consumed by Tempe. This comes to the city in the form of a regional Public Transportation Fund (PTF) credit which can be used by Tempe to fund transit programs.

If unification were to terminate, the value of depreciation would be dependent upon Tempe operating bus service on behalf of adjacent jurisdictions.

If Tempe were to return to pre-unification circumstances, it would require other jurisdictions that were previously served by Tempe to also return to pre-unification status. If not, little of our capital investments costs could be recovered.

Additional Considerations

The unique circumstances of the Scout Program and the effort to create a regional transit system have prompted a number of questions by Council regarding alternatives and possible options regarding Tempe bus service.

The Scout Program is a three-year agreement to test the efficacy of unifying bus service previously managed separately by Tempe and RPTA. If the decision that regionalization of Tempe bus service is not in the best interest of Tempe, the Scout Program would terminate in June 2016 with Tempe attempting to operate service as it did before the Scout Program. Prior to unification, both agencies operated similar volumes of service in the East Valley. The RPTA operated service on behalf of RPTA members and Tempe operated service on its own behalf as well as some other East Valley cities. East Valley service operated by Tempe was funded with Regional Public Transportation Funds (PTF) paid to Tempe by the RPTA. Tempe also operated service in Tempe funded by Tempe transit tax funds and PTF.

One question put forth during the evaluation of the Scout Program is can Tempe resume operating bus service as it did before the Scout Program? Although technically possible, it would not financially benefit Tempe or the East Valley. Tempe would need the cooperation of adjacent jurisdictions (Scottsdale, Mesa, Phoenix and Chandler) to resume operating service on their behalf. The effort to reselect a bus service provider for Tempe would likely result in higher contract costs for both Tempe and the region as the volume of service would be less than under the unified model. A decision not to continue with unification creates a number of uncertainties. The procurement of a new bus service provider to operate on Tempe's behalf would risk the current cost benefits of unification. It would also provide no guarantee for improved or superior performance. The procurement and contractor transition process can easily take 12 months if not more to complete. The preparation of a work scope that would include the similar volume of bus service previously operated managed by Tempe would require operating bus service for adjacent jurisdictions. This is critical because of the regional nature of routes operating in and through Tempe. Regional and local service cannot be operated either efficiently or seamlessly for riders solely within Tempe. The ability to reestablish circumstances that could allow Tempe to successfully solicit a new bus service provider have not been explored..

RECOMMENDATION

Staff recommends that Tempe City Council continue promoting regional transportation by continuing unified bus service in the East Valley by entering into ~~annual~~ ~~a seven (7) year unification~~ IGA with the RPTA under the following provisions:

- RPTA to strengthen oversight and better define contract performance standards ~~and include service continuity provisions.~~ Staff will explore the opportunity of adding language intended to address service continuity and will return with the cost implications for such an action
- Require ongoing, continual assessment of contractor
- ~~Include IGA termination provisions based on contractor non-performance or for convenience~~
- ~~Conduct~~ ~~Execute~~ Annual IGA and ~~conduct annual~~ performance review to ensure contract value
- Include reporting of performance data relative to Tempe routes