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Date: April 20, 2012

To: Jonathan Hunt, Amalgamated Transit Union Local Chapter 757
Jan Campbell, Committee for Accessible Transportation
Other Interested Parties

From: Neil McFarlane, TriMet General Manager

Cc: TriMet Board of Directors

Subject: Bringing LIFT in-house Analysis

As TriMet grapples with a $12-17 million dollar budget shortfall for Fiscal Year 2013, it has been suggested that TriMet could save $7.5 million a year to bring the operation of our LIFT paratransit services in-house.

In reviewing the Lauka & Associates report (Feb 2008), we could find no evidence of such savings in their analysis. Because TriMet is always seeking ways to reduce costs, I instructed TriMet staff to undertake a detailed analysis using current data and assumptions since LIFT ridership has increased more than 10% since the period evaluated by Lauka. This analysis is summarized in the attached memo. As you will see, there are no long-term savings that result from bringing LIFT service in-house. Staff found that bringing LIFT paratransit service in-house would in fact, cost TriMet more in the long-term putting even greater financial burden on the agency's budget.

With that information in hand, I have concluded that it is not in the best interest of TriMet and our customers to bring this service in-house. Because of precedents of labor law, any potential short-term benefits are quickly outweighed by the long-term costs associated with integrating the LIFT union workforce into the TriMet union workforce.

Please see the attached report that summarizes both the Lauka & Associates findings from 2008 and the findings from TriMet's internal analysis as of April 2012. You will also find, in detail, documentation for TriMet's internal analysis.

We are asking for the ATU, CAT and other interested parties to please review the documents and submit any comments to me regarding this report by May 8, 2012. Please be as detailed as possible when commenting so that we are able to accurately understand your concerns and provide further analysis of your concerns. If no significant analytical flaws are found with regard to TriMet's updated analysis, I will present this report, together with comments received, at an upcoming Board meeting.

TriMet LIFT Paratransit Service
Analysis Overview

Question: Can TriMet's LIFT paratransit service be brought in-house in a cost-effective manner to save the agency money?

Background

TriMet provides LIFT service through partnerships with private sector contractors selected through a competitive bidding process. Contract awards are made based on best value criteria, which specifically evaluate highest quality service and most favorable pricing for TriMet. This has been the practice since 1980. Bringing it in-house would represent a significant change in cost and management structure.

- Current LIFT contractors are:
  - First Transit – LIFT Transportation (operators, management and support staff)
  - First Transit – LIFT Central Dispatch (reservationists, schedulers, customer service specialists, dispatchers, management and support staff).
  - Penske – LIFT Maintenance (mechanics, management and support staff)
- TriMet requires LIFT contractors to provide highly qualified staff for the LIFT operation and has established specific performance criteria, which include financial penalties for non-performance. TriMet supplies facilities, revenue vehicles, and equipment for the LIFT Program.
- TriMet staff handles program management, contractor oversight, administration, and eligibility of customers for LIFT service.

Below we summarize the Lauka findings in 2008 and provide a current analysis which compares costs of contracted LIFT service with costs that TriMet would incur if TriMet employees provided the service.

Lauka & Associates Review – February 2008

TriMet and the Amalgamated Transit Union (ATU) commissioned a study that was performed by Lauka and Associates.

The Lauka and Associates report demonstrated that TriMet would incur significant cost increases for wages and benefits if LIFT operators and transportation support staff were to become TriMet employees. As shown on page 1 of the Lauka report, the *additional cost* of bringing paratransit services in-house in 2004 was $3.8 million. The Lauka report explicitly shows that health insurance for in-house employees would be $2.2 million higher per year (more than 5X the cost of contracted employee health insurance), and pension costs would be $2 million higher per year (14x higher than contracted employee retirement costs).

The Lauka report also calculated the cost of bringing paratransit services in-house assuming contractor wages and benefits remained unchanged (and did not increase to TriMet levels). As discussed in detail below, this is an unrealistic long-term assumption as incoming employees who perform work similar to existing employees will ultimately become part of the existing bargaining unit.

<u>Findings:</u>

1. The Lauka and Associates report demonstrates that TriMet would incur significant cost increases for wages and benefits if LIFT operators and transportation support staff were to become TriMet employees.
2. Retiree and health care benefits would be a major component of the expected $3.8 million in additional expenses. According to the Lauka and Associates analysis, health care costs alone would increase by more than $2 million per year if LIFT service were brought into TriMet under the current contract.

TriMet LIFT Staff Review – April 2012

TriMet LIFT staff, in conjunction with the Finance & Administration division, provided a comparative analysis of Fy11 LIFT contractor costs vs. in-house costs using current data about direct and indirect costs, service levels and wages. The full analysis is attached.

The largest component of LIFT contract costs, including Transportation, Central Dispatch, and Maintenance is personnel. Consistent with the Lauka findings in 2008, wages and benefits would be significantly more expensive should TriMet cancel the LIFT contracts and bring all LIFT personnel in-house as TriMet employees. All operators, mechanics, and most Central Dispatch and Transportation indirect staff would receive union wages and benefits.

- TriMet wage and benefit costs for the LIFT Program would be expected to increase by more than $24 million per year if LIFT employees were brought in-house at current wage and benefit levels. This increase consists of the following:
    - $24 million per year higher costs of labor costs, including wages, benefits, training, etc. for Operators, Central Dispatch, and Maintenance employees.
    - Administrative, profit, overhead and other operational costs are very close in either scenario: estimated savings are approximately $200,000 per year by bringing LIFT in-house.
- If LIFT personnel were brought in-house at the existing wage rates of LIFT contractors, but with TriMet benefits, the expected annual increase in costs would be more than $16 million rather than $24 million.

- While the analysis shows that non-labor costs would be slightly lower under in-house scenarios, potential savings in these areas are less than $1 million, so are overshadowed by expected labor cost increases.

It has been suggested that if TriMet were to bring LIFT service in-house, savings could result from reductions in management and indirect staffing currently included in the LIFT contract. We believe this is an unrealistic assumption. The TriMet analysis assumes that the contracted LIFT Program staffing levels for management, supervisory and support positions would be maintained at current levels, because it is not realistic to assume that current TriMet management and support staff could assume oversight and management of more than 450 additional employees at three different locations.

Even if this were operationally feasible, potential savings due to management reductions are insignificant compared to expected wage and/or benefit increases resulting from bringing LIFT program personnel to the TriMet wage and benefit levels.

Findings:

- TriMet's updated cost analysis demonstrates that TriMet would incur $16 to $24 million *additional* costs per year by bringing LIFT services in house.

Labor Contract Considerations

Integration of Union Employees

It has been suggested that current LIFT contract employees could be brought into TriMet at their current wage and benefit levels. While top operator wages for LIFT drivers are similar to the top bus operator wages at TriMet, the wages of other contract workers are lower than TriMet wages and benefit levels of TriMet ATU employees vs. LIFT contract employees are significantly different.

There is significant National Labor Relations Board (NLRB) precedent regarding bringing a unionized workforce into an established unionized work force, but not as much ERB precedent. We would expect that the ERB would look to NLRB case law in deciding bargaining obligations were we to bring LIFT Services in-house. Based on how matters might be handled under NLRB case law, even if we were successful in negotiating a "freeze" in LIFT wages and benefits with the ATU, it would only be good for a short time, and would produce small, if any, savings. In the end, however, there would be pressure to merge the two work groups, which TriMet could not prevent. Once merged, history shows that the terms and conditions of the dominant work unit very quickly are applied to the entire merged workforce. The structure and work rules of the fixed route operators will quickly lead to financial inefficiencies if applied to our scheduled door to door service for LIFT clients. In addition, the higher costs would negatively impact TriMet's long-term financial sustainability by enlarging the group of employees who receive non-market based benefits. It is shortsighted and not in the public interest to exchange modest short-term savings for significantly higher long-term costs.

Findings:

- LIFT employees will ultimately be brought into the larger TriMet ATU group with similar wages, benefits and retiree obligations -negating any short-term savings.
- Even at the outset as a separate unit, the LIFT Services unit would be strike prohibited and subject to interest arbitration.

Additional Impacts: contracted versus in-house

The private contractor model also protects our most vulnerable population by permitting the prompt disqualification of an operator who demonstrates poor judgment, whether on or off the job. The TriMet labor contract requires extensive review of such conduct and a direct connection to the job duties. Moreover, the arbitration process reviewing discipline for public employees can return a poorly performing employee to the workplace while ignoring the reality of the needs of the public and leaving the public body without recourse.

Conclusion

- The Lauka & Associates 2008 report, as well as the more recent analysis by TriMet's LIFT staff, confirm that TriMet would incur significant increases to wage and benefit costs if LIFT operators and staff were to become TriMet employees.
- There is the possibility we could negotiate short-term savings by bringing LIFT Services in-house but those savings would be quickly overwhelmed as the two bargaining units would be merged.
- Having LIFT employees brought under current TriMet union work rules could affect quality of service to a vulnerable population.